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MKC - Q4 2013 McCormick & Company, Inc. Earnings Conference Call

EVENT DATE/TIME: JANUARY 29, 2014 / 1:00PM GMT

OVERVIEW:

MKC reported 2013 adjusted operating income of $591m and adjusted EPS of $3.13. 4Q13 operating income was $174m and EPS was $0.98. Expects FY14 sales growth to be 3-5% and EPS to be $3.22-3.29. Expects 1Q14 EPS to be comparable to $0.57 reported in 1Q13.

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PRESENTATION

Operator

Good morning, my name is Dawn and I will be your conference operator today. At this time I would like to welcome everyone to the McCormick fourth quarter 2013 earnings announcement conference call.

(Operator Instructions)

Ms. Joyce Brooks, you may begin your conference.

Joyce Brooks *- McCormick & Company Inc - VP of Investor Relations*

Good morning. This is Joyce Brooks, McCormick's Vice President of Investor Relations. Thank you for joining today's call for a discussion of the Company's fourth-quarter financial results and 2014 financial outlook. We've posted a set of slides to accompany the call at our website ir.mccormick.com.

As a reminder the conference is being recorded. With me on the call are Alan Wilson, Chairman, President and CEO, and Gordon Stetz, Executive Vice President and CFO.

During our remarks we will refer to non-GAAP financial measures. These include adjusted operating income and adjusted earnings per share that exclude the impact of special charges and a loss on voluntary pension settlement. A reconciliation to the GAAP results is included in this morning's press release, as well as the slides that accompany this call.

Please note that today's presentation contains projections and other forward-looking statements. Actual results could differ materially from those projected. The Company undertakes no obligation to update or revise publicly any forward-looking statements, whether as a result of new information, future events or other factors.

As seen on slide 2 our forward-looking statement also provides information on risk factors that could affect our financial results. It's now my pleasure to turn it over to Alan.

Alan Wilson - *McCormick & Company Inc - Chairman, President and CEO*

Thanks, Joyce. Good morning, everyone, and thanks for joining us. At McCormick, we made important progress during our 2013 in our growth strategy.

We achieved solid sales growth in a number of our key markets; expanded our business in China with our first acquisition in that market; delivered significant cost savings with our CCI program; and generated $465 million of cash flow, returning a record $357 million of this cash to our shareholders. While consumers in many developed and emerging markets remain under pressure, the growth of our core categories remains healthy.

Slide 5 shows the latest 52-week category increase for spice and seasonings in our top markets. Slide 6 shows the latest Euromonitor data that projects a robust pace of growth through 2018, not only for spices and seasonings but across a number of flavor categories.

Consumer demand is on the rise in pursuit of new flavors, ethnic cuisines or spices and herbs as a replacement for sugar, salt and fat. These are just some of the trends driving this growth. As a global leader in flavor, McCormick is well-positioned to meet this demand.

We have leading category shares that span a broad range of flavors and all price points, from premium to private label. Our flavors reach consumers at all eating occasions, meals at home, eating out, or grabbing a snack. Through acquisitions and regional expansion of our industrial business, we are increasing our geographic presence.

Our fourth-quarter sales performance reflected these positive trends in most parts of our business, but did not meet our expectations for the US consumer business. As a result, for the total Company, our rate of sales growth was below our expectations and the outlook that we shared with you in our September earnings call. While we exceeded the 7% adjusted profit growth guidance that we provided on that call, this result included the benefit of a lower-than-expected tax rate.

I'm going to comment on the strong performance in our international consumer businesses, go a bit more in depth on the results and actions under way for our US consumer business and then review the strong fourth-quarter finish in our industrial business.

Fourth-quarter sales growth for the consumer business was generally in line with our plans in markets outside the US. While difficult economic conditions persist across much of Europe, we continued to grow our sales in this region. We introduced recipe mixes into France and Poland and launched new products for value-minded consumers, as well as premium items for more involved and affluent cooks; increased brand marketing support as directed toward supporting these launches.

In the Asia Pacific region, the latest sales and profit from Wuhan Asia Pacific condiments, WAPC, continued to exceed our expectations. Our base business in China continued to grow at a strong double digit rate with expanded distribution, greater advertising, and new products. In the Americas, we grew sales in Canada with very successful innovation that included grilling sauces and marinades, gluten-free gravies, new honey packaging and aligned authentic Asian products.

In the US consumer business we grew sales at a low single-digit increase for the full year, lead by higher volume and product mix. However, after achieving a strong mid single-digit sales increase in the first half of 2013, our rate of growth slowed, with US consumer business sales in the second half about even with the year-ago period.

Within the second half, we had a shift in sales between the third and fourth quarters, which as previously discussed related to greater retailer purchases as part of our holiday display program and in advance of a pricing action. Adjusting for this impact, third-quarter US consumer business sales declined at a mid single-digit rate, and the fourth quarter rose at a low single-digit rate. While this rate of sales growth in the latter part of 2013 was better than some in the food industry, it was out-paced by a robust 5%, 12-week retail category increase in spice and seasonings, our largest category.

Clearly, consumer demand for flavor remains strong. Our issue for the past two quarters has been one of share gains by private label, and some smaller competitors. To address this competitive activity, we've put in place the following actions to regain our momentum.

First, we're significantly increasing our brand marketing support, particularly during critical seasonal events when McCormick's brands index above private label and competition. We want to use our leading share of voice to differentiate and drive growth of our core products, including the use of digital marketing where we're achieving our highest ROIs.

Second, we're accelerating innovation. We have some winning concepts in our international markets and are developing plans to introduce these in the US, such as our line of gluten-free gravy mixes that are doing extremely well in Canada.

And third, we're identifying ways to improve our agility in the marketplace. We want to more aggressively gain share by rapidly addressing competitive challenges and identifying and pursuing growth opportunities. We believe that these actions will be effective in driving growth for our core business.

I've asked Lawrence Kurzius, who leads our global consumer business, to work directly with our US consumer business team on these initiatives. During his time in this business in 2005 and 2006 we increased sales and profit and market share with initiatives behind innovation and brand marketing, as well as new gravity-feed merchandising equipment. This was followed by his leadership of our international businesses, including successful expansion in emerging markets.

Most recently, Lawrence has spear-headed our global consumer business strategy development and growth. With his direct leadership, the dedicated efforts of our US consumer business team and increased investment in brand marketing and innovation, I look forward to reporting to you on our progress in the upcoming quarters.

Turning to our industrial business. Our fourth-quarter results were a strong finish to the year. Our adjusted operating income result was particularly strong, and the $13 million increase up more than 50% from the year ago period. As a percent of sales, adjusted operating income margin is nearly 9% largely as a result of more favorable business mix and CCI cost savings.

In the Americas, higher sales of snack seasonings and other flavors for food manufacturers were offset by continued weakness in demand from quick-service restaurants. However, sales in our EMEA region remain strong with product innovation and share gains, particularly with quick-service restaurants. While we had an easy comparison to the year-ago period, we've had sequential improvement in industrial sales in the Asia Pacific region and in particular, China. While we expect weak demand from quick-service restaurants in the US to extend into the first part of 2014, we are encouraged by our new product pipeline. Across our entire industrial business, we expect a better performance in 2014 than in 2013.

