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PRESENTATION

Kasey A. Jenkins ***McCormick & Company, Incorporated - VP of IR***

Good morning. This is Kasey Jenkins, Vice President of McCormick Investor Relations. Thank you for joining today's third quarter earnings call. To accompany this call, we posted a set of slides at ir.mccormick.com. (Operator Instructions)

We'll begin with remarks from Lawrence Kurzius, Chairman, President and CEO; and Mike Smith, Executive Vice President and CFO. During our remarks, we will refer to certain non-GAAP financial measures. These include adjusted gross profit, adjusted gross profit margin, adjusted operating income, adjusted income tax rate and adjusted earnings per share that exclude the impact of transaction and integration expenses related to the Reckitt Benckiser Foods or RB Foods acquisition, special charges and income taxes excluding certain nonrecurring impacts associated with the recently enacted U.S. tax reform, which we refer to as the U.S. tax act, as well as information in constant currency. Reconciliations to the GAAP results are included in this morning's press release and slides. In our comments, certain percentages are rounded. Please refer to our presentation which includes the complete information.

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 statement, whether because 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 is now my pleasure to turn the discussion over to Lawrence.

Lawrence E. Kurzius ***McCormick & Company, Incorporated - Chairman, President & CEO***

Thank you, Kasey. Good morning, everyone. Thanks for joining us.

Our third quarter results continued the strong performance we delivered in the first half of 2018, and we're well positioned to deliver strong full year results. We've driven strong double-digit sales, operating profit and EPS growth as well as significant operating margin expansion in both the third quarter and year-to-date. These results reflect the effectiveness of our sales and profit growth strategies, driven by the engagement of our employees around the world.

Starting on Slide 4. We have a broad and advantaged global flavor portfolio which we are continuing to grow. Among the third quarter highlights across our portfolio, in our consumer segment's underlying business, we drove growth in the Americas, particularly in recipe mixes and spice and seasonings, and we continued our momentum in China.

In our flavor solutions segment, we continued winning with customers, driving base business and new product growth in both the Americas and EMEA.

We also continued to make progress on expanding our portfolio with additional growth in more flavors while pruning some low-margin business. The reshaping of our flavor solutions portfolio is a significant driver of operating margin expansion. In addition to the solid growth in our core business, we are pleased with Frank's and French's performance and their positive impact on our portfolio of condiments and sauces and branded foodservice. Overall, we are confident that the breadth and reach of our portfolio continues to position us to fully meet the demand for flavor around the world and grow our business.

Now let me go into more detail on our third quarter performance on Slide 5 as well as provide some business comments before turning it over to Mike, who will go more in depth on the quarter end results and discuss our updated 2018 financial guidance.

Starting with our top line for the third quarter. We grew sales 14% for the total company with minimal impact from currency. This was driven by strong results from both segments, led by the Americas.

Base business growth, new products and acquisitions, our 3 drivers of long-term sales growth, are all contributing factors. Our base business and new product growth accelerated from our first half sales growth, as we said we would in our June call. Incremental sales from our acquired Frank's and French's brands contributed 10%. In our consumer segment, we grew sales 14% with minimal impact from currency. And in the flavor solutions segment, we grew 14% in constant currency. The growth in both segments was led by incremental Frank's and French's sales, which contributed 10% to our consumer segment and 9% to our flavor solutions segment.

In addition to our top line growth, our focus on profit realization drove additional adjusted operating income growth and adjusted operating margin expansion. With our higher sales, cost savings led by our Comprehensive Continuous Improvement program or CCI and our portfolio shift to more value-added products, including the addition of Frank's and French's, we grew the third quarter's adjusted operating income 20% in constant currency, with both segments contributing double-digit growth.

And we expanded our adjusted operating margin 80 basis points while making significant investments in brand marketing. We're achieving margin accretion we expected from the Frank's and French's portfolio. And equally as important, we are driving significant margin expansion in our core business, led by CCI as well as the shift in our portfolio to more value-added products.

At the bottom line, our third quarter adjusted earnings per share of $1.28 was 14% higher than $1.12 in the third quarter of 2017. Our strong growth in adjusted operating income and more favorable tax rate drove this increase, partially offset by higher interest expense from debt related to the RB Foods acquisition as well as higher shares outstanding. The 14% earnings per share growth includes an unfavorable impact from currency.

Our third quarter results were in line with our expectations and are a continuation of the results we achieved in the first half 2018. With one quarter remaining in the fiscal year, we've increased our adjusted earnings per share guidance from $4.95 to $5 from our previous guidance of $4.85 to $4.95. Our updated guidance reflects a 16% to 17% growth rate and, importantly, includes continued investments to drive growth. We're confident in our updated 2018 outlook, which Mike will provide more details on in a few minutes.

I'd like to turn now to some business updates. I'll begin with highlights from our consumer and flavor solutions segments and follow with a look at our Frank's and French's portfolio. In the consumer segment, as seen on Slide 6, we grew sales 14% with minimal impact from currency, with incremental sales from Frank's and French's contributing 10% and our base business and new product growth contributing 4%, driven by the U.S. and China.

In the Americas, growth was particularly strong, driven by the large impact of Frank's and French's, which contributed 14% incremental growth. Our underlying Americas business grew 4%, which was a significant sequential improvement from the growth in the first half of the year. Our third quarter growth was driven by higher volume and mix, primarily attributable to distribution gains, grilling strength and the effectiveness of our brand marketing as well as pricing.

