THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

MKC - Q2 2016 McCormick & Company Inc Earnings Call

EVENT DATE/TIME: JUNE 30, 2016 / 12:00PM GMT

CORPORATE PARTICIPANTS

Joyce Brooks *McCormick & Company Inc - VP of IR*

Lawrence Kurzius *McCormick & Company Inc - President & CEO*

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

Mike Smith *McCormick & Company Inc - SVP, Corporate Finance*

CONFERENCE CALL PARTICIPANTS

David Driscoll *Citi Research - Analyst*

Akshay Jagdale *Jefferies LLC - Analyst*

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

Tom Palmer *JPMorgan - Analyst*

Chris Growe *Stifel Nicolaus - Analyst*

Jonathan Feeney *Consumer Edge Research - Analyst*

Brett Hundley *BB&T Capital Markets - Analyst*

Robert Moskow *Credit Suisse - Analyst*

Mario Contreras *Deutsche Bank - Analyst*

Erin Lash *Morningstar - Analyst*

PRESENTATION

Joyce Brooks *- McCormick & Company Inc - VP of IR*

Good morning. This is Joyce Brooks, Vice President of Investor Relations. Thank you for joining today's call for a discussion of McCormick's second-quarter financial results and our current outlook for 2016. To accompany this call, we've posted a set of slides at IR.McCormick.com.

(Caller Instructions)

With me this morning are Lawrence Kurzius, President and CEO; Gordon Stetz, Executive Vice President and CFO; and Mike Smith, Senior Vice President, Corporate Finance.

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, as well as information in constant currency. Reconciliations to the GAAP results are included in this morning's press release and slides.

As a reminder, 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 the discussion over to Lawrence.

Lawrence Kurzius - *McCormick & Company Inc - President & CEO*

Thank you, Joyce, and good morning, everyone. Thanks for joining us. McCormick's second quarter results continued the momentum we saw in the first quarter of 2016. We're driving this performance with our growth strategies and our people. My thanks to McCormick employees around the world for their effort and engagement. With our first half financial results and business momentum together, we have greater confidence in our financial outlook for FY16.

The strong results this quarter started at the top line. In constant currency, we grew sales 6% for the total company. And the increase in our Consumer segment sales was particularly strong, with an 8% increase. Contributing factors were three acquisitions completed in the last 12 months, along with growth in our base business and new products, our three drivers of long-term sales growth. Based on these results, we reaffirm our fiscal year outlook for a 4% to 6% sales increase in constant currency, and with the recent acquisition of Gourmet Gardens have greater confidence in the upper end of this range.

We saw sequential improvement in gross profit margin, with a gain of 130 basis points following a 70 basis point increase in the first quarter. This improvement is lead by our Comprehensive Continuous Improvement program, CCI; and we had a benefit this period from favorable business mix, including strong sales in our core US Consumer business. As a result, we're now tracking toward the higher end of our fiscal year projection for gross profit margin improvement.

Back in February, we set a goal to achieve $400 million of cost savings over the next four years. At about 2% of sales, this is an ambitious target but one that is backed by increased resources under Mike Smith's leadership. Importantly, we're taking a deliberate approach so that we do not disrupt the great progress underway with our top line growth strategies.

Through the first half of 2016, we're off to a great start with this work and are increasing our FY16 projection to a range of $100 million to $110 million. This is our fuel for growth, as demonstrated by our second quarter investment in brand marketing, which we increased 16%, or $10 million, from the year ago period.

As a further investment, we funded $5 million of increased incremental spending in the second quarter in support of our acquisition activity, a key element of our growth strategy. Even with the incremental spending to drive growth, we increased constant currency adjusted operating income 7%, led by the higher sales and gross profit margin. Year-to-date, this puts us at a 9% constant currency increase, which is within our fiscal year 9% to 11% objective.

At the bottom line, adjusted earnings per share of $0.75 was comparable to the year-ago period. We had a strong increase in adjusted operating income, although this was offset by a higher tax rate. Keep in mind that this year-to-year comparison of adjusted earnings per share for the second quarter includes the unfavorable impact of foreign currency exchange rates.

For FY16, we reaffirm our outlook for adjusted earnings per share of $3.68 to $3.75 and have more confidence in achieving the upper end of this range, based on our financial performance through the first half and our projections for the next two quarters.

On slide 5, we've summarized our FY16 guidance in constant currency, which is at or above our long-term outlook. In his remarks, Gordon will provide additional insight into the quarter and into our outlook.

I'd like to turn next to some business updates, with a focus this morning on the steady improvement in our US Consumer business, our great new product line-up for the second half, highlights of other parts of our business, and comments on our acquisition activity and outlook.

For our US Consumer business, category growth for spices and seasonings continues to be strong, reaching an 8% year-on-year increase in the latest quarter. 66% of this increase was higher volume; and we believe this is being driven by new product launches, such as our herb grinders, brand marketing support and the recent dietary guideline news. A lot of the growth is in those herbs and spices that are pantry staples.

During this same period, retail sales of McCormick brand spices and seasonings rose 7% year-on-year. As the graph on slide 6 shows, this continues our trajectory of sequential increase and compares to a 5% increase in the first quarter consumption data.

Across all of our spice and seasoning brands, not only McCormick but niche brands, like Lawry's, Old Bay and El Guapo, our share performance continued to improve. We were down just 10 basis points, so almost even in this latest period. When Gourmet Garden is included, our share is up 20 basis points, again a sequential improvement from the first quarter.

The information on slide 6 is based on retail dollar sales for spices and seasonings. As noted on slide 7, on a unit basis, second quarter retail sales grew 6% for the category and 7% for McCormick brand spices and seasonings. There are three key messages here. First, we gained category share on a unit basis. Second, the McCormick brand is helping drive the unit category increase. And third, this is evidence that certain retailers are implementing our recommendations to lower retail price points on the McCormick brand.

As for the recipe mix category, retail dollar sales of our McCormick brand recipe mixes were up 3% and we gained 10 basis points of category share. We're driving this great performance by our actions to win at retail, build our brand equity and accelerate innovation.

To win at retail, we've been increasing our investment in category management tools, resources and capabilities. We're pleased with our progress and continue to build our capabilities. We're getting great feedback from our customers. They've commented that McCormick has really stepped up its game and is having a more thorough conversation on the category.

Part of our category management work has focused on retail price points. At retail customers who have partnered with us on pricing recommendations, the year-to-date dollar share from McCormick brand spices and seasonings is up 120 basis points versus a 70 basis point decrease with the remaining US food retailers. The good news is that this increase in share for McCormick brand is typically a profitable move for both us and our customers.