Turning to slide 11 and looking back on the past year, I want to recognize our more than 10,000 employees around the world for their engagement at McCormick and contributions to our success. Here are some of the major achievements in 2013 that demonstrate a spirit of teamwork and high performance throughout the Company, starting with innovation. We developed and launched more than 250 new branded products, including a number of successful innovation platforms that we're taking to other markets around the world, such as grilling items and recipe mixes.

In our industrial business, customers continue to turn to McCormick to improve the healthy attributes of their products, including more simple ingredients. In 2013 about a third of our industrial new product briefs had some type of wellness aspect. Across both segments, sales of new products launched in the past three years accounted for 9% of our fiscal-year sales.

We continue to raise our game in brand marketing. Our marketing support exceeded $200 million for the first time in 2013 and is up 64% in the past five years. We continue to achieve returns on the spending that are ahead of food industry averages. As part of this 2013 brand marketing, digital marketing was more than double the amount spent just two years ago in 2011. Among our accomplishments in this area was a 94% increase in US recipe views, and in EMEA a 24% increase in web traffic.

On the acquisition front, we completed and effectively integrated our first acquisition in China, Wuhan Asia Pacific Condiments. This business expanded our product breadth and regional presence in China and increases our sales there by 60%. To date, the financial performance of WAPC, both sales and profits, is ahead of plan. With this acquisition and the pace of growth in our existing businesses, our sales in emerging markets now account for 15% of total Company sales, a substantial increase from 10% just two years ago.

We continue to fuel these investments with our Comprehensive Continuous Improvement program, CCI. In 2013, cost savings from CCI reached $63 million, well above our initial projection of at least $45 million for the year. We also made progress in other important areas such as safety, governments, and community involvement. With the publication of our CSR Review mid-2013, we shared ambitious goals for 2018 in a number of areas including our environmental impact. Our progress towards these goals through 2013 is shown on slide 12.

Our business generates significant cash flow. As indicated at the beginning of my remarks, we had record cash flow from operations and cash returned to shareholders. During the fourth quarter, we completed a $400 million share repurchase authorization and began to repurchase shares under our new authorization.

In November, McCormick's Board approved our 28th consecutive annual dividend increase. Since 2006 we've doubled our quarterly dividend. These are just a few highlights and we look forward to going more in depth on progress with our growth initiatives during our CAGNY presentation on February 19.

Looking ahead to 2014, I've showed you the projections for flavor, including our core business of spice and seasonings. The outlook is for strong growth. We're heading into 2014 with solid momentum for our consumer business in many international markets. And in the US, we have actions underway to regain traction with our growth initiatives.

For our industrial business, we expect global flavor demand from food manufacturers to remain robust; sales of branded food-service items to remain steady; and sales to quick-service restaurants to be mixed, with strength in the EMEA, further improvement in Asia Pacific, and better performance in the US.

Innovation will continue to be an essential driver of growth for both businesses. Starting on slide 14, items to be launched in the Americas during the first half include Recipe Inspirations with a $0.99 target price; new Grill Mate seasonings and Hispanic seasonings; new varieties of Zatarain's rice mixes and Lawry's Marinades; and innovation within our core items, such as an extra rich vanilla extract, chipotle chile and value-priced grinders.

Our joint venture in Mexico has had early success with the launch of sweet products, including syrups and gelatins. The business has already gained a 6% share of the gelatin category in Mexico.

Among our new launches in EMEA, are limited edition recipe mixes and additional flavor shot varieties in the UK; 18 new Vahine homemade dessert products, including toppings and decorations, in France. And in Poland and Russia, we continue to rapidly expand our product offerings, adding seasoning blends, grinders and premium offerings.

In the Asia Pacific region we continued to increase distribution of WAPC bouillon items in our coastal markets in China. In addition, we're introducing in Australia Flavour Shots and new varieties of our Marinade in a Bag and Slow Cooker seasonings. And we continue to roll out our Kohinoor brand rice and spice in new cities in India.

We are increasing our brand marketing in 2014 in part to rapidly build awareness and trial for the strong pipeline of innovation. We're also planning to drive sales of core products. This includes further support for themed mega events during holiday periods, grilling seasons, and other important occasions. And an increase in digital marketing, introducing consumers to FlavorPrint, our online service, that lets you define your unique flavor preference and match it with recipes and menus.

In total, we plan to increase brand marketing by at least $25 million. This exceeds our year-to-year increase in any of the past five years. We plan to drive strong category growth underway in our key markets. As a category leader we will remain in the forefront of innovation and keep our brands top of mind with consumers. Whether they are seeking value pricing, authentic ethnic cuisine, a premium product offering or other flavor experiences.

Our CCI program is an integral part of our strategy. These ongoing productivity improvements will continue to be our fuel for growth. In 2014, our goal is to achieve at least $45 million in cost savings.

Putting these growth drivers together with our CCI projections, we expect 2014 top-line growth of 3% to 5% and an increase of 6% to 8% in operating income from adjusted operating income of $591 million in 2013. We expect earnings per share of $3.22 to $3.29 in 2014, a 3% to 5% increase from adjusted EPS of $3.13 in 2013. This EPS growth is below the operating income growth rate because of a projected 5% to 6% headwind from a higher tax rate and special charges. Gordon will go more in-depth on our financial outlook.

To summarize my remarks, 2014 marks McCormick's 125th year. While it is a time to celebrate the rich history of this great Company and our position today as a global leader in flavor, our focus is on the future, on the execution of our growth strategy and in building value for our shareholders.

Next, Gordon is going to provide some further perspective on our fourth-quarter results, followed by comments on our 2014 outlook. Gordon?

Gordon Stetz - *McCormick & Company Inc - EVP and CFO*

Thanks, Alan, and good morning, everyone. As Alan described, our fourth-quarter results varied by business segment and region, with strength in a number of areas and weakness in our US consumer business this period.

I'd like to begin with a look at the sales and operating income results for each of our two segments, starting with the consumer business. As shown on slide 17, consumer business sales rose 3% in local currencies. Included in this result were a 4% contribution from our WAPC acquisition, offset by the impact of the estimated $30 million shift in US sales to the third quarter from the forth quarter.

As we discussed in our September earnings call, this related to customer purchases for our holiday display program, and in advance of a pricing action. So excluding these impacts, we grew underlying consumer business sales by about 3%.

Slide 18 shows our Americas region results, which included the unfavorable impact of the sales shift that lowered sales growth by an estimated 5.5%. Excluding this impact, sales rose about 2.5%.