In U.S. spices and seasonings, our IRI data indicate scanner sales through multi outlets grew for the category at 3% and McCormick branded at 1%. Our growth continues to be impacted by a large retailer's decision to convert a controlled label to private label, along with related promotional and merchandising actions which we've discussed on previous earnings calls. Although this decision hurt our branded spices and seasonings' share performance, it drove growth in our private-label sales.

Additionally, we again have strong growth in unmeasured channels, including club, e-commerce and Hispanic retail chains. Overall, we continue to see good growth in our spice and seasoning brands in the U.S. market. We've narrowed the gap on market share loss, and we know we have more room to grow.

During the third quarter, we also had strong growth in other parts of our portfolio, for instance, in grilling items, which I'll comment on further when discussing Frank's and French's, as well as in our Simply Asia products, Kitchen Basic stocks and broths and McCormick-branded dry recipe mixes. Our recipe mixes are

appealing to consumers as they offer real value in terms of convenient flavor solutions. During the third quarter, dry recipe mix IRI indicates the category grew at 4% and McCormick branded at 6%. We continue to grow both our dollar sales and market share with brand marketing and promotional activities heavily impacting our third quarter performance.

As we indicated in our June earnings call, our plans included a significant amount of brand marketing investment in the second half of the year. During the third quarter, we made substantial investments behind our brands across all regions, which proved to be effective. The increase, which was $21 million versus last year, was primarily driven by the Americas. A portion of this increase related to Frank's and French's, which I'll discuss further in a few minutes.

For the underlying consumer business, our Americas investments included increased spending related to our superiority campaign, primarily in television advertising with additional support through digital banner advertising and social media activity. The campaign highlights our commitment to quality and the great lengths we go to in care of our products, spices and seasonings and recipe mixes.

There's further development of our rapidly growing YouTube content series, Flavor Makers, with additional how-to videos with hosts that appeal to millennials using products across our portfolio in on-trend and convenience-focused recipes. We have digital media investments delivering video messages across social media and other platforms that our Stubb's barbecue sauce is made with premium, clean ingredients for authentic flavor, a real barbecue sauce. We were the top-performing barbecue brand in the third quarter with double-digit consumption growth.

We increased spending against our Grill Mates brand with a combination of television advertising and digital focus aimed at helping grillers elevate their game. This included a partnership with the Food Network and one of their grill masters to use our Grill Mates products in various recipes, including a significantly viewed video on social media. In the third quarter, we grew Grill Mates bottle blends high single digits.

The effectiveness of our investments is evident in both our third quarter consumption and sales growth and will continue to drive strong momentum behind our brand growth. And in addition to our digital marketing driving top line results, during the third quarter, we learned we were again ranked in the top 5 food brands for digital IQ by L2, the fifth year in a row.

Turning to Europe, Middle East and Africa, the EMEA region. Growth was tempered by unusually warm weather in Europe, which unfavorably impacted consumption. We're continuing to keep our brands relevant through marketing and new products. Organic range expansions are progressing well, and our first choice brand renovation initiative is rolling out across Europe. We're also planning on an increased level of brand marketing in support of this initiative over the balance of the year.

In the Asia Pacific region, our strong sales in China led consumer segment growth, driven by strong performance on core products as well as e-commerce growth. China's direct-to-consumer storefront on Tmall continues to gain momentum since its launch earlier this year, particularly with innovation launched specific to this channel and targeted to millennials.

Turning now to the flavor solutions segment. We grew sales 14% in constant currency in the third quarter with incremental sales from the Frank's and French's portfolio contributing 9% and the remaining 5% driven by base business and new product growth. In the Americas, constant-currency sales growth of 19% was led by 14% from Frank's and French's. Broad-based growth across the portfolio contributed 5%.

Our momentum in flavor sales has continued, particularly in on-trend savory flavors. We're growing with quick-service restaurants due in part to the timing of our customers' promotional activity. In the branded foodservice, we've continued to expand distribution. Overall, across the portfolio, we are continuing to win with existing business as well as with new products and customers.

EMEA's third quarter sales performance was driven by growth in flavors. In both our EMEA and Asia Pacific regions, we continue to win with our customers through new products and their promotional activities. We're continuing to refine and optimize our portfolio, increasing our sales of higher-margin flavor business and exiting lower-margin business.

Across our flavor solutions segment, the migration of our portfolio to more technically insulated and value-added categories has continued in 2018. Our year-to-date flavor sales are up double digits in the Americas, driving further realization against this strategy. Beyond our strategy to drive sales growth, we'll continue to focus on profit realization, as continues to be evident in our results.

Now let's move from our strong core business results and on to an update on Frank's and French's, starting on Slide 8. Just a few weeks ago, we celebrated the 1-year anniversary of the Frank's and French's brands joining our global flavor portfolio and are thrilled with the impact we've had on these brands. We've created value, achieved synergies and are obtaining results according to our acquisition plan importantly, we have achieved our year 1 sales and earnings per share accretion expectations.

Mike will provide further comments about our delivery against the acquisition plan in a few moments.