As I indicated, we had a significant increase in brand marketing this quarter and about half of the increase was in the US. This included marketing support for our Pure Tastes Better campaign, the launch of our herb grinders, Hispanic advertising, and digital marketing for Grill Mates as we headed into Memorial Day and peak grilling seasoning.

We're also getting good traction with our product innovation, and in January showed you our plans for the first half of 2016. Let's take a look ahead at the second half line up for our US Consumer business.

We're poised to launch a number of new products for consumers in this market, as seen on slide 8. These include flavored black pepper, five different tastes from McCormick's iconic black pepper, from mild and smoky to tangy and hot; organic recipe mixes for convenient, flavorful weeknight dinners; organic kitchen basic stocks and a new bone broth to add protein to your diet.

Within our Gourmet line, we're launching signature Asian flavors inspired by our flavor forecast that include Japanese seven spice and Korean-style red pepper and pairings of healthful ingredients, like chia, flax and matcha, with spices and herbs, and a line of Lawry's brand Casero blends to deliver authentic Mexican and Latino tastes.

We're also relaunching our entire Produce Partners line with new packaging. These products, like Great Guacamole and Salsa Seasoning, are merchandised right in the high traffic produce department.

We also have an exciting line up for markets outside of the US. In the Americas region, Canada is targeting Millennial consumers with limited edition recipe mixes in flavors like Sriracha Buffalo Wing and Peruvian Roast Chicken, and extending their line of Produce Partner blends. Our team in central America is introducing a line of five new cooking sauces.

In Europe, Middle East and Africa, EMEA, our goal is to lead the development and growth of the barbecue category, and our latest product introduction is a line of burger seasoning mixes in the UK. Across a number of countries in this region, we're gaining distribution for our herb grinders and have a new television ad ready to drive consumer awareness. And in France, we're continuing a steady stream of innovation for our Vahine desert brand, with new decorating items and new packaging features.

Moving to our Asia Pacific region, we're extending our recipe mixes in China. These products help consumers create hot and spicy Szechuan dishes and experience flavors from around the world, like Lemon Curry Roasted Chicken Wings and Brazilian Barbecue Seasoning.

Part of our Wuhan Asia-Pacific Condiment business in China, we're introducing cooking wine and vinegar. And in Australia, our iconic Airplane brand has a commanding lead in gelatin, and we've been stretching the brand to other dessert categories. Our latest plans are to launch Airplane liquid shake mixes.

While we do not get too specific with our industrial product development, McCormick is well positioned for innovation with our certification as global supplier for an increasing number of our large customers. Our range of flavor solutions for these customers is one of the broadest in the industry, as evidenced by recent product development work for snack chip seasonings, cracker seasonings, beverage flavors, ice cream toppings, sandwich sauces and burger seasonings.

Let's turn next to our performance and outlook for some other parts of our business, and we'll start with China. China is our second largest market after the US. We've been in this market for more than 25 years, made a very successful acquisition in 2013, and are excited about our prospects for growth.

For our Consumer business, we grew constant currency sales through the first half by 8%, with new products, expanded distribution and brand marketing. There's been some fluctuation in sales growth by quarter due to shifts in timing related to promotional activity, as well as timing of shipments related to a successful implementation of SAP in our central China operation. Our Consumer business in this market remains solid and we continue to expect good growth in 2016 and beyond.

For our Industrial segment, year-to-date constant currency sales in China were up 8%, with higher volume and product mix. We anticipate some sales pressure in the second half, as a large customer will be diversifying their supply chain by adding a second supplier for some core items that McCormick supplied.

Based on our current pace of growth and latest outlook across both our Consumer and Industrial businesses in China, we expect our success in this market to continue, with FY16 constant currency sales growing at a mid- to high single digit rate.

As for the Industrial business in the Americas, we're delivering strong sales of branded food service products, along with new product wins for snack seasonings, beverage flavors and burger seasonings. On the innovation front, we're in a great position, as we see accelerated moves by our customers toward no processed flavors and non-GMO ingredients. We're making inroads with some additional restaurant chains. And Brand Aromatics, acquired just over a year ago, is ahead of plan in both sales and profit. Together these successes are driving not only top line growth, but higher profit margins with a more favorable mix.

In EMEA, our Industrial sales slowed this quarter, as we lapped some of the new distribution wins that drove a portion of our sales growth in 2015; but we're still encouraged by our innovation pipeline and the geographic expansion of our customers in this region. We also had weak sales for a joint venture in South Africa that we plan to exit by year-end.

Our Consumer business sales in EMEA benefited from a roughly 50% increase in brand marketing in the second quarter. Excluding acquisitions and on a constant currency basis, we grew volume and product mix 3% versus the year-ago quarter, with strength in our largest market, France, and a double digit increase in both Poland and Russia that was driven in part by expanded distribution.

The last update I wanted to provide was on our acquisition activity and outlook. During the second quarter, we were pleased to announce our purchase of Botanical Food Company in Australia, which manufactures and sells the Gourmet Garden brand. Gourmet Garden is a global market leader in on-trend chilled convenient packaged herbs, exporting products from a manufacturing location in Australia to 15 other countries, with the largest being the US. Annual sales are more than $50 million and the purchase price for this high growth business was a 12 times multiple of EBITDA.

We anticipate continued double digit sales growth for these products that offer consumers a convenient flavor alternative to fresh herbs. Importantly, these closer to fresh products are shelved with produce and allow us to participate in this highly traffic perimeter department.

Going forward, we have a robust pipeline of acquisition opportunities. These include assets where flavor and health intersect to extend our current footprint with healthy flavors and great brands, value-added higher margin industrial assets, acquisitions that build scale where we currently have a presence in developed and emerging markets, and in size, both large assets as well as smaller bolt-on opportunities.

Our pursuit of Premier Foods earlier this year demonstrates our interest in larger businesses that fit with our growth strategy, and I hope that our ultimate decision not to make a firm offer also showed investors that McCormick remains financially disciplined in its use of cash.

To summarize my remarks, we're well positioned as a global leader in flavor and are driving strong momentum with our growth strategies. We achieved great results through the first half and have increased confidence in delivering the higher end of our 2016 financial outlook.

Now, before I turn it over to Gordon, we announced yesterday Gordon's decision to retire at the end of this year. Gordon has been an exceptional leader at McCormick. During his 28 years with the Company, he's built a world class finance team that, under his leadership, has helped deliver exceptional returns for our shareholders. His strategic leadership and focus on value creation have been instrumental in driving our successful acquisition agenda, expanding our shared services around the world, and managing our costs and cash, including the establishment of our CCI program.

Gordon is the embodiment of McCormick values and teamwork and will truly be missed by me and employees throughout the organization. Gordon, congratulations on your successful career, all of your achievements and your upcoming retirement.