Heading into the quarter, we had expected stronger growth this period based on our holiday marketing activity and new products, as well as a favorable comparison to the fourth quarter of 2012, when sales were adversely affected by Hurricane Sandy and retail purchase patterns. However, as Alan discussed, US sales were below our expectations for the quarter, despite strong category growth and actions are underway to improve our financial performance in 2014. In this region we achieved good growth in Canada, with particular success in innovation that included gluten-free gravy mixes and authentic ethnic items imported from our businesses and affiliates in China and the Philippines.

In Europe, the Middle East and Africa, EMEA, sales in local currency rose 2% from the year-ago period. The UK and France led this growth through product innovation and marketing programs. Sales in Russia also rose in the fourth quarter, due in part to distribution gains. And while still a small part of our business, we now have a #1 category share, up from #3 at the time of the Kamis acquisition.

Consumer business sales in the Asia Pacific region rose 73% in local currencies. WAPC contributed 68%, leaving a base business increase of 5%. We continued to grow our base business sales in China at a double-digit rate, while sales in India continued to reflect higher pricing.

Adjusted operating income for the consumer business was $178 million, which was close to the fourth-quarter 2012 results. During this period, higher sales and CCI cost savings were largely offset by a $6 million increase in brand marketing support, increased retirement benefit costs and higher material costs.

Turning to our industrial business, as seen on slide 22, we grew fourth-quarter sales 2.6% from the comparable year-ago period when measured in local currency. Volume and product mix accounted for approximately two-thirds of the increase.

In the Americas, industrial business sales declined 1%. We grew sales of snack seasonings and other flavors to food manufactures in this region and had solid sales of branded food-service products. Demand from quick-service restaurants continued to be weak this period, as Alan described. We expect this weakness from quick-service restaurants to continue into the first part of 2014, although we are encouraged overall by our new product pipeline for the Americas region, as indicated.

In EMEA we had very strong industrial sales growth of 9% in local currencies. This builds on top of 12.5% local currency year-on-year growth in the fourth quarter of 2012. In the fourth quarter of 2013, our industrial team was effective in increasing sales of customized flavor solutions through product innovation and expanded distribution.

In the fourth quarter of 2013 we grew Asia Pacific sales in local currency by 10% from the year-ago period. This rate of growth reflects improved sales to quick-service restaurants in China, along with new inroads in India with the supply of industrial products to strategic customers. As a reminder, we had weakness in the year-ago comparison as industrial sales in this region declined 11% in the fourth quarter of 2012, when compared to the fourth quarter of 2011.

Adjusted operating income for the industrial business was $36 million in the fourth quarter of 2013. This was a very strong profit result and as a percentage of sales, operating income was 8.9% for the quarter. Higher sales, a favorable mix of business, and CCI cost savings more than offset higher retirement benefit expense and material cost inflation. As you compare to the year-ago result of $23 million in the fourth quarter of 2012, keep in mind that we reported $4 million in costs associated with a supplier quality issue that period.

For the total Company, we reported fourth-quarter operating income of $174 million. This result included $25 million of special charges related to reorganization activities in EMEA as announced on October 17. In 2013, we identified several projects in this region to improve productivity and process standardizations. We have chosen to report these charges as a non-GAAP item since they are significant and effect the comparability of our financial results.

We are also treating a $15 million loss on a voluntary pension settlement recorded in the fourth quarter as a non-GAAP item. As discussed in our Third Quarter call, this loss relates to the settlement of a lump-sum pension pay out offered to approximately 3,300 former US employees with deferred vested pension benefits.

Excluding these items, adjusted operating income was $214 million and compared to $200 million in the year-ago period. The favorable impact of higher sales and cost savings from our CCI program more than offset the increase in brand marketing support, an increase of approximately $5 million in retirement benefit expense and higher material costs.

Moving below operating income, our tax rate for the fourth quarter was 24.3%, largely as a result of discrete tax items and a favorable mix of business between tax jurisdictions. This tax rate was slightly below the fourth quarter of 2012.

Income from unconsolidated operations ended the year close to our initial outlook for a 10% increase. As expected, most of this growth occurred in the first half. In the second half, profit for our joint venture in Mexico included costs to relocate to a new manufacturing facility built to expand capacity for growth and improve efficiency.

We reported $0.98 earnings per share for the fourth quarter. Adjusted EPS was $1.20. As seen on slide 30, compared to $1.11 EPS in the fourth quarter of 2012, higher operating income added $0.07 to earnings per share, lower interest expense added $0.01, and our reduction in shares outstanding added another $0.01.

Let's turn next to our balance sheet and cash flow on slide 31. We ended the year with a strong balance sheet. Following the acquisition of WAPC in mid 2013, by year-end we were close to our debt-to-EBITDA ratio target and are well-positioned for future acquisition activities. We have a solid pipeline of opportunities heading into 2014.

We also increased our share repurchase activity in the fourth quarter. We completed the $400 million authorization approved McCormick's Board in June of 2010, and began to buyback shares under the new $400 million authorization approved in April 2013.

During the quarter, a total of 1.3 million shares were repurchased and at year-end, $360 million remained under this new authorization. For the fiscal year, we returned a record $357 million to shareholders through dividends and share repurchases. Net of option exercise proceeds, the amount returned was $313 million, an increase of 28% from $244 million in 2012.

Our cash flow from operations ended the year at $465 million, of the $455 million result in 2012. While pension plan contributions were lower in 2013 than 2012, inventory rose due in part to strategic raw material purchases and higher material costs. We are pleased with the amount of cash we generated in 2013 and continue to have a balanced approach in our use of cash as illustrated by the chart on slide 31. With similar amounts invested in acquisitions and capital expenditures and in dividends and net share repurchases.

As a final topic, I would like to share McCormick's financial outlook for FY14 as shown on slide 32. As Alan indicated, projections indicate that global demand for flavor will continue to increase, and we plan to participate in this growth through innovation, brand marketing and acquisitions.

Starting at the top line, we expect to grow sales 3% to 5%. This projection is just below our 4% to 6% long-term growth goal and reflects a slower start to our consumer and industrial businesses in the US. We expect volume, pricing, and the incremental impact of WAPC in the first half of the year to have similar contribution to our 2014 sales growth.

At this time, we project the impact of currency to be neutral to sales and profit in 2014. We expect to grow operating income 6% to 8% from $591 million of adjusted operating income in 2013. We expect CCI cost savings of at least $45 million which, along with our pricing actions, a more favorable business mix and low single-digit cost inflation, should lead to a 50 to 100 basis point increase in gross profit margins.

Other factors that we anticipate will affect operating income in 2014 include an estimated $15 million decrease in retirement benefit expense that is largely the result of a year-on-year increase in the pension discount rate. However, we expect this favorable impact to be offset by higher employee incentive payments as we return to a more normal level of pay-out. Special charges related to the EMEA reorganization activity announced in 2013 are expected to lower 2014 operating income by $2 million.

Moving on to the tax rate, we are projecting our 2014 tax rate to be in a 30% to 31% range, up from 26.8% in 2013. This increase includes the estimated impact of a discontinuation of the R&D tax credit, a tax law change in France, and the expected mix of income across tax jurisdictions. In addition, we are comparing to 2013 rate that included $3.9 million of favorable discrete tax items. This projected year-on-year increase in the tax rate creates an unfavorable variance of $0.14 to $0.18 from our 2013 adjusted EPS of $3.13.