We continue to be excited about the momentum of this business and the growth plans we are successfully executing against. Like our third quarter sequential sales growth improvement in our U.S. consumer's underlying business, growth in the Frank's and French's portfolio also accelerated during the third quarter as our efforts begin to gain business traction.

Now I'd like to share some updates on our progress against these plans, starting with our North America consumer business on Slide 8. We're successfully growing Frank's and French's through strengthening distribution, category management, effective brand marketing investments and innovation. Starting with Frank's.

As of the end of August, we increased our U.S. total distribution points of original and Buffalo sauces by double digits. Our "fix-the-mix" initiative focused on having the right assortment on shelf continues to be a key driver of this growth. By increasing our array of bottle sizes offering on the shelf, we have sizes for all consumers, a small size perfect for consumers new to the category to drive further household penetration to a larger bottle for the most passionate of fans. Importantly, the growth of these sizes has been incremental to the brand, which is also growing distribution points through our category management efforts. From a regional perspective, we continued to increase our distribution points where Frank's is not the market leader, with double-digit growth in the third quarter.

Turning to French's mustard. We are continuing to convince retailers to remove duplicative secondary brands as they work to maximize the efficiency of their shelf space, and more of our recommendations are being implemented, eliminating lower-ranking yellow mustard brands and expanding the share of shelf of French's and store brands. These efforts, combined with our merchandising and promotion as well as our new mustard marketing campaign, have driven significant sequential improvement from past quarters. Consumption in the third quarter significantly improved from the past several quarters' experience. As we've said before, mustard will take a while to turn around, but we're pleased with our progress thus far.

As I just mentioned, our promotion and merchandising activities are driving results. Our first opportunity to leverage increased promotional scale is with grilling. As we said on our June earnings call, our U.S. grilling season was delayed because of cold and wet weather in broad parts of the country. However, the grilling season soon heated up, with both Frank's and French's mustard achieving strong consumption wins in key U.S. grilling periods.

During the July 4th week, total dollar consumption for Frank's and French's mustard grew significantly versus the year-ago period, with mustard consumption, driven by displays and promotions, up substantially. During Labor Day week, total consumption growth accelerated, driven by our displays and promotions. Our grilling wins were not limited to Frank's and French's, with solid consumption growth across our entire grilling portfolio, Stubb's, Grill Mates blends and Lawry's.

In addition to the brand marketing investments I mentioned earlier, we also increased marketing support against French's in the third quarter and are excited about our continued plans moving into the fourth quarter. Our new U.S. "not from France" campaign, a humorous take on the French's brand name, and our dedicated digital mustard campaign has contributed to the improved trends I mentioned as well as improvement in household penetration levels. The influence we've been able to apply through category management as well as brand marketing is beginning to have an impact, as you can see in the most recent scanner data.

Moving into the fourth quarter for Frank's. We are currently running a U.S. national TV ad for the first time in 7 years. In addition to this, we'll be launching our tailgate 2018 campaign featuring Frank's and Stubb's, which are both perfect for the tailgating experience. This interactive program will allow consumers to decide which flavor profile tops their tailgate. Is it the heat with Frank's? Or is it the sweet with Stubb's?

And finally, turning to innovation. Our third quarter Frank's seasoning and dip mix launches are on shelf at many major retailers, and we're pleased with the initial acceptance. As I previously mentioned, there is a longer-term pipeline of new concepts developing, and I look forward to sharing the details on innovation news as we launch new products.

Building on our Zatarain's frozen food business and capabilities, I'm very pleased to announce the launch of our latest new product line, which is again going beyond liquid flavor, Frank's RedHot frozen wings. Frank's RedHot was the secret ingredient used in the original Buffalo wings created in Buffalo, New York in 1964 and earned the title of original Buffalo sauce. These new items are delicious and convenient products that offer the perfect blend of flavor and heat.

The launch includes 3 top restaurant flavors, Frank's RedHot Original, Buffalo and barbecue. The fully cooked antibiotic-free chicken is flavored with a custom blend of McCormick seasonings and marinades made with Frank's RedHot. Consumer testing has been positive. Retailer acceptance is strong. We are not only excited about this new product line, but also the speed at which it was developed from concept to market since we acquired the brand. This is an example of how we've been able to leverage our consumer insights, scale and culinary capabilities to drive growth.

Wrapping up North America consumer for Frank's and French's, we're very pleased with our progress, particularly with the accelerated growth and our plan -- our plans are now driving. We're confident in our initiatives and are enthusiastic about the growth plans we're executing against.

Next, I'm excited to share some Frank's and French's updates related to our North American flavor solution business on Slide 9. We are driving penetration of our full portfolio across the full spectrum of the foodservice industry, including high-volume national and regional chain accounts. We're very pleased with our progress and executing against our growth plan and continue to have successes in key areas.

During the third quarter, we had incremental sales to approximately 2,000 new restaurant locations, including national, regional and local accounts. This brings our penetration through August to over 21,000 new restaurant locations, and we continue to deepen our penetration with existing locations.

Broadening and deepening our penetration in foodservice includes highly visible menu mentions and front-of-house product placement. Our successes on menu items, which include products across our full portfolio, continued in the third quarter. For example, during the quarter, we secured a new partnership with a leading U.S. pizza chain to launch menu items that feature our Frank's products.