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

Thanks very much for those remarks, Lawrence. Joining McCormick 28 years ago was one of the best decisions I've ever made. This is a great company and it's only gotten better during my time here.

During my years at the Company, we developed our focus on flavor and led to terrific growth opportunities and strong shareholder return. We improved our productivity, generating our fuel for growth. I'm so proud of our teams in Finance, Shared Services, and Information Technology and appreciate all of their efforts. I truly feel blessed to have had such a talented team.

My decision to retire at this time is based in part on Mike's readiness to move into this role and my confidence that Lawrence, Mike and the rest of our leadership team have the energy and vision to create a bright future for McCormick shareholders and employees. This is the right team to manage the challenges of an increasingly complex world and capture the great opportunities that are ahead for this Company.

For those on the call, I valued the opportunity to build relationships and provide insight into our business. You've been generous in sharing your views of our business and your knowledge of the food industry, and I thank you all greatly for that.

Lawrence Kurzius - *McCormick & Company Inc - President & CEO*

Thanks, Gordon. You're with us through December, so don't say too many goodbyes just yet.

In the same announcement, Mike Smith was named Executive Vice President and CFO effective September 1. Mike will serve on our management committee and assume Gordon's responsibilities, which include oversight of the Company's global finance organization, as well as McCormick's Shared Services and Information Technology.

Mike brings to this role a deep knowledge of the company and experience as a finance leader in both corporate and operational roles, including those in North America and in our EMEA region and across both Consumer and Industrial segments. In each of these roles, he has a proven track record of creating value and growth. He's actively driving our productivity improvement and led the work behind McCormick's recently announced goal to reduce $400 million of costs over the next four years to create fuel for growth. Mike, congratulations on this promotion. I look forward to working with you in this new role.

Mike Smith - *McCormick & Company Inc - SVP, Corporate Finance*

Thank you, Lawrence. I'm excited about serving as CFO of McCormick and the opportunity, together with McCormick's leaders and employees throughout the Company, to drive our growth and performance. It's been great to work closely with Gordon and the entire management committee for the past year to prepare for this new role.

Gordon, I want to thank you in particular for your mentorship and offer my congratulations. Over the past few years, I've gotten to meet a number of the analysts and investors who follow McCormick and look forward to continuing to build these relationships and your knowledge of our business.

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

Mike, let me add my congratulations. And for those on the call, in addition to Lawrence's remarks, I want to express my supreme confidence in Mike's leadership and role as new CFO. I've had the privilege of working with him for many years and have watched his career progress and witnessed his strong financial leadership and ability to drive results. So congratulations to you, Mike.

Now let's get back to our latest financial results. As Lawrence indicated, we are pleased with our second quarter results and have good momentum heading into the second half of 2016. I'll provide some additional remarks and insights on our second quarter results, followed by the details of our current 2016 financial outlook.

On a constant currency basis, we grew sales 6%. Acquisitions, higher volume and product mix and pricing taken in response to higher material costs each contributed to the increase, as seen on slide 14. The growth this quarter was led by our Consumer segment.

On slide 15, Consumer segment sales in the Americas rose 6% in constant currency, with about half of the increase from acquisitions, both Stubb's and Gourmet Garden. The balance of sales growth this period was led by a strong performance in our US sales of McCormick brand spices and herbs, recipe mixes, our Lawry's brand, and Simply Asia products. These were offset in part by a lower rate of growth in our sales of private label and economy brands. Also, volume and mix declined in Canada, as consumers adjust to significant price increases related in part to currency pressure.

In EMEA, we had another quarter of robust sales, up 20% in constant currency. This increase was driven by our year-ago acquisition of Drogheria & Alimentari, which added 14 percentage point to the sales growth. We also expanded distribution of our products in Poland and Russia and delivered a strong performance in France with new products and brand marketing.

Consumer sales in the Asia Pacific region were up just slightly in constant currency. Sales from Gourmet Garden added 3 percentage points of growth. In China, as Lawrence noted, sales growth moderated in the second quarter, due to the timing of customer purchases related to promotions and the successful implementation of SAP in our Wuhan facility. Year-to-date, we have grown consumer sales in China at a high single digit rate on a constant currency basis and we expect to return to a higher growth rate in the third quarter versus the second quarter.

Lowering our second quarter sales in this region was a decline in India resulting from our decision to discontinue certain low margin products. This action in India lowered our second quarter sales growth rate in the region by 6 percentage points.

For the Consumer segment in total, we grew adjusted operating income 7%, to $86 million. In constant currency, adjusted operating income rose 8% from the year-ago period, with the impact of sales growth and cost savings more than offsetting an $8 million increase in brand marketing, a $5 million increase in acquisition-related expenses, and higher material costs.

Turning to our Industrial segment in slide 19, we had solid results this quarter in both sales and profit, although this was a moderation from the first quarter, which included an incremental impact from Brand Aromatics. We grew Industrial sales in the Americas 2% in constant currency. We increased US sales of branded food service products and gained some new distribution with restaurant customers.

In both the US and Mexico, sales volume and product mix for snack seasonings were strong, although pricing was down, due in part to lower costs for dairy ingredients. In Canada, we passed through higher material costs to our customers with higher pricing, but this was offset by some volume weakness for Industrial products in that market.

While we have had a long run of excellent performance from our Industrial business in EMEA, this quarter we lapped some of the new distribution gained in 2015. As a result, the sales growth rate moderated to a slight increase in constant currency. Also affecting Industrial sales in this region was sales weakness in a small consolidated joint venture based in South Africa that we plan to exit by year-end.

We grew Industrial segment sales in the Asia Pacific region 9% in constant currency. The main driver was higher sales to quick service restaurants in the region, mainly from our operation in China. As Lawrence indicated, we expect Industrial sales pressure in the second half of 2016 in this market.

Adjusted operating income for the Industrial segment ended the quarter up 1%, at $43 million. In constant currency, the growth was 5%, driven by higher sales and our cost savings offset in part by higher material costs and a $2 million increase in brand marketing to drive our branded food service business. Adjusted operating income margin for this segment in the second quarter reached 10.1%.

Across both segments, adjusted operating income, which excludes special charges, rose 5% in the second quarter from the year-ago period. If we also exclude the impact of unfavorable currency, we grew adjusted operating income by 7%. This is below our 9% to 11% goal for the fiscal year, but includes the higher brand marketing and acquisition-related costs. Year-to-date the increase in adjusted operating income in constant currency is 9%, as Lawrence indicated.

We increased gross profit margin 130 basis points year-on-year, to 40.7% in the second quarter of 2016. This improvement was the result of cost savings from our CCI and organization and streamlining actions, favorable mix, and pricing actions taken to offset a moderate level of cost inflation.