We anticipate a strong performance from our unconsolidated operations, particularly our joint venture in Mexico, with an increase of at least 15% in 2014 income from unconsolidated operations. Based on these factors, we are projecting 2014 earnings per share of $3.22 to $3.29. This range is a year-on-year growth rate of 3% to 5% from adjusted earnings per share of $3.13 in 2013, and includes an unfavorable impact of 5% to 6% from the higher tax rate and special charges as shown on slide 33.

As for the quarterly pace of earnings growth, in the first quarter of 2014, we expect earnings per share to be comparable to the $0.57 that we reported in the first quarter of 2013. This projection includes a planned increase of at least $7 million in brand marketing support, a tax rate at the higher end of our 30% to 31% range, and the slower start for our businesses in the US.

We expect another year of strong cash flow in 2014 and plan to use $120 million to $130 million on capital expenditures. In the absence of any acquisitions we plan to use a significant portion of cash for share repurchases, reducing shares outstanding by 1% to 2% in 2014.

That concludes my comments on guidance. So now let's turn to your questions, after which Alan will provide some closing remarks. Operator, we're ready for the first question.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Your first question comes from the line of Chris Growe.

Chris Growe - *Stifel Nicolaus - Analyst*

Can you hear me?

Alan Wilson - *McCormick & Company Inc - Chairman, President and CEO*

Yes, hi Chris. How you doing?

Chris Growe - *Stifel Nicolaus - Analyst*

Sorry, just wanted to make sure you could hear me, thank you. I'm doing well, thank you. I have just two questions for you. If I can lead off first with, as you had a little more sluggish demand across the business on the consumer side in particular, I wanted to ask about the increase in marketing for the coming year. Is that more trade-oriented or actual consumer marketing?

And then related to that, you have a lot of CCI cost savings coming through. But should we think about more of those savings having to be invested back in the business and not being as readily available to the Company going forward? If it's going to require more and more investment to spur revenue growth here?

Alan Wilson - *McCormick & Company Inc - Chairman, President and CEO*

Yes, the main focus of our marketing especially in the US is on the consumer. We're going to spend about 40% of that marketing, the advertising spend, in digital which is going directly to consumers in the US. We will have our usual trade promotion and marketing development funds, but a lot more of that money is going into equity build as opposed to price discounts.

And our CCI program is right. We typically think of our CCI as our fuel for growth. So we would expect to continue to reinvest that back into the business.

Chris Growe - *Stifel Nicolaus - Analyst*

Okay, and then related to the cost inflation outlook for the year, is there any discrepancy or difference between the consumer division and the industrial division? I know industrial has more of a pass through mechanism. But I'm curious of some of the inputs in that division are actually moving down in the short run? And consumer is up more than industrial? I'm curious of the difference between the two divisions there.

Alan Wilson - *McCormick & Company Inc - Chairman, President and CEO*

No, I wouldn't say, Chris, there's any. You can get slightly out of balance relative to what you just described with the pass through mechanisms. But I'd say in general, they're pretty much in line.

Chris Growe - *Stifel Nicolaus - Analyst*

Okay, thank you for the time.

Alan Wilson - *McCormick & Company Inc - Chairman, President and CEO*

Thanks, Chris.

Operator

Your next question comes from the line of Akshay Jagdale.

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unidentified participant - *KeyBanc Capital Markets - Analyst*

Hi, this is actually [Lube] on for Akshay. Can you hear me?

Alan Wilson - *McCormick & Company Inc - Chairman, President and CEO*

Yes, good morning.

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unidentified participant - *KeyBanc Capital Markets - Analyst*

Good morning. Just two quick questions, if I may. First off, can you quantify the expected contribution from lower pension expenses, as well as the accretion from acquisitions to FY14 operating income?

Gordon Stetz - *McCormick & Company Inc - EVP and CFO*

Yes, the pension benefit we mentioned was a $15 million reduction to the 2014 pension compared to the 2013 pension expense. We didn't get specific about the accretion from the acquisition. In the initial model that we provided at the time of the acquisition, we said about $0.03 in 2014. And as you heard in Alan's comment, it's tracking quite well against that.

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unidentified participant - *KeyBanc Capital Markets - Analyst*

Okay, great, thanks. And then could you give us an update on the Kohinoor acquisition, just what is the outlook for paddy supply, paddy pricing and distribution gains, et cetera?

Alan Wilson - *McCormick & Company Inc - Chairman, President and CEO*

We expect an improved result in India this year. We're starting to implement our programs of value-added rice mixes to go with the Basmati rice. We are in a better inventory position and we are expecting that we'll be able to grow that business this year.

unidentified participant - *KeyBanc Capital Markets - Analyst*

Okay, any projections or thoughts on where -- how much paddy supply is expected to grow?

Alan Wilson - *McCormick & Company Inc - Chairman, President and CEO*

I'm afraid I don't have that at hand.

Gordon Stetz - *McCormick & Company Inc - EVP and CFO*

Relative to our total inventories, it's not a really huge material item. So it's not typically something we break out separately.

unidentified participant - *KeyBanc Capital Markets - Analyst*

Got it. Okay thank you, I'll pass it on.

Alan Wilson - *McCormick & Company Inc - Chairman, President and CEO*

Thank you.

Operator

Your next question comes from the line of Ken Goldman.

Ken Goldman - *JPMorgan - Analyst*

Hi, good morning, everyone.

Alan Wilson - *McCormick & Company Inc - Chairman, President and CEO*

Hi, Ken.

Ken Goldman - *JPMorgan - Analyst*

Alan, can you talk a bit more about some of the drivers that you think are causing your share losses in the US? We've seen some categories in food that maybe a decade ago benefited from a mix up or volume-to-value strategy, and we're seeing somewhat of a reversal of that in those categories. I'm just curious to what extent that may be true at all with spices and seasonings. Or whether you're seeing something different out there that's maybe affecting your share, in your view.

Alan Wilson - *McCormick & Company Inc - Chairman, President and CEO*

Yes, I think there's a couple things going on. One is an expansion of private label at multiple price points at some customers. There's also been some gains by smaller competitors, both in the value price and the premium price, that are having some impact.

Our strategy to go after that is a couple. One is very aggressive category management and tell them the story and help our customers to remember the strong profitability of the spice and seasonings category and the importance of that to them, and the importance of McCormick in driving that profitability. Because some of the things that are happening aren't necessarily driving the profitability.

On the premium side, what you'll see this year is a relaunch of our gourmet business, with a strong emphasis on differentiating the superior quality and sourcing of our products at gourmet. We really believe the trends are there, so it's not a one size fits all. It's really focused marketing against some very, very specific segments.

Ken Goldman - *JPMorgan - Analyst*

And just a follow-up to that. As you think about your strategy dealing with your customers, as they perhaps pursue or experiment with more of a private label or smaller competitor strategy, you guys had a lot of success convincing Wal-Mart a few years back to go away from their testing of that.