These wins have also included menu mentions with both restaurant print and television media campaigns to build brand awareness beyond foodservice.

Our efforts in the front of the house, which is not only limited to restaurants but also includes the broader foodservice industry, such as business cafeterias, sports venues and lodging, have also continued in the third quarter with double-digit growth in French's ketchup and mustard dispenser placements and the portfolio of our tabletop items. Additionally, we continue to successfully cross-sell our culinary line, McCormick For Chefs alongside our Frank's and French's foodservice items into restaurants. We've accelerated momentum in driving penetration and still have a long runway ahead.

The momentum of our foodservice promotional activity is also driving results. Wings and sports have been an inseparable combination since Frank's earned the title of the original Buffalo sauce. We're excited about capitalizing on the start of football season in the U.S. with new promotional activity to drive further awareness, including increased tailgating events and offering the King of Wings program for the first time in the fall. I'm excited about our foodservice progress with Frank's and French's and the growth we will continue to realize in this part of our portfolio.

Turning to the international markets on Slide 10. We are progressing with integrating the Frank's and French's portfolio into our global network. We are continuing to apply discipline to establish the proper foundation to manage the brands globally and enable stronger growth. During our June earnings call, we shared we had also added new distributors in 14 countries, giving us greater international presence. During the third quarter, we added another 6 countries to increase our total presence to 20 new countries.

We're also actively converting to McCormick's direct infrastructure where we have scale. For example, in India, we've converted from using several distributors and began selling Frank's and French's directly to our retail customers at the beginning of August and are currently on shelf in 3 major cities with a wider assortment, and Frank's, in particular, is creating interest. Moving forward, we're excited to build on the consumers' growing passion for Frank's and French's and remain confident we will continue to deliver our acquisition plan, meet performance expectations and drive significant shareholder value. I'd also like to thank the many employees that made year 1 a strong foundation for future success.

Mike is now going to provide more details on the financial results for the quarter and on our updated financial guidance. Before I turn it over to him, let me provide a few final comments on Slide 11. Let me summarize that we have achieved strong results in the first 3 quarters of 2018, both on our underlying core business and against our Frank's and French's plans. We delivered our third quarter results according to our plans and are excited by our momentum. We have confidence in our growth plans for new products across both of our segments, strong brand marketing programs and our opportunities to expand distribution.

At the foundation of our sales growth is the rising consumer demand for flavor. We're aligned with the consumers' increased interest in bolder flavors, demand for convenience and focus on fresh natural ingredients as well as with emerging purchase drivers such as greater transparency around the sourcing and quality of food. With this increased interest, flavor continues to be an advantaged global category, which, combined with our execution against effective strategies, will continue to drive strong results.

We're balancing our resources and efforts to drive sales with the work to lower cost to build fuel for growth and higher margins. We're differentiated by our growth platform and the results we've achieved. We have confidence on our updated 2018 outlook and are well positioned to deliver another strong and differentiated year in 2018. Our success is the work of all the McCormick employees around the world, and I want to recognize them for driving our momentum and thank them for their efforts and their engagement.

Thank you for your attention. And it is now my pleasure to turn it over to Mike. Mike?

Michael R. Smith ***McCormick & Company, Incorporated - Executive VP & CFO***

Thanks, Lawrence, and good morning, everyone. Before I begin my remarks specifically on our third quarter performance, I would like to build upon Lawrence's comments on Frank's and French's and provide further insights about the delivery against our acquisition plan now that we've completed the first year.

Starting on Slide 13. As Lawrence already shared, we have created value by driving growth through expanded distribution, new products and more effective marketing, and we supplemented our core McCormick margin improvement with meaningful enhancement from the Frank's and French's portfolio.

We are delivering against our synergy and onetime cost estimates; in fact, doing better than our acquisition plan.

Starting with our original synergy target. We continue to be on track to achieve $50 million of cost synergies, and as we've previously shared, our 2018 synergies are pacing ahead of expectations. Consequently, we now expect to fully realize the $50 million target by the end of 2020, earlier than our original 2021 estimate.

Our transaction costs and integration onetime costs are also projected to be favorable to our acquisition plan, as we shared late last year. We are well positioned to achieve our targeted debt-to-adjusted-EBITDA ratio of 3x by the end of 2020. During third quarter, we prepaid another $180 million on our term loans secured as part of acquisition financing, bringing our total prepayments to $280 million in this fiscal year and $530 million since the acquisition. We have now paid down over 1/3 of the term loan secured as part of the acquisition financing.

We executed our year 1 acquisition plan in line with and, in some areas, better than our model. As a reminder, we expected the first 12 months of the acquisition to be accretive to McCormick's adjusted earnings per share with an increase of approximately 5%, excluding transaction and integration expenses as well as ongoing amortization expense. We have achieved this expectation. With the successful completion of our first year, we remain confident we will continue to deliver our acquisition plan and meet performance expectations.

Now moving on to our overall financial results. As Lawrence already mentioned, we delivered strong growth in the third quarter. I'll begin with a discussion of our results and then follow with details on our updated full year 2018 financial outlook.

As seen on Slide 14, we grew sales 14% with minimal impact from currency. Acquisitions, higher volume and product mix and pricing each contributed to the increase. Both our consumer and flavor solutions segments delivered strong top line growth, driven primarily by the Americas. In addition, we have delivered significant increases in adjusted operating income and adjusted earnings per share. We also delivered adjusted operating margin expansion while increasing our brand marketing significantly during the quarter.