Our selling, general and administrative expense as a percentage of net sales was up year-on-year by 110 basis points from the second quarter of 2015. The increases in brand marketing and acquisition costs as a percentage of net sales were 140 basis points, more than accounting for the 110 basis point increase.

Below the operating income line, the tax rate on a GAAP basis this quarter was 23.1%, compared to a very low 15.9% in the year-ago period. Both periods were favorably impacted by discrete tax items. The second quarter 2016 tax rate of 23.1% was one of the reasons why the second quarter adjusted earnings per share came in ahead of the guidance we shared with you back in March. Given this result, and absent additional discrete tax items for the remainder of the year, we are now estimating a FY16 tax rate in the range of 27% to 28%.

Despite unfavorable currency, income from unconsolidated operations rose 4%, to $8 million. Our largest joint venture, McCormick to Mexico, is performing well, with sales in constant currency up 7% year-to-date, although profit for this business was unfavorably impacted by higher material costs, especially the currency impact on soybean oil purchases. For the fiscal year, we expect income from unconsolidated operations to be down about 10%.

At the bottom line, second quarter 2016 adjusted earnings per share was $0.75. This was comparable to the year-ago period, with the impact of higher adjusted operating income offset by the higher tax rate. Keep in mind that this year-to-year comparison includes the unfavorable impact from currency on both consolidated and unconsolidated income.

On slide 28, we've summarized highlights for cash flow and the quarter-end balance sheet. Through the first half of 2016, cash flow from operations was $213 million, compared to $186 million in the year-ago period, mainly due to the increase in net income. We returned $210 million of cash to shareholders through dividends and share repurchases and used $55 million for capital expenditures.

At the end of the second quarter, $469 million remained on the current $600 million share repurchase authorization. Our balance sheet remains sound. We are generating strong cash flow and we are well positioned to continue funding investments to drive our growth strategy.

Let's move now to our current financial outlook for 2016. Our strong outlook for the year is unchanged. In fact, we have greater confidence in achieving the upper end of our sales growth and earnings per share ranges.

At the top line, we reaffirm our plan to grow sales 1% to 3% on a reported basis and 4% to 6% in constant currency, with higher pricing adding 1% to 2% of the increase and, with the addition of Gourmet Garden, we now expect acquisitions to add 2% to 3%. We expect this latest acquisition and our year-to-date performance to place us at the higher end of our 4% to 6% constant currency sales growth range.

We continue to expect a 9% to 11% constant currency increase in adjusted operating income from $614 million of adjusted operating income in 2015. Currency is expected to lower this range by 3 percentage points. We plan to drive our growth with higher sales and our stepped up cost savings target of $100 million to $110 million. With this fuel for growth, we expect to increase brand marketing approximately $20 million, consistent with our initial plans.

Our guidance range for adjusted earnings per share remains $3.68 to $3.75. Excluding the estimated 3 percentage point impact of unfavorable currency rates, this range is an increase of 9% to 11% from adjusted earnings per share of $3.48 in 2015. With our year-to-date results and outlook for the second half, we have more confidence in achieving the higher end of this range.

Regarding last week's referendum outcome on Brexit, the immediate impact to our business will be currency rates. Early this week, we reevaluated our guidance and determined that a 3% impact from currency is our best estimate at this point in time. Any longer term impact on our business will depend in part on the outcome of tariff, trade and regulatory negotiations. As a point of reference, our sales in the UK were 8% of total company sales in FY15.

As a final remark on our outlook, we are on track for another year of strong cash flow for FY16, with higher adjusted net income and actions underway to improve our working capital. That completes my remarks, so let's turn now to your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Thank you. Our first question is from the line of David Driscoll with Citigroup.

David Driscoll - *Citi Research - Analyst*

Great. Thank you and good morning.

Lawrence Kurzius - *McCormick & Company Inc - President & CEO*

Good morning, David.

David Driscoll - *Citi Research - Analyst*

Wanted to ask about the US Consumer performance. The Nielsen data has been just so strong. You mentioned it in your prepared comments. I think the sales in the segment were up 3%. Were you under shipping or anything like that relative to the number? And I know there's more things than just spices in there, but that number just seems so strong, perhaps I thought we might even see a stronger number in the quarter, but I don't know if there's a delay in shipment timing.

Lawrence Kurzius - *McCormick & Company Inc - President & CEO*

David, thanks and it's great to hear from you this morning. First of all, I'll start by saying we're very pleased with results in our US Consumer business. We're quite pleased with the shipments. We're even more pleased with the continued improvement in the off-take information and this continued sequential improvement in our performance versus the category. I know that there's been a lot of questions, both from you and from others who are listening on the call, about exactly when our share will turn positive, and we keep saying that we're going to get there and I believe that this is evidence that that's true.

As we noted on the call, our sales increase for the US Consumer business includes more than just the McCormick brand. In our business, we also have economy brands and private label. And the growth of economy brands and private label were both lower than growth in our sales of branded products, and so that is a contributing factor to the difference in our shipments versus the off-take data for our brand. That's a mix shift that has also helped lift our profit margin, obviously.

The second thing is that we're going through some major transitions on a couple of our product lines within herbs and spices. And in some cases, we've limited shipments to keep from having inventory of old packaging on the shelf as we go through that transition. That particularly affected the transition of our gourmet business to organic.

The timing of Memorial Day also may have pushed some of our barbecue and grilling product sales into Q3. Memorial Day is a week later on the calendar. It's on the 30th this year, almost the last possible day that it could be. And so we believe that that probably influenced the start of grilling. We know that's the case with a couple of particular customers. That wasn't a surprise to us. We knew what the calendar looked like, and so that was already reflected in our thinking about both Q2 and about Q3.

And finally in Canada, the Americas number that we reported just for US, it includes Canada and a small Latin American operation. In Canada we took a lot of pricing in this time period, due in part to recover the transaction cost of currency, and this has had an impact on volume growth in that market. Gordon or Mike, do you want to comment on this any further?

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

No, I think you covered it very well.

David Driscoll - *Citi Research - Analyst*

Gordon, could I just sneak one other one in? I just wanted to hear your thoughts on the pacing of input cost inflation for the remainder of the year, and then if you might just be able to give us any insight as to how it would progress beyond that. Spices are very difficult for us to understand how the input cost might change.

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

We're still expecting this year to be low single digit inflation on our input costs. And I wouldn't expect any material change quarter to quarter on that. So you may get some noise, but generally it's pretty consistent. In terms of next year, we're in the midst of strategic plans and looking into our budget, so that we're still developing. And as a result, we'll be providing that guidance, as we always do, in the beginning of next year. So we're still pulling all that together and looking at all of the puts and takes there.