Do you use the data from that? Or are these retailers not even testing it, they just made a decision to go for it and you have to convince them to reverse that on a more permanent basis?

Alan Wilson - *McCormick & Company Inc - Chairman, President and CEO*

Well, without getting into a lot of specifics, in a lot of cases they're coming in through different departments. They aren't necessarily in the spice aisle, they may be in the produce aisle or finding their way into different parts of the store. And aren't as readily visible to the category managers we're dealing with, so we're telling that story.

The second thing that we're really doing is showing a lot of that data that is still applicable that we saw in that test where the consumer really wants to buy the brand. And what we want to be able to show them is the value and the differentiation in product for the brand.

Ken Goldman - *JPMorgan - Analyst*

Okay thanks, Alan.

Alan Wilson - *McCormick & Company Inc - Chairman, President and CEO*

Sure, thanks, Ken.

Operator

Your next question comes from the line of Robert Moskow.

Alan Wilson - *McCormick & Company Inc - Chairman, President and CEO*

Good morning, Rob.

Robert Moskow - *Credit Suisse - Analyst*

Sorry about that. Thanks.

My question is similar to Ken's. I was looking at long-term market share trends in the category. The McCormick brand, according to Nielsen, has fallen every year in terms of overall share of spice and seasonings.

I appreciate the commentary here on category management and how you're going to push that harder, but I've also heard from you more advertising, more innovation. Have you thought through the advertising and innovation that you've done over the past three years?

It seems like you've done a lot. You're at $300 million in investment now. Why hasn't that worked better, Alan?

Alan Wilson - *McCormick & Company Inc - Chairman, President and CEO*

We are continuing to evaluate the programs. We have some programs that have worked pretty well, some that haven't worked as well.

Some of our spend has gone into some trade funds that weren't as productive as our equity building. I think what you'll find is a lot more of a focus on building and driving the equity and supporting new products that we're bringing out.

Our innovation pipeline has been -- in some of our markets hasn't been as robust as we need it to be. And what we're really doing is re-looking at our whole strategies. So we're launching a lot of products that are working in other markets.

The gluten-free gravies from Canada is a great example of that, where we believe that it will help to drive growth in the recipe mix category. We're really re-looking at a lot of the things that we're doing.

Robert Moskow - *Credit Suisse - Analyst*

I appreciate the color. One last question on the tax rate. This is just a modeling question. I think the guidance was for a 29% tax rate for fourth quarter. You came in at 24.5%, there's only a penny here from a discrete item. The rest appears to be just the mix of the geographies.

Was the mix of geographies that substantial in order to drive that big of a change in how the tax rate came in? Was the US that weak compared to your expectations?

Gordon Stetz - *McCormick & Company Inc - EVP and CFO*

It certainly was a big factor. Yes. Certainly as relative to the expectation on the sales growth line you can see it did not come in relative to the expectation which guided that rate. So that certainly was a big impact.

Robert Moskow - *Credit Suisse - Analyst*

Okay, so that's the issue. So as your US business improves, that's going to drive your tax rate higher for 2014?

Gordon Stetz - *McCormick & Company Inc - EVP and CFO*

That's one of the factors. And I also mentioned there's some legislative changes that were passed in December in France that are negatively impacting us on that rate.

Part of that is there's a retro nature to it that will impact Q1. So that's why we're guiding to the upper end of that range in Q1. Then obviously business mix and some of the lack of discrete items.

Robert Moskow - *Credit Suisse - Analyst*

Got it. Thank you very much.

Gordon Stetz - *McCormick & Company Inc - EVP and CFO*

Thanks.

Operator

Your next question comes from the line of Thilo Wrede.

Thilo Wrede - *Jefferies & Company - Analyst*

Good morning, everybody.

Alan Wilson - *McCormick & Company Inc - Chairman, President and CEO*

Hi, Thilo.

Thilo Wrede - *Jefferies & Company - Analyst*

Just had a quick follow-up on the question about private label and your marketing. I think, if I understood you correctly, you focused quite a bit of an increased marketing on the gourmet line, yet the market share growth comes in private label.

Does that discrepancy make sense? With your focus on value-added product in an environment where consumers seem to go fully for the discount option, should you maybe have more low-price offerings?

Alan Wilson - *McCormick & Company Inc - Chairman, President and CEO*

Yes, we didn't mean to imply that all of our spending or a lot of our spending was on gourmet. We are re-launching gourmet and there's going to be support behind that. That generates a fairly small percentage of our sales, but it's a very profitable mix of sales.

We are focused on a number of large events, everything from our current Super Bowl cooking activity through Easter and grilling. So, I didn't mean to imply at all that we're only focused on the premium segment.

We're really focused on making sure consumers understand the value of McCormick and the value meals that they can prepare that are using our product. It's not so much on driving the premium products. We are really focused on building the equity. (multiple speakers) Go ahead.

Thilo Wrede - *Jefferies & Company - Analyst*

Sorry, I was going to say that, that was my misunderstanding then. But the question still is, should you maybe have more discount offerings?

Alan Wilson - *McCormick & Company Inc - Chairman, President and CEO*

Well, we participate in all price points across the market, everything from opening price point to private label for our customers. Part of that share gain is coming through in our sales, obviously at a lower margin.

We do have our value branded items, as well. As an example, a couple of the items we're introducing are $0.99 recipe mix, Recipe Inspirations and value grinders, larger grinders at a competitive price. We've got some of those offerings that we're going with.

Thilo Wrede - *Jefferies & Company - Analyst*

Okay. The other question I had was, I think you mentioned that the QSR business will probably stay weak in the US in the first half of the year. But you have new product innovation coming there.

Is there anything from your side that you can do to improve your QSR business in the US? Or is that really a function of your customers getting growth again and the time segments, or day parts, that are more meaningful for you?

Alan Wilson - *McCormick & Company Inc - Chairman, President and CEO*

Yes, it's a matter of the products that we supply and what our customers are featuring and driving. We are much, much better off when our customers are innovating and introducing new products, or when they're driving core products that we supply.

So where we win is by winning the innovation. That's the part that we can control. By and large, a lot of the things with that customer base is not in our control.

Thilo Wrede - *Jefferies & Company - Analyst*

Okay. All right, thank you.

Alan Wilson - *McCormick & Company Inc - Chairman, President and CEO*

Thanks.

Operator

Your next question comes from the line of Jonathan Feeney.

Jonathan Feeney - *Janney Montgomery Scott - Analyst*

Thank you very much.

Alan Wilson - *McCormick & Company Inc - Chairman, President and CEO*

Hi, Jonathan.

Jonathan Feeney - *Janney Montgomery Scott - Analyst*

Good morning. Following up on the private label discussion, I was wondering if you could cite the profit mix between branded and private label, roughly, within North American consumer. Because I would have thought that presumably private label out-performed branded in your portfolio, as that would have driven a little bit more negative mix this quarter.