The consumer segment grew sales 14% with minimal impact from currency. Our acquisition of the Frank's and French's portfolio contributed 10% of the sales growth. The remaining 4% growth was driven by base business and new product growth, primarily in the Americas and Asia Pacific regions.

On Slide 15, consumer segment sales in the Americas rose 18% at constant currency versus the third quarter 2017, with 14% of the increase from Frank's and French's incremental sales. The remaining 4% increase was driven by growth from volume and pricing in the U.S. across several product lines, including recipe mixes, spices and seasonings, Asian foods, stocks and broths and grilling items. And as Lawrence mentioned, the underlying business growth rate was a significant sequential improvement from the first half of the year.

In EMEA, constant-currency consumer sales were down 1% from year-ago period, including 1% growth from sales of Frank's and French's. As Lawrence already mentioned, the unusually warm weather impacted sales growth in Europe. We grew consumer sales in the Asia Pacific region 9% in constant currency, led by China-based business growth, with strength in ketchup, sauces, recipe mixes and chicken bullion.

For the consumer segment in total, we grew adjusted operating income 10% to $154 million. The impact of sales growth and cost savings more than offset increases in freight costs and brand marketing. We increased our brand marketing 44% or $21 million in the third quarter versus the year-ago period. The increase in brand marketing, partially offset by the favorable impacts of CCI and product mix, drove an adjusted operating margin decline of 50 basis points compared to the third quarter of last year.

Turning to our flavor solutions segments in Slide 19, starting with sales growth. We grew constant-currency sales 14% with minimal impact from currency. Our acquisition of the Frank's and French's portfolios contributed 9% of the sales growth. The remaining 5% growth was driven by both the base business and new products, primarily in the Americas and EMEA regions, partially offset by the elimination of some low-margin business.

In the Americas, third quarter constant-currency flavor solution sales increased 19%, including a 14% contribution from Frank's and French's and a 5% increase from base business and new products. This base and new product increase was led by double-digit growth of custom condiments and coatings to quick-service restaurants as well as strong flavor and branded foodservice sales growth. Partially offsetting these increases were declining ingredient sales attributable to both pricing and the elimination of some low-margin business as well as the global realignment of a major customer sales from the Americas to EMEA.

We grew flavor solutions sales in EMEA 7% in constant currency with Frank's and French's contributing 1%. The remaining sales growth was driven primarily by volume growth in flavors as well as the favorable impact from the global realignment of a major customer sales from the Americas to EMEA, as previously mentioned.

In the Asia Pacific region, flavor solutions sales were down 1% constant currency. This was driven by the exit of low-margin business in the region, lower sales to quick-service restaurants due to the timing of the promotional activities and the pass-through of certain commodity cost declines.

As shown on Slide 23, adjusted operating income for the flavor solutions segment ended the quarter up 37% at $88 million, with a 3% unfavorable impact from currency. The increase was driven by the favorable impact of higher sales, a shift to more value-added products and the impact of our CCI program. These impacts led to a 270 basis point expansion of adjusted operating margin compared to last year.

Across both segments, adjusted operating income, which excludes the integration costs related to RB Foods and special charges, grew 20% in constant currency, which excluded a 1% unfavorable impact of currency. This adjusted operating income growth included the impact of increasing our marketing in the third quarter versus the year-ago period. As Lawrence mentioned, our focus on profit realization and the reshaping of our portfolio has continued to drive margin expansion even with increased investments.

As seen on Slide 25, in the third quarter, we increased adjusted gross profit margin 280 basis points year-on-year. While this expansion includes an accretion impact from the addition of the Frank's and French's portfolio, the core business was also a significant driver of the margin growth. Our portfolio shift to more value-added products and CCI-led cost savings continue to drive gross profit expansion across both our segments.

Our selling, general and administrative expense as a percentage of net sales increased by 200 basis points from the third quarter of 2017. Leverage from sales growth as well as CCI-led cost savings were more than offset by significant increases in both brand marketing and distribution expense driven by freight. The net impact of the gross margin expansion and the SG&A increase resulted in an adjusted operating margin expansion of 80 basis points from the third quarter 2017, which includes a 36% or $21 million brand marketing increase versus the year ago. Below the operating income line, interest expense increased $23 million in the third quarter from the year-ago period, primarily driven by the debt secured for the RB Foods financing.

Turning to income taxes on Slide 26. Our third quarter adjusted effective tax rate was 18.8%, which reflected the favorable impact from a lower U.S. corporate tax rate as compared to 26.8% in the year-ago period. Our third quarter adjusted rate was lower than anticipated due to the favorable impact of discrete items, principally a higher level of stock option exercises. Because of this favorability, we now expect that our adjusted effective tax rate for the full year will approximate 21%. There can be volatility in that rate quarter-to-quarter due to the impact of discrete items, such as the impact of stock option exercises and changes to our forecasted mix of earnings.

Income from unconsolidated operations was $8 million in the third quarter of 2018, which was comparable to the year-ago period. Our previous 2018 income from unconsolidated operations guidance was to be comparable to 2017. We now expect our 2018 income from unconsolidated operations to decline by low single digits versus 2017, driven by unfavorable impact from currency.