David Driscoll - *Citi Research - Analyst*

Okay. I'll pass it along. Thank you.

Joyce Brooks - *McCormick & Company Inc - VP of IR*

Thanks, David.

Operator

Our next question comes from the line of Akshay Jagdale with Jefferies.

Akshay Jagdale - *Jefferies LLC - Analyst*

Good morning.

Lawrence Kurzius - *McCormick & Company Inc - President & CEO*

Good morning.

Akshay Jagdale - *Jefferies LLC - Analyst*

Hello. I just wanted to follow up on the US business. Can you elaborate a little bit on the economy brands and private label? I don't recall that being a call out any time in recent history. Am I remembering that correctly? And was that planned, is really the first question. And then how long should we expect that to continue? So in other words, how long should we expect there to be a gap between the Nielsen data and what you're reporting in your US Consumer business?

Lawrence Kurzius - *McCormick & Company Inc - President & CEO*

Sure, Akshay. Well, first of all, regarding the gap in off-take versus shipments, that obviously is not something that is sustainable. We always expect that shipments will ultimately reflect consumption. So this gives us a good bit of optimism about the course of our branded business.

We're not particularly calling out economy and private label, but we have talked about certain control brands that major retailers have that they've put promotional emphasis on in the past. We are lapping that. A year ago, a major retailer took a very strong promotional stance on a very low price economy brand, a control brand that we manufacture for them, and that has really run its course, and I think that's what's coming through in maybe softer shipments on economy and private label. I will say that that change in mix is quite positive for us.

Akshay Jagdale - *Jefferies LLC - Analyst*

And should we expect that to continue for -- I mean, on a quarterly basis, you lapped it -- but is this something only to contend for in this quarter or should we expect the same sort of trends going forward?

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

Our expectation is, as Lawrence indicated in his opening remarks, is that we will start to see the trends start to migrate closer to the actual consumer takeaway numbers. We are starting to anniversary some of that heavy promotional activity from that customer, so these should start to become more in line as we go forward.

Akshay Jagdale - *Jefferies LLC - Analyst*

Perfect. Congrats, Gordon, and also Mike.

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

Thank you.

Operator

Our next question is from the line of Alexia Howard with Bernstein.

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

Good morning, everyone.

Lawrence Kurzius - *McCormick & Company Inc - President & CEO*

Good morning, Alexia.

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

So first of all, Gordon, it's been great working with you. Sorry to see you go, but wishing you all the best for the future. And Mike, really looking forward to working with you going forward. A couple of questions.

First of all, on margin goals. I just wanted to ask, or make the observation, that a number of other companies in the space have gone beyond just laying out, this is the $400 million of costs we're planning to get at, as you have, and actually gone on to set explicit operating margin goals over the next two or three years. Just wondering if that's something you have on the radar screen and whether you'd consider that?

And then as a follow-up question, coming back to the US Consumer business, it seems as though the regular spices and herbs are doing very, very well, very aligned with cooking from scratch, definitely on a roll. It seems as though the seasoning mixes, the recipe mixes are a bit slower. Do you have a view as to why that might be? You made a lot of the GMO-free status of a lot of the regular herbs the last quarter. Are people worried about some of the additives in those recipe mixes and is that something you can address? Thank you and I'll pass it on.

Mike Smith - *McCormick & Company Inc - SVP, Corporate Finance*

Hello, Alexia. It's Mike. I'll talk about the margin goals first, and I do look forward to working with you. The margin goals, if you look at our guidance, our external guidance right now, of 4% to 6% net sales growth, adjusted operating profit growth of 7% to 9%, we do have implicit in there margin growth of about 40 basis points if you look at the middle of the range. We do think about that sometimes. But at this point, we felt very comfortable with putting up a dollar target, seeing how we progress against that, and it's something we may consider in the future. But we feel good with our long-term guidance there.

Lawrence Kurzius - *McCormick & Company Inc - President & CEO*

And I'll take the recipe mixes. You know, Alexia, in the year-ago period, we had some really strong performance. There was a product recall of an ingredient that was in a lot of our competitors' products that did not impact McCormick, and so we had a bit of an advantage at the shelf for a period and we have certainly lapped that.

We're quite optimistic, actually, about the outlook for our recipe mixes for the rest of the year. We're launching organic recipe mixes this quarter. We think that those are going to be a significant increment to our business. We've shown that recipe mixes are quite responsive to innovation. A big part of the improvement that we've had in this business has been the launch of recipe mixes such as the non-GMO -- sorry, not GMO, the gluten-free recipe mixes -- and we got a great incremental response to that and we expect the same for the organic recipe mixes.

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

Great. Thank you very much and I'll pass it on.

Joyce Brooks - *McCormick & Company Inc - VP of IR*

Thank you.

Operator

Our next question is from the line of Ken Goldman with JPMorgan.

Tom Palmer - *JPMorgan - Analyst*

Good morning. It's Tom Palmer on for Ken. Thanks for taking my questions.

Joyce Brooks - *McCormick & Company Inc - VP of IR*

Hello, Tom.

Lawrence Kurzius - *McCormick & Company Inc - President & CEO*

Hello, Tom. Good morning.

Tom Palmer - *JPMorgan - Analyst*

From an innovation standpoint, where are we with the rollout of non-GMO and organic products? Are you still on track to reach targets of 70% non-GMO by late this year or 80% gourmet line organic? And maybe you could comment on customer reception and maybe the incremental pricing power you're seeing in these products. So when you add the non-GMO label to spices, are you able to drive a little bit of incremental margin?

Lawrence Kurzius - *McCormick & Company Inc - President & CEO*

Hello, Tom. I'm glad to give an update on that, and probably we should have built that into our prepared remarks. First of all, on the conversion of our gourmet to organic, that is continuing on pace. We set a goal of having 80% of our gourmet sales organic by the end of the year. We still expect to achieve that.

I will say the conversion of organic has been more challenging for us than perhaps we anticipated. The supply chain and the kind of quality controls that we insist on in terms of product supply has been harder for us to develop. It's just a less mature supply chain out there. And we've gotten such a lift from the conversion to organic that the volume has been higher than we initially anticipated, which has slowed the transition just because it's that much more pressure on an immature supply chain.

THOMSON REUTERS

For the non-GMO conversion, that really was more about us calling out what we already do. And so that one has gone quite apace. And actually, I would characterize that one as running ahead of, a little bit ahead of pace, a little bit ahead of the pace that we had anticipated.