Gordon Stetz - *McCormick & Company Inc - EVP and CFO*

Yes, it's still, as a percentage of our total business it still is relatively small. We certainly have a strong share of the total market, but relative to our total portfolio it's still a relatively small part. It did not have an extremely big impact on the mix.

Clearly if we had SKU'd up more towards the core items the way we had anticipated, mix would have been more favorable than what we showed both within the US consumer as a total Company. But I'd say in and of itself, it's not the main driver.

Jonathan Feeney - *Janney Montgomery Scott - Analyst*

Thanks so much. Then following up, you commented that a handful of retailers, or I forget what the exact wording was, a few retailers had maybe seen better private label performance in North America than others. Could you further characterize that? Is there a certain kind of place or a certain line where that penetration private label was doing a little better than branded in 2013?

Alan Wilson - *McCormick & Company Inc - Chairman, President and CEO*

I wouldn't say that -- by and large, private label is still a fairly low percentage of the dollar sales in the category compared to a number of other categories. What we're reacting to is that we've seen a higher level of growth. And we've seen it in a mix of value-price retailers, natural higher-end retailers and then some popular retailers who've adopted as a strategy.

But it's still a little more than 20% of the category. It's not -- in terms of volume, in dollars it's even lower than that. So it is something we're responding to, something we're reacting to. And we know how to do that because where we compete in Europe and in Canada, we have typically private labeled more like 50%.

I think the dynamic we've seen differently in late 2012 and through 2013, is a little more fragmentation. Both in terms of other competitors as well as private label, as new products have been offered. Typically private label have been in a fairly limited number of products. We've seen some expansion, we've seen some expansion in price points, and that's what we're responding to.

Jonathan Feeney - *Janney Montgomery Scott - Analyst*

And would you say that we're totally past the effect of the buy-in now? I know it wasn't mainly Q4 to Q3, but some of these products have a reasonable shelf life.

Alan Wilson - *McCormick & Company Inc - Chairman, President and CEO*

Yes, I would expect that what happened in third quarter was an awful lot of the holiday items. We did see, through the quarter, consumption improve. What we didn't see in our sales were reorders that we typically get after that kind of thing happens.

But yes, we think by and large, the buy-in, and it was kind of compounded by the fact that we had a price increase at the same time. But we think that's largely done.

Jonathan Feeney - *Janney Montgomery Scott - Analyst*

Great, thanks very much.

Alan Wilson - *McCormick & Company Inc - Chairman, President and CEO*

Thanks, John.

Operator

Your next question comes from the line of Eric Katzman.

Eric Katzman - *Deutsche Bank - Analyst*

Good morning, everybody.

Alan Wilson - *McCormick & Company Inc - Chairman, President and CEO*

Good morning, Eric.

Eric Katzman - *Deutsche Bank - Analyst*

Let me just follow-up on that one. How much of the price increase in the US do you think limited your results? As opposed to, Alan, what I think is a reasonable characterization? Which is, fragmentation in the Company's, let's say, failure to adjust quickly enough.

Alan Wilson - *McCormick & Company Inc - Chairman, President and CEO*

I think the price increase, this price increase, had very minimal impact. It did impact that buy-in the third quarter. But by and large, by the time it got on the shelf with the consumer, it had very, very little impact and didn't impact much of the result.

I will say that one of the things we're really focused on, Eric, is really improving our responsiveness and our agility and our focus. We've already made changes in the alignment of our sales regions in the US, and we're continuing to simplify our operation and our business to go after volume and share gains.

Eric Katzman - *Deutsche Bank - Analyst*

Your stock under-performed significantly last year. It's going to under-perform most likely today, and probably under a bit of a cloud. So when would this increased responsiveness and the improvement in the, or the more spending, when should we see you start to gain back share and deal with this more complex retail landscape in the US?

Alan Wilson - *McCormick & Company Inc - Chairman, President and CEO*

Well certainly --

Eric Katzman - *Deutsche Bank - Analyst*

Is that a second quarter event if the first quarter is likely to be sluggish? When can we start to look for that?

Alan Wilson - *McCormick & Company Inc - Chairman, President and CEO*

We would expect to see improvement through the year. We're changing what we're doing right now. There is a very different dialogue that we're having with the customer, a more assertive story on category management that's happening right now.

It may take some time for that to find its way into our results, but we expect through the year that we're going to see improvement in that. The guidance that we've given reflects our best outlook as to what we think is going to happen.

Eric Katzman - *Deutsche Bank - Analyst*

Okay, and then last question and I'll pass it on. Gordon, for the consolidated top-line forecast, it looks like ex the pricing and ex the acquisition, you're looking for, let's say, roughly 2%, 2% to 3% in the core business.

I think you said that the category is growing in most markets, like 3%. I think you said you expect some pass through in the industrial. I'm not really getting a sense that you're assuming much of a rebound in the consumer side for the year.

Gordon Stetz - *McCormick & Company Inc - EVP and CFO*

Yes, as we indicated, we are at this right now, and as Alan indicated. But we are, within our guidance, reflecting time for this to build and have the impact that we expect as we progress through the year.

It's not an immediate turn-on that's built into that forecast. We talked about a bit of a slower start in US. We're being cautious, but we're being certainly positive and aggressive in how we're pursuing this.

Eric Katzman - *Deutsche Bank - Analyst*

Okay, I'll pass it on, thanks.

Gordon Stetz - *McCormick & Company Inc - EVP and CFO*

Sure.

Operator

Your next question comes from the line of Alexia Howard.

Alexia Howard - *Sanford C. Bernstein & Company, Inc. - Analyst*

Good morning, everyone.

Alan Wilson - *McCormick & Company Inc - Chairman, President and CEO*

Good morning, Alexia.

Alexia Howard - *Sanford C. Bernstein & Company, Inc. - Analyst*

Two questions. Firstly, it looks as though there was a nice rebound in the China industrial business, after the problems that you had with young brands out there for the last year. Am I right in thinking that the rebound was above the Asia industrial 10% sales growth out there? Is that set to continue? That's the first question.

Then the second question is around acquisition strategy from here. I think you alluded to a fairly target-rich environment for 2014. Where are you targeting geographically? Is this something that would be smaller bolt-on acquisitions like the ones that you pursued in the past? Or could there be something larger out there? How are you thinking about that this year?

Thank you.

Alan Wilson - *McCormick & Company Inc - Chairman, President and CEO*

I'll take the first question on the industrial business in Asia and in China. We did see some recovery and that's coming off some fairly weak results at the end of the year.

It's still, I wouldn't say, a completely robust environment. We've gained business with some local customers and are continuing to build our business there. So we have a pretty positive outlook for that business as we go into this year.

I'll let Gordon talk about the acquisition activity. We've got a number of targets, and obviously it's tough to time those. But we do have a number of targets in different parts of the world.

Gordon Stetz - *McCormick & Company Inc - EVP and CFO*

Clearly we continue to pursue our emerging market strategy. We've identified China and India and Eastern Europe as key target markets.