At the bottom line, as shown on Slide 28, third quarter 2018 adjusted earnings per share was $1.28, up 14% from $1.12 from the year-ago period, mainly due to higher adjusted operating income and a more favorable adjusted income tax rate, partially offset by higher interest expense and shares outstanding. This increase included an unfavorable impact from currency.

On Slide 29, we summarized highlights for cash flow and the quarter-end balance sheet. Our cash flow provided from operations was $389 million through the third quarter of 2018 compared to $303 million through the third quarter of 2017. This change was driven by the increase in our net income. We also continue to see improvements in our cash conversion cycle, finishing the third quarter at 59 days, down 17 days versus our fiscal year-end, primarily driven by our extended payment terms and inventory programs. We returned $205 million of cash to shareholders through dividends and used $113 million for capital expenditures through the third quarter of 2018.

We expect 2018 to be another year of strong cash flow, and our priority is to continue to have a balanced use of cash, making investments to drive growth, returning a significant portion to our shareholders through dividends and to pay down debt. Year-to-date, we have prepaid $280 million on our term loans secured as part of the RB Foods acquisition financing.

Let's now move to our current financial outlook for 2018 on Slide 30. As Lawrence mentioned, we continue to expect strong growth for the fiscal year 2018 and are updating our projections to reflect the strength of our year-to-date performance and the momentum we have heading into the fourth quarter. Additionally, our updated projections include a lower favorable impact of foreign currency exchange rates, a lower adjusted income tax rate and a higher net favorable nonrecurring impact of U.S. tax act.

Based on prevailing rates, we now estimate a favorable impact to the net sales growth rate of 1%, down from our previous estimate of 2%; and minimal currency impact on adjusted operating income and adjusted earnings per share, down from our previous 1% favorable impact. As I previously mentioned, we also expect our income from unconsolidated operations to decline low single digits because of unfavorable currency impact.

Year-to-date, currency has been favorable with an unfavorable impact in the third quarter. We expect the remainder of the year to also be unfavorable. And as I mentioned earlier, we now estimate that our adjusted effective tax rate for the full year will approximate 21%. And finally, related to our GAAP earnings per share, the net impact of 2 nonrecurring items required by the U.S. tax act, the favorable noncash impact of the revaluation of our U.S. net deferred tax liabilities less the unfavorable impact of the transition tax. This net impact is now expected to be a tax benefit in 2018 of approximately $308 million.

Our previous sales growth guidance of 13% to 15% included an 8% incremental impact from the acquisition of the Frank's and French's portfolios, underlying base business and new product growth of 3% to 5% from higher volume, product mix and pricing as well as a 2 percentage point favorable impact due to currency. We now expect to grow sales 12% to 14%, including our updated estimate of only a 1 percentage point favorable impact from currency rates. We are reaffirming our constant-currency expected sales growth of 11% to 13%.

We expect a low single-digit cost inflation, which, combined with CCI and strategy execution of shifting to a more value-added portfolio, leads to a 2018 adjusted profit -- gross profit margin that is projected to be 175 to 225 basis points higher than 2017. Our previous adjusted operating income growth guidance of 23% to 25% included a 1 percentage point favorable impact from currency rates. We now expect to increase adjusted operating income 22% to 23% from $786 million in 2017 with minimal impact in currency rates. This updated guidance reflects continued increased investments to drive growth. Our cost-savings target is at least $105 million, and we are planning to increase brand marketing at a rate above our sales growth.

Our recent guidance for 2018 adjusted earnings per share was $4.85 to $4.95, an increase of 14% to 16% versus our $4.26 adjusted earnings per share in 2017. This range of growth included an estimated 1 percentage point impact from favorable currency rates. Based on the revisions I have just mentioned, we are now increasing our adjusted earnings per share estimate to $4.95 to $5, an increase of 16% to 17% versus 2017, which now includes minimal impact from currency. For the fiscal year, we expect our higher profit and working capital initiatives to lead to another year of strong cash flow.

In summary, we are projecting excellent growth in our 2018 constant-currency outlook for sales, adjusted operating profit and adjusted earnings per share, following record double-digit performance across each objective in 2017. Our 2018 GAAP earnings per share range is now projected to be $7.03 to $7.08, which is an increase from our previous estimate of $6.85 to $6.95.

There are several projected 2018 adjustments which are expected to drive our GAAP to non-GAAP reconciliation: first, approximately $23 million of integration expenses related to RB Foods, which is in line with our previous estimate; second, approximately $18 million of severance charges; and finally, the net impact of 2 nonrecurring items required by the U.S. tax act currently expected to be a tax benefit in 2018 of approximately $308 million. This increase from our previous estimate of $298 million is attributable to deferred tax liability adjustments driven by the finalization of both our RB Foods purchase accounting and the impact of cash repatriation. The total net impact of these adjustments is anticipated to be a $2.08 favorable impact to our GAAP earnings per share for fiscal 2018.

Finally, before we move to your questions, let me recap the key takeaways from our remarks this morning. Our momentum has continued into the third quarter, and our core business sales growth has accelerated as planned. With our excellent year-to-date results, the strength of both our core business and our Frank's and French's portfolio is evident. We are delivering against our plans for both sales and profit realization and are confident in the effectiveness of our strategies. In light of the continued strength in our business, we are confident in our ability to achieve our updated 2018 financial outlook.