We're not really looking at either one of these as opportunities to take more pricing. Both of these moves were done to give greater transparency to the consumer, to continue to differentiate McCormick versus competition, to, frankly, take credit for all that we do in terms of quality and purity of product, much in line with the communication we're giving to consumers in our purity advertising campaign. We also did this, in part, to take away some of the reason for being for other competitive brands, and some of the smaller brands in the store have gotten in because they've made claims like this and we wanted to take away the reason for being for those smaller brands, as well, as we sought to rebuild our share position. Gordon or Mike, you want to comment on this any?

Mike Smith - *McCormick & Company Inc - SVP, Corporate Finance*

I think to your pricing question, some of these organic supplies do cost a little bit more, but we consider that when we did our US Consumer pricing increase this year, our surgical pricing, so we have that covered.

Tom Palmer - *JPMorgan - Analyst*

Okay. Thank you for the detail. And just a quick modeling question. You highlighted $5 million in acquisition-related costs on a year-over-year basis. Assuming no additional M&A activity, would this cost be non-recurring starting in the third quarter, or might we anticipate some carryover?

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

Yes, this cost, as we've said in the remarks, is specifically attached to the activity we had around the premier foods that we were approaching. So obviously that doesn't occur every quarter, and to the extent that we don't have that size or that type of an activity, we would not expect that to recur. We always have pipeline activity and year-to-year, those costs are fairly similar. Even though we closed the Gourmet Garden activity in the second quarter we had costs associated with that. But we also had costs in the prior year. So the $5 million incremental is something that I would characterize as somewhat unique, given the nature of that deal and the size of that deal.

Tom Palmer - *JPMorgan - Analyst*

Okay. Thank you.

Operator

Thank you. Our next question is from the line of Chris Growe with Stifel.

Chris Growe - *Stifel Nicolaus - Analyst*

Hello. Good morning.

Lawrence Kurzius - *McCormick & Company Inc - President & CEO*

Good morning, Chris.

Chris Growe - *Stifel Nicolaus - Analyst*

Good morning. I just wanted to ask two questions, if I could. The first one would be that you are calling out more CCI cost savings. And as we think about outlets for that incremental cost savings, one of the obvious ones is marketing, but marketing you're keeping in place, a nice increase for the year, but you haven't raised those expectations. I'm just trying to think about how those incremental savings benefit you. Are you reinvesting those in some way? Could they help provide stronger EPS growth? How should we think about those incremental savings coming through?

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

Well, I think -- this is Gordon, Chris -- I think certainly part of our confidence in indicating the upper end of our ranges in both gross margin and EPS is a function of our confidence in seeing these CCI benefits come through. They've partially gone to absorb the incremental acquisition costs that I just described. We talk about $5 million in the first quarter -- I mean in the second quarter -- but we had probably another additional $1 million in the first quarter, as well. So part of it as gone towards absorbing the incremental costs associated with that deal I referenced earlier. But it certainly has given us greater confidence in our outlook for the year; hence, we're expressing confidence on the upper end of the ranges.

Chris Growe - *Stifel Nicolaus - Analyst*

Okay. That's helpful. So just really more flexibility, I guess. And then the other question I had was in relation to pricing overall. You mentioned some incremental pricing in Canada. Is pricing in place now where you expected it? And there was a little bit of a slowdown sequentially in volume. Are we seeing the elasticity effects in relation to that pricing? Is that pretty well embedded now in the volume performance in the quarter?

Lawrence Kurzius - *McCormick & Company Inc - President & CEO*

The major pricing actions that we anticipated taking this year are all in place, Chris. So we don't have any broad scale price increase activity. There are a couple of specific items where there is some cost pressure and where some unique, very targeted pricing actions are planned. But I would not expect that to be, that's really not going to be something that we're going to be talking about particularly.

Chris Growe - *Stifel Nicolaus - Analyst*

Were you comfortable with the volume effects to that pricing, Lawrence? It did weaken a little bit sequentially. But have you seen a pretty normal level of elasticity in relation to that pricing?

Lawrence Kurzius - *McCormick & Company Inc - President & CEO*

Actually, let me differentiate between the US and Canada. Canada, we had to take quite substantial price increases, just reflecting the change in cost and change in currency value. And so we have seen an elasticity impact there, and that was what I was calling out in the answer to that first question that David Driscoll had.

But in our US business, the price action that we took was quite surgical. We had a good understanding of elasticity. Our anticipation was that we would see minimal impact on volume from it and in fact, that has been the case. We really don't see any kind of volume detriment in our US business. I think you could, if you look at our unit off-take data versus our dollar off-take, units were doing better than we are on dollars. We did take pricing, but we've also worked with retailers on category pricing recommendations that to a great extent has mitigated that.

Chris Growe - *Stifel Nicolaus - Analyst*

Okay. Thank you for the time. And good luck, Gordon. Wish you all the best.

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

Thank you.

Operator

Our next question is from the line of Jonathan Feeney with Consumer Edge Research.

Jonathan Feeney - *Consumer Edge Research - Analyst*

Good morning. Thanks very much. I ordinarily don't like to get into it, but Gordon, man, it's been forever. Congratulations, and you had a great career. I've loved working with you. And Mike, look forward to working with you very much.

Just one question. Spent some time at FMI last week talking to a lot of different people. And one of the things that came up is this decline in loyal brand users. And it's funny, it seems like food companies of all shapes and sizes are working harder to get -- they're actually having success, they're telling the truth about that, doing a great job getting new customers, it's just they have a hard time generating repeats among old customers, at least where we were versus where we were five years ago. It seems like your business, at least in North America, may be a little bit different and able to hang on to loyal customers maybe a little better and maybe explain some of the better results. If you could comment about how you think about that. Do you see that trend, and how the McCormick portfolio is better or worse than what's going on broadly in the industry? Thanks.

Lawrence Kurzius - *McCormick & Company Inc - President & CEO*

Jonathan, first of all, good morning. We didn't say hello when you got on there. It's an interesting question. I think that McCormick is really advantaged in this area. There are a lot of reasons for consumers to both have their heads and their hearts behind the McCormick brand. There are good rational reasons why our product is better. And it's a story that we are telling to consumers. But there's also a real heart reason. And so I'm not sure that we're seeing the same kind erosion of loyalty that perhaps some of the other food companies might be talking about.

I think also, our brands and our product, really our category, is in line with the way consumers want to eat today. And as consumers cook at home more and are more ambitious about the things that they cook, our brand is a big beneficiary of that.

I think that we have a bit of a natural tailwind from two sources. One is the new dietary guideline news that came out this year that has really encouraged consumers to make greater use of herbs and spices. It's a positive for our category. But as the leader in the category, we're a big beneficiary of that. And then the second thing is that we actually do better with Millennials than we do with Boomers. And so as Millennials come to be a bigger part of the shopper universe, that is actually a natural tailwind for us, which is different than some of our food company peers.