To Alan's point, it's difficult to forecast these things because you don't know when these relationships turn into an actual process and a deal. Likewise, the bolt-ons that we continue to look at within the developed markets, we're pursuing those as well. To the extent we find complimentary businesses that we think fit quite well on our strength in flavorings and sensory and food, we'll continue to pursue those.

It's difficult to be precise, because we don't know which one's going to hit first. But I can tell you we're actively engaged in finding those targets that have helped us grow over previous years.

Alexia Howard - *Sanford C. Bernstein & Company, Inc. - Analyst*

Great, thank you very much. I'll pass it on.

Alan Wilson - *McCormick & Company Inc - Chairman, President and CEO*

Thanks, Alexia.

Operator

Your next question comes from the line of Robert Dickerson.

Robert Dickerson - - *Analyst*

Yes, thank you very much. The first question that I have is a follow-up to other questions asked, is on price gap. It sounds like over the past four years or so, if you're looking to stacked rates you probably have prices up in consumer anywhere from 10% to 15%. But you were discussing how volumes seem soft and the outlook for 2014 seems a little soft.

At the same time, we are also seeing that pricing, we don't think pricing is really having an impact. If pricing is really having an impact on volumes, as we're discussing, then why is private label taking share? How does private label compete with you outside of price?

Alan Wilson - *McCormick & Company Inc - Chairman, President and CEO*

I didn't actually say that pricing isn't having an impact. I said it didn't have much of an impact in the fourth quarter last year. What we are seeing in the trends, which is a little bit of a reversal of what we've seen early in the year, is that private label unit growth is a little stronger than private label dollar growth.

That tells me that there is some level of discounting. Our unit growth is trailing our dollar growth. This is in the syndicated data, which tells me there's some -- (multiple speakers)

Robert Dickerson - - *Analyst*

Just to be clear, that just means the price gap is widening? (multiple speakers)

Alan Wilson - *McCormick & Company Inc - Chairman, President and CEO*

That means that over the past year the price gap has widened a little bit. That's part of our category management story with retailers, is to help them understand what the optimum price gaps and pricing levels are for their premium branded products, their core branded products, their private label products and their opening price point. So that they are not sacrificing category profitability to be able to impact that.

Certainly, we are very sensitive to the price gaps that we have. We think there's been some impact in our unit volume, and that gap has changed a little bit this year.

Robert Dickerson - - *Analyst*

Okay, fair enough. And then just a simple housekeeping question. On the tax rate, the 30% to 31% projected for 2014. It might be tough to gauge this, but what's your level of conviction on that?

I just ask because over the past four full fiscal years, you're at, I think, starting maybe FY09, your tax rate has come in approximately anywhere from 200 to 300 basis points below where you originally guided. If we look at where earnings has come in, that's obviously generated a decent amount of EPS relative to where consensus would have been, let's say, five years ago.

Thank you.

Alan Wilson - *McCormick & Company Inc - Chairman, President and CEO*

Tax rates are a very difficult thing to forecast. Because obviously it's the last thing on the P&L, and it all relates to your assumptions to surrounding business mix and tax jurisdictions. And then you're also trying to anticipate legislative impacts, and as you know, it's a very aggressive world we live in.

You're also trying to monitor and manage risk profiles as it relates to audits that are occurring all around the world constantly now. All I can tell you is, based on the information we're looking at right now and based on what we know in the legislative environment, that's our best estimate based on the mix of earnings and the forecast.

Will it change? As we progress through the year and we see how our businesses perform, it certainly could change. Things that are not assumed in there, for instance, is the R&D tax credit in the US. We're in that rate, not assuming that that gets reinstituted.

But if Congress passes that, that certainly could be a favorability that we didn't anticipate. At this time, it's not passed, so our rate reflects it. It's those types of item that make it difficult to forecast. At this stage, it's the best estimate we've got.

Robert Dickerson - - *Analyst*

Okay, but I'm just asking because, like as an analyst, if I think about if you come in 250 basis points below for four years in a row, then have you factored in, yourself, that sensitivity over the past four years for next year's guidance? Or are you just sticking with what you have?

Gordon Stetz - *McCormick & Company Inc - EVP and CFO*

We look at our outlook for the year and based on the mix of earnings and the legislative environment, it's an add up of our best estimate.

Robert Dickerson - - *Analyst*

Okay, fair enough.

Gordon Stetz - *McCormick & Company Inc - EVP and CFO*

Clearly in this fourth quarter, the US business didn't come in as expected, so it clearly had an impact on the rate. And that was one of the factors that we experienced.

Robert Dickerson - - *Analyst*

Okay, thank you, I'll pass it on.

Operator

Your next question comes from the line of David Driscoll.

David Driscoll - *Citigroup - Analyst*

Thank you and good morning.

Alan Wilson - *McCormick & Company Inc - Chairman, President and CEO*

Morning.

David Driscoll - *Citigroup - Analyst*

Two questions. The first one goes back to the pensions. I believe that you guys said that pensions would be favorable, something like, by my calculation, about an $0.08 tailwind for 2014. But that you wanted to match that up with the requirement for higher incentive comp, because I think the 2013 incentive comp was below normal. Is that an accurate recap?

Alan Wilson - *McCormick & Company Inc - Chairman, President and CEO*

Yes, the only thing I would add is it didn't all occur in 2013. 2012 forth quarter also, so I wouldn't say all of that rebuild occurred because of 2013. These things occur gradually over time. So year to year over time, we've been below target for two straight years and now we're trying to build back to target.

David Driscoll - *Citigroup - Analyst*

This is really important. So when you build back is it a one year build-back? Or is it something that's actually a headwind even in the next year? Because these kinds of things are always like pension was obvious on the outside that this would be a tailwind.

Higher incentive comp is always less obvious. It's always important to hear your comments. Is it a one-year build-back or is it multi-year?

Gordon Stetz - *McCormick & Company Inc - EVP and CFO*

Well it's a variable component based on performance, so it pays for itself depending on the performance. If we perform really well we could build it back in one year. It will just be a function of the variable performance of the business.

David Driscoll - *Citigroup - Analyst*

Okay. My final question is, want to come back to this because I think this really matters. In the fourth quarter, consumer volumes by our estimates, needed to come in plus four points, so volumes needed to be up four. They come in down 3.5, so it's a 750 basis point forecasting miss. That's an enormous number.

I think you guys are saying here that it's private label, it's price gaps and so forth. Alan, what I'd really like to ask is simply that if you went into the biggest holiday season, and you go in with a price increase, and historically you've never put a price increase in front of that holiday season.

All these numbers, just because of the magnitude of them, they scream at me that what should have happened was a price decrease in order to stay competitive on these price gaps. It's an internal forecasting miss, not something that you couldn't handle. Maybe that's what you mean by being more nimble in the future, but I'd like to hear your response.