Now let's turn to your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question today comes from the line of Alexia Howard with AllianceBernstein.

Alexia Jane Burland Howard ***Sanford C. Bernstein & Co., LLC., Research Division - Senior Analyst***

So if I'm sticking with my one question, can I ask about pricing? I think, last quarter, you had 0.2% pricing come through, but you were talking about a strengthening of the pricing in the back half based on the agreements -- or the pricing increases that you pushed through. It was up 0.5% this quarter overall. Was that a little lower than expected? Should we expect the pricing to strengthen from here on out? Or are you finding that you're having to maybe dial it back a little bit more than you expected in terms of promotional spending? Just curious about that. And I'll pass it on.

Michael R. Smith ***McCormick & Company, Incorporated - Executive VP & CFO***

Alexia, it's Mike. I'll answer this one. No -- we've launched our pricing. We talked about in the second quarter how, particularly in the U.S., our pricing is out. And if you really look at consumer versus flavor solutions, on the flavor solutions side, due to some commodity decreases, there was negative -- a small negative pricing. But if you look at the consumer side, we did see an acceleration on the pricing line, particularly in the Americas, up 1.3% in the third quarter. So the pricing has gone through.

Operator

The next question is from the line of David Driscoll with Citi.

David Christopher Driscoll ***Citigroup Inc, Research Division - MD and Senior Research Analyst***

I had just a quick follow-up here and then a real question. The follow-up is just on gross margins. Is the fourth quarter gross margin going to expand?

Michael R. Smith ***McCormick & Company, Incorporated - Executive VP & CFO***

Well, we've seen really great performance in the first 3 quarters, and we've attributed about half of that 290 basis point expansion due to RB Foods and approximately the other half due to the underlying base business. Our guidance for the year of 175 basis points to 225 basis points would suggest that the underlying business would improve in the fourth quarter.

David Christopher Driscoll ***Citigroup Inc, Research Division - MD and Senior Research Analyst***

All right. And then the real question here is on Frank's. And apologies, you guys gave a lot of color here. Did I miss it? Did you say what the organic revenue growth was in the quarter for Frank's? And then I'd just love to hear a little bit more about Frank's international potential. And when is this going to deliver something meaningful in terms of OI dollars?

Lawrence E. Kurzius ***McCormick & Company, Incorporated - Chairman, President & CEO***

All right. So I'll start, and I'll let Mike follow up. I don't think that we said what the total organic growth was on Frank's. We broke out the acquisition lap as sales from acquisition and then subsequently for the period. That would be organic growth, which, by the way, was only 2 weeks. That goes into our base growth. And then going forward, we're not -- Dave, we're not going to be breaking out Frank's and French's organic growth separately. As we've lapped the acquisition, all of that is going to go into our base growth, and it's going to be treated as base. As we've said, our goal and expectation with Frank's is that it gives us a step change in size and performance, but going forward, we continue with the growth algorithm of -- that we've had out there, which is 4% to 6% top line growth. And Frank's and French's will be supportive of that. If there was another part of that question I missed, can I...

Michael R. Smith ***McCormick & Company, Incorporated - Executive VP & CFO***

I want to build on top of that. I think the other thing is we did talk about how, under our ownership, in the third quarter, there has been an acceleration of sales versus the previous owner. And year-to-date, we've had a mid-single-digit increase for the same period compared to last year.

Lawrence E. Kurzius ***McCormick & Company, Incorporated - Chairman, President & CEO***

That's a good point. And I'll say that Frank's and French's -- and I don't want to leave Cattlemen's out of the mix as well, but that portfolio of brands that we bought from RB Foods has really performed according to our plans. I mean it's been uncannily close. The sales growth that we expected to get, we've gotten. The EPS accretion that we expected to get, we've gotten. Mike, do you want to add?

Michael R. Smith ***McCormick & Company, Incorporated - Executive VP & CFO***

And I think, Dave, your question was about when are we going to get significant international growth. Right. So for international, we -- I think we touched on those in our prepared remarks. We've converted all the distributors over to us. We've added new distributors in 20 countries where the brands were not represented previously. And where we have infrastructure, we're taking the business actually away from the distributor and converting it to our direct distribution and management. We highlighted India in this call because it was new, and we've really just gone on the shelf with our sales organization in India. And in the last call, we mentioned, in Mexico, through our JV, we have a very substantial presence in retail, strong sales force. We didn't include it in our prepared remarks, but I'll say it here that we've made -- we've gained some significant retail distribution on Frank's in particular in Mexico. French's had pretty good distribution. Frank's does not, and we've had some significant distribution gains there. And then over in the U.K., we have a very strong sales organization. We actually merchandised the stores Frank's already had, some good presence in the market, and we've converted that to our sales organization where we're going to be able -- where we'll continue to be able to drive it.

Operator

Next question comes from the line of Robert Moskow with Crédit Suisse.

Robert Bain Moskow ***Crédit Suisse AG, Research Division - Research Analyst***

I was hoping to zero in a little more on the change in the operating income guidance. You took down the high end of the guide when we exclude the currency. And I think you mentioned higher investment in branded marketing, but I didn't hear any numbers. Did you raise the investment that you're expecting for the year? Or are you really just continuing to invest at the same rate that you were going to spend at originally?