Jonathan Feeney - *Consumer Edge Research - Analyst*

Well, thank you. That's very helpful.

Mike Smith - *McCormick & Company Inc - SVP, Corporate Finance*

Thanks, Jonathan.

Operator

Our next question is from the line of Brett Hundley with BB&T.

Brett Hundley - *BB&T Capital Markets - Analyst*

Thank you. Good morning, everyone.

Lawrence Kurzius - *McCormick & Company Inc - President & CEO*

Good morning, Brett.

Brett Hundley - *BB&T Capital Markets - Analyst*

Thanks for taking my questions. Gordon and Mike, let me just offer my congratulations to you both, as well.

I just had two questions for you guys today. One, I just wanted to revisit raw materials real quick. Gordon, you reiterated your expectations for low single digit increases in raw material inflation this year. I'm curious if we can maybe get inside that a little bit, and maybe there's been a move down from maybe there was a plus 2% to 3% to a plus 1% now. But just curious, given a slight move down in pepper, black pepper, I don't know where exactly your strategic reserves were, but just curious now if you think that your net pricing actions are really in a place to fully offset expected raw material inflation, as opposed to, I think, earlier in the year where you were calling net pricing as somewhat of an offset. Just wanted to get additional color from you there.

Mike Smith - *McCormick & Company Inc - SVP, Corporate Finance*

Brett, this is Mike. We haven't moved off our guidance for the year. There has been, with the thousands of different raw materials we have, some things are up and some things are down. We put the pricing in place -- I'm talking about US Consumer here -- to offset that at the beginning of the year. But low to mid single digit inflation is what we're calling for the year, and we're sticking to that. And the pricing actions, as Lawrence said, have been put in place. So it's just a variety of moving parts. But we have a great procurement team and we have strategic supplies for some of these things as we make buys during the year. But we feel good about where we are.

Brett Hundley - *BB&T Capital Markets - Analyst*

Okay. I appreciate that. And then just lastly, Lawrence, I thought it was interesting that you brought up accelerated growth trends on the Industrial side. I think you called out a move towards natural, a move towards non-GMO. And certainly in our own ingredients coverage, we hear instances of industrial customers looking to replace or reduce sugar or replace or reduce sodium. And I'm curious if you guys fit into that role nicely, as well, with some of the products that you offer. But really I wanted to come back to maybe exploring the type of growth or the type of lift that you could be seeing recently from this accelerated move and how it trickles down to really help your margin profile. Thank you.

Lawrence Kurzius - *McCormick & Company Inc - President & CEO*

Sure I'll start with this, and maybe Gordon or Mike can pick up on the margin side of it. But about 40% of the briefs that we do for our industrial customers have some sort of health and wellness aspect to them, and that's actually been the case for several years now. All of the CPG companies are trying to improve their portfolios with cleaner labels, healthier sounding ingredient statements. No one wants to have a flavor in there that they have to call a flavor. And many of our consumer products goods customers are trying to reduce sodium, reduce MSG, take out sugar. And so that's about 40% of our briefs globally. It's a higher percentage in the US.

And so we believe that we fit right in. It's a bit of a sweet spot for us. It's part of the unique selling proposition that we take to our industrial customers is that we're not a chemical company, we're a food company. We approach their problems from a food and culinary perspective, and that's where we start. We offer unique technical solutions that are very competitive. We have an increasing portfolio ourselves of proprietary technologies to solve their problems. And this we believe is an important part of our long-term growth story.

Mike Smith - *McCormick & Company Inc - SVP, Corporate Finance*

And from a margin perspective, generally when we engineer new products or reengineer products, we have pretty good margins. We get cost optimized later, as we know, as the product becomes successful. But we are really happy with the margins we can get on this new business.

Brett Hundley - *BB&T Capital Markets - Analyst*

Okay. Thanks so much.

Joyce Brooks - *McCormick & Company Inc - VP of IR*

Thanks, Brett.

Operator

Our next question is from the line of Robert Moskow with Credit Suisse.

Robert Moskow - *Credit Suisse - Analyst*

Hello. All of my questions have been answered, just wanted to --

---

Lawrence Kurzius - *McCormick & Company Inc - President & CEO*

By the way, hello, Rob.

Robert Moskow - *Credit Suisse - Analyst*

You've got to get that in, huh? But thank you, Gordon, for all the years of help and everything. Mike, looking forward to working with you more.

I guess one question, your growth in US retail has really taken off here, the category has taken off. I don't know if you talked more about incremental merchandising that you might be getting. Is that a big driver? Are you gaining shelf space outside of the traditional spice rack or is the spice rack area itself getting bigger at all? Is that helping at all, too?

Lawrence Kurzius - *McCormick & Company Inc - President & CEO*

I think that we're improving the assortment in the main spice section. We are, if anything, actually reducing assortment outside of that area, that that reduction is coming at the expense of other brands. And I don't really see a material change in the merchandising. If anything, I think we may be doing a better job on quality of merchandising, but there's not any kind of meaningful increment in merchandising activity.

Really, the growth is being driven by the consumer. We've got a great message for the consumer, both for the category and for our brand. And for the category, there's a strong interest in cooking from scratch and flavorful healthy eating that does benefit the category. And for ourselves, I believe that the moves that we've made to improve the appeal of our brand to consumers, particularly younger consumers, and the stronger marketing messaging that we're doing on the A side of the marketing support versus the P side, both through traditional media and through digital media, is really paying off for us. We've got a great innovation program that's brought new news to the category, as well. And in particular with some of the recent activity, we're working to get our own brands a stronger presence in the perimeter of the store, particularly over in produce, and again, I think that that's going to be a benefit for us.

Robert Moskow - *Credit Suisse - Analyst*

Okay. Let me ask one follow-up, Lawrence. You gave your criteria on acquisitions here. How big is the pipeline of large opportunities for you now that Premier has kind of gone away? Are there several large ideas you might consider or is the opportunities much more bolt-on?

Lawrence Kurzius - *McCormick & Company Inc - President & CEO*

I don't want to get too specific on that, but I'll say that we've got a robust pipeline of opportunities and targets. As you would expect, we're always in dialogue with somebody or multiple somebody. But there's no -- but I really can't comment specifically on -- I don't want to get too specific on that. I'd say that there are plenty of opportunities for us out there.

Robert Moskow - *Credit Suisse - Analyst*

Okay. Thanks again. Bye-bye.

Mike Smith - *McCormick & Company Inc - SVP, Corporate Finance*

Thanks, Rob.

Operator

Our next question is from the line of Mario Contreras with Deutsche Bank.

Mario Contreras - *Deutsche Bank - Analyst*

Good morning.

Lawrence Kurzius - *McCormick & Company Inc - President & CEO*

Good morning, Mario.