Alan Wilson - *McCormick & Company Inc - Chairman, President and CEO*

Yes, the price increase only, at least in the short-term, only impacted the shift between quarters. What we expected is, because we had a fairly, we had a lot of one-time issues in 2012, was a rebound from some supply issues we had and some of the demand from the Northeast where Hurricane Sandy impacted us. As we issued that guidance, we were seeing fairly good consumption data.

What we didn't see in October and November were the sales and the reorders that we expected. We absolutely missed that forecast. So, that is what we're getting back out now, is not only forecasting better, but executing better.

David Driscoll - *Citigroup - Analyst*

Okay, thank you so much.

Alan Wilson - *McCormick & Company Inc - Chairman, President and CEO*

Thanks, David.

Operator

Your next question comes from the line of Andrew Lazar.

Andrew Lazar - *Barclays Capital - Analyst*

Good morning.

Alan Wilson - *McCormick & Company Inc - Chairman, President and CEO*

Hi, Andrew.

Andrew Lazar - *Barclays Capital - Analyst*

Alan you mentioned that some of these other entries or entrants into this space are coming in some different areas, as opposed to just the core spice and seasoning aisle. For those that are in your core aisle, I've always thought about this space as generally being pretty set. You obviously have a very high share of that shelf set, if you will, over time.

So are they gaining access to some space that McCormick might have had at one point but lost? Or is the overall spice and seasoning space gaining some traction in shelf space in retailers? Which are allowing for some of these other entrants to come on shelf, that's the first question.

Alan Wilson - *McCormick & Company Inc - Chairman, President and CEO*

Yes, there's a little bit of an expansion of space and some of these competitors are gaining some space. We've had limited losses of actual space.

What's happening is, a couple years ago, the retailers were moving very much to managing SKUs and concentrating. What we're seeing, at least in our category, and I can't speak to other categories, is more fragmentation.

Rather than a strategy that looked like it was going to be a strong national brand, limited regional competitors and a strong private label, it looks like that what's happened over the last year, year and a half, has more of those regional competitors gaining some traction they had lost about four years ago.

We're responding really aggressively to that, because it's not helping the overall growth or the profitability of the category for the retailer. And that's the story we're telling.

Andrew Lazar - *Barclays Capital - Analyst*

That's helpful. This is more a little out there, and probably not what's needed at all, but I'll throw it out there. There have been a couple large categories that are very different than yours, of course. Let's call it liquid detergents, where Tide has come out with a Tide Basic. Folks who want the brand, really comfortable with the brand, maybe don't need quite the level of efficacy that would be with core Tide and are willing to move down on that scale a little bit. But, want the brand, just want to pay a little less for it.

The price gap's there and the pricing is very different, I'm sure. I'm just trying to get a sense, do you think there's an opportunity for some additional offerings, maybe using the McCormick brand? But carefully so, because that can get a little sensitive. To also come more aggressively at the lower-end consumer?

Alan Wilson - *McCormick & Company Inc - Chairman, President and CEO*

Yes, we're exploring a number of different alternatives like that. We already offer a number of different price points. But we are exploring, both on the premium and on the value, what the right way to respond is.

Andrew Lazar - *Barclays Capital - Analyst*

Okay, I'll leave it there. Thanks, and see you in a couple weeks.

Alan Wilson - *McCormick & Company Inc - Chairman, President and CEO*

Thanks, Andrew.

Operator

Your next question comes from the line of Eric Katzman.

Eric Katzman - *Deutsche Bank - Analyst*

Hi, thanks for the follow-up. Back on to Dave Driscoll and Andrew's points, can we go into the US business in a little bit more detail? Are we talking the bulk of the weakness was concentrated in the core spice and seasonings business? Or was this more broad-based? Are you being out-performed in Zatarain's, Lawry's, the Simply Asia business? Or is this just the Grill Mates? Or is it just core spice and seasoning mix?

Alan Wilson - *McCormick & Company Inc - Chairman, President and CEO*

No, we saw some weakness in some of our diversified businesses, and we're addressing those, as well. But as you well know, the bulk of our profitability and our sales comes from the core categories. That's where the majority of our emphasis is going to be.

Eric Katzman - *Deutsche Bank - Analyst*

And so, one other question. So I mean it seems like you're doing, when I talk to other companies, Europe for the consumer is a disaster, continues to be, US a bit better, albeit still very challenging. But you seem to almost have the reverse of it. What is it that's doing so well, relatively well, in Europe versus what seems to be to have such a weak ending to last year for the US?

Alan Wilson - *McCormick & Company Inc - Chairman, President and CEO*

Yes, our innovation platform in Europe has been more robust and more successful. Another part of the growth in Europe comes from our dessert business there, which we don't participate very much in here. It really is down to a more successful innovation platform.

Eric Katzman - *Deutsche Bank - Analyst*

Okay, I'll pass it on, thanks.

Alan Wilson - *McCormick & Company Inc - Chairman, President and CEO*

Thank you.

Operator

Your final question comes from the line of Mr. William Keller.

William Keller - *- Analyst*

Good morning.

Alan Wilson - *McCormick & Company Inc - Chairman, President and CEO*

Good morning.

Sam Knesvick - *- Analyst*

Hi, this is actually [Sam Knesvick] on for Bill. My question actually is either for Gordon or Alan. Has your relationship with the retailers in the US changed as it relates to your ability to sell them the private label products you manufacture alongside your branded product portfolio?

Alan Wilson - *McCormick & Company Inc - Chairman, President and CEO*

I wouldn't say the relationship has changed a bit, but it is two separate purchases. The branded tends to be a very traditional consumer packaged goods sale. The private label offering, which is again a part of our category management story is, and the reason we're in that business is to help the retailer get the right mix of products to maximize sales and profits.

I would say that in a lot of cases, the retailers are separating those buys, and private label is more of a bid process. But our category story hasn't changed, our relationship really hasn't changed. Some retailers have been more aggressive at bidding those kinds of products as opposed to the branded businesses.

Sam Knesvick - *- Analyst*

Got it, thank you.

Alan Wilson - *McCormick & Company Inc - Chairman, President and CEO*

Okay, thanks.

Operator

And there are no further questions at this time. I would now like to turn the conference over to Mr. Alan Wilson for any closing remarks.

Alan Wilson - *McCormick & Company Inc - Chairman, President and CEO*

I'd like to thank everybody for your questions and participating in today's call. We hope you'll be able to join us at CAGNY on February 19, whether you're there in person or by webcast, to learn more about our outlook for flavor and how we're going to capitalize on our growth.

At McCormick, we have 125-year heritage of innovation, collaboration, and commitment to this business that's at the foundation of our global leadership in flavor. With a passion for flavor, we continue to drive growth and position our business for future success.

Thank you.

Joyce Brooks - *McCormick & Company Inc - VP of Investor Relations*

I'd like to add my thanks everyone on today's call. Through February 5, a replay of the call can be accessed by dialing 855-859-2056. The conference ID number is 19671330.

You can also listen to a replay on our website later today. If anyone has additional questions regarding our information today, please give us a call at 410-771-7244. This concludes this morning's conference.

Operator

With that, this concludes today's conference. You may now disconnect.