Mario Contreras - *Deutsche Bank - Analyst*

I just wanted to follow up on the increased confidence around the high end of the guidance range. So year-to-date, first couple quarters here, EPS growth has been more in the low to mid single digit range, back half would be implying closer to double digits. I know you've mentioned the incremental CCI savings that will be coming through. But you do have some additional advertising spending coming through. You're exiting the JV. There was the industrial customer that's diversifying. So I wanted to drill down a little bit more on what is giving you the increased confidence that you can see that type of growth in the back half? Thanks.

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

Well, certainly, the underlying business we see is performing quite well. So that's one of it. The CCI you just mentioned. I would point to just from a math perspective, the tax rate was the biggest headwind in the first part of the year. And we have pretty much gone through that, so the back half of the year, the tax rates will be more comparable to the prior year. So the strength that you see on that operating income line growth is what will be driving a lot of it.

Obviously, too, that incremental marketing spend, about half of it was in first part of the year, that's impacting smaller quarters. As you go into the bigger quarters in the back half of the year, it doesn't have as much of an impact, because just by virtue of the size of the quarters that are starting to come, it will not have as much of a negative impact on the growth rate because it's the same absolute dollars we're talking about. So I'd just point to strength of the business, CCI, tax comparison, and the relative size of A&P as it relates to the size of the quarters in the back half of the year.

Lawrence Kurzius - *McCormick & Company Inc - President & CEO*

And absorbing the incremental acquisition-related.

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

And -- that's a very good point -- and we absorbed the incremental acquisition costs in the first part of this year, as we mentioned earlier.

Mario Contreras - *Deutsche Bank - Analyst*

Okay. And then maybe following up on that, I'm just a little bit curious why you don't break that out as a one-time item or something that would be excluded from the EPS that you gave on a non-GAAP adjusted basis.

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

Well, we have acquisition activity all the time. The one that we described earlier, I would say, is unique, as those of you who have followed us. I'd also say we're very cognizant of the financial reporting requirements as required by the SEC, and there's been certain amount of guidelines put out recently, so we certainly honor that and respect that.

Mario Contreras - *Deutsche Bank - Analyst*

Okay. Thanks, everyone.

Joyce Brooks - *McCormick & Company Inc - VP of IR*

Thank you, Mario.

Operator

Thank you. The next question is from the line of Erin Lash with Morningstar.

Erin Lash - *Morningstar - Analyst*

Good morning. Thank you for taking my question.

Joyce Brooks - *McCormick & Company Inc - VP of IR*

Hello, Erin.

Erin Lash - *Morningstar - Analyst*

Hello. I just wanted to start, I think on slide 7 you mentioned, I know there's been a lot of discussion on the call about pricing, specifically within the US Consumer business, but you mentioned a point about certain retailers lowering price points on the McCormick brand, and I wondered if you could give some additional details surrounding that, if it was related to the push for some of those economy brands by those particular retailers a year ago or more context surrounding that point?

Lawrence Kurzius - *McCormick & Company Inc - President & CEO*

Sure. This has been an ongoing program that we've been talking about on calls and at conferences for the last two years, really, as we've evolved our analytic capabilities and understanding of price elasticity and worked with retailers on modeling the category in a way that really optimizes the profitability of the category for them. And as it generally works out, what optimizes the category for the retailer tends to be good news for the McCormick brand, as well.

So we've been adding tools that allow us to give greater and greater precision and give fact and database guidance to retailers on pricing decisions for the category as a whole and assortment decisions for the category as a whole. Those recommendations include, in many cases, lowering the price points on McCormick brand products. Sometimes it includes recommendations about changes in the price points for their private label, for economy brands and for other brands in the category where they may have some irrational pricing that's happening in the store. Or they may have pricing that they don't even know about because there may be a rack of spices in another department of the store that the spice category buyer doesn't even have visibility to and category profitability is leaking out through that back door.

So we've made those kind of recommendations. And those retailers who have accepted those recommendations have tended to outperform the category and we've definitely gained share in the cases where those retailers have taken our recommendations. I think in our remarks -- I don't know if we included it in our remarks -- but retailers who have taken our recommendations, I think in the first quarter, we reported that we gained about 60 basis points of share. We can now track that to 120 basis points of share gained in those retailers who have accepted our recommendations. And that set is becoming a bigger and bigger set of retailers.

One of the ways that bleeds through in the syndicated data is that our unit share growth has been stronger than the category, where our dollar share growth is tracking slightly behind the category. That's really reflecting that shifting in the retail price points.

Erin Lash - *Morningstar - Analyst*

Thank you. That's very, very helpful. I just had one follow-up. I realize it's small, but you mentioned about exiting the JV in South Africa. And I just wanted to get some additional insights into whether that is potentially a reflection of different market dynamics than maybe what you had anticipated before or whether that was more reflective of the quality of the JV partner. Any insights you can provide would be very helpful.

Lawrence Kurzius - *McCormick & Company Inc - President & CEO*

Actually, we've got two businesses in South Africa. We have a fully consolidated industrial business. That's an ongoing business that we are continuing with. We do have a JV in South Africa with a specific customer. That JV is almost captive, supplying almost 100% of its volume to our JV partner. We had a 10-year supply contract that is coming to an end. And so as part of concluding that, we're working with them to wrap up that JV. So it's not really a reflection on the market. It's really very specific to that one relationship.

Mike Smith - *McCormick & Company Inc - SVP, Corporate Finance*

And for clarity around the accounting treatment, it is a consolidated joint venture because of the operating control nature of it. So it is impacting the consolidated sales result.

Erin Lash - *Morningstar - Analyst*

Thank you. That's very helpful. And I just wanted to add my congratulations, Gordon. It's been great working with you. And Mike, I look forward to working with you more over the coming years. Thank you.

Mike Smith - *McCormick & Company Inc - SVP, Corporate Finance*

Thank you.

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

Thank you very much.

Operator

Thank you. I will now turn the floor to Lawrence Kurzius for closing remarks.

Lawrence Kurzius - *McCormick & Company Inc - President & CEO*

Well, thanks, everyone, for your questions and for your participation on today's call. There are growth strategies in our people, experienced leaders and engaged employees who are driving performance at McCormick. We're increasing our base business, accelerating innovation, expanding the availability and footprint of our business, and excelling in customer intimacy and consumer insight, and fueling this growth with cost savings led by our CCI program. 2016 is shaping up to be a very good year, with our financial results in the first two quarters and great momentum heading into the second half.

Joyce Brooks - *McCormick & Company Inc - VP of IR*

Thanks, Lawrence, and for everyone for joining us today. If you have further questions regarding our information, please give us a call at 410-771-7244. This concludes this morning's conference.