Michael R. Smith ***McCormick & Company, Incorporated - Executive VP & CFO***

Yes. I mean, Rob, you saw we had a 36% increase in the third quarter. It's pretty significant. Our guidance has been we're going to grow our A&P above our net sales growth. We haven't given a particular how far above that will be, but we've taken opportunity and now we're at 23% A&P growth versus a sales growth of 17%. So we've taken the opportunity to really drive in the third quarter and the fourth some of these investments to really build -- and these are brand-building advertising. It's not promotions, things like that, [between groves and that]. So these are things we're going to build into next year and really can get us on a good footing.

Lawrence E. Kurzius ***McCormick & Company, Incorporated - Chairman, President & CEO***

And I will comment, Rob, that our underlying business is really performing according to plan. The changes that we made in guidance were really dropping through, the tax and the FX changes that we're offsetting, and we dropped the full amount of those through to the EPS line. And we're not giving quarterly guidance. And there may be some timing issues that exist between market expectations and our own plans that we are letting roll. We are really confident in the guidance that we have given. And the level of A&P increase that we plan may not fully appreciate it as we continue to invest in our business to drive growth. I'll also point out that we're -- in raising the guidance, we've also narrowed the range and taken it to the high end even with that A&P investment.

Robert Bain Moskow ***Crédit Suisse AG, Research Division - Research Analyst***

Yes. But Lawrence, it's related to a tax benefit that -- I don't think that repeats next year. In fact, I think, originally, the tax rate was supposed to go up sequentially in 2019. Is that still the expectation?

Lawrence E. Kurzius ***McCormick & Company, Incorporated - Chairman, President & CEO***

Well, I don't think that we're going to give any guidance for 2019 until we get to our next earnings call when we talk about the end of the year. And the -- and we'll give updated guidance for -- I should say we'll give our first guidance for 2019 then.

Robert Bain Moskow ***Crédit Suisse AG, Research Division - Research Analyst***

Okay. I'm going to sneak one more, if I could. I think the sales guide requires a pretty big step-up in organic sales growth now that you have RB in the core. It looks like RB grew like double digit in the third quarter, probably does it again in fourth. Is that right that organic sales will have to be like up around 7% in fourth quarter for the sales guide for the year?

Lawrence E. Kurzius ***McCormick & Company, Incorporated - Chairman, President & CEO***

I think that your math is good, and I'm not signing up for 7%, but that would be within the range. So we have a pretty wide range on sales growth still. Our fourth quarter still is the strongest quarter of our year. We have a strong seasonality in our business, particularly in the Americas. And so that's -- we typically have maybe a wider range around sales growth outlook going into the last quarter of the year than many companies do just because it's still such a large proportion of our total annual sales.

Michael R. Smith ***McCormick & Company, Incorporated - Executive VP & CFO***

And Rob, I mean, there was some concern, I think, going into the second half of the year that we were lapping a strong second half last year. And I think we've shown, with a base business growth -- a sales growth of 4% in the third quarter, that we were able to lap the strength. So we feel good about the fourth quarter -- or full year guidance of 11% to 13% in constant currency.

Operator

The next question comes from the line of Ken Goldman with JPMorgan.

Thomas Hinsdale Palmer ***JP Morgan Chase & Co, Research Division - Analyst***

It's Tom Palmer on for Ken. I just wanted to ask on the consumer side. I know a lot of the margin decline was attributable to the marketing spend, but it seems like it was down, on kind of a run rate relative to the last few quarters, a bit more than just based on marketing. Are there some other items that you can highlight that maybe hit during the quarter? And then maybe comment on their persistence as we look towards the fourth quarter and potentially beyond, if you want to address it.

Lawrence E. Kurzius ***McCormick & Company, Incorporated - Chairman, President & CEO***

Yes. I think you're talking about OP margin, not gross margin. I think you mean...

Thomas Hinsdale Palmer ***JP Morgan Chase & Co, Research Division - Analyst***

Yes, op margin.

Lawrence E. Kurzius ***McCormick & Company, Incorporated - Chairman, President & CEO***

Gross margin continued to expand, and OP was down. I'd say that there was an offset to the gross margin expansion due to A&P increase and some freight distribution costs. But we're not...

Michael R. Smith ***McCormick & Company, Incorporated - Executive VP & CFO***

We had a little bit of FX, too.

Lawrence E. Kurzius ***McCormick & Company, Incorporated - Chairman, President & CEO***

Thanks.

Michael R. Smith ***McCormick & Company, Incorporated - Executive VP & CFO***

But the vast majority was due to the increase of Frank's marketing, to your point.

Thomas Hinsdale Palmer ***JP Morgan Chase & Co, Research Division - Analyst***

And so as we look towards the fourth quarter, I mean, could it be down year-over-year again on the op margin line for consumer? Or do synergies and other items start to offset that?

Michael R. Smith ***McCormick & Company, Incorporated - Executive VP & CFO***

We don't give quarterly guidance, especially by segment. So I think if you just look at the full year, you can make some assumptions there.

Operator

The next question is from the line of Rob Dickerson with Deutsche Bank.

Robert Frederick Dickerson ***Deutsche Bank AG, Research Division - Research Analyst***

So I think I'm going to ask the last question just in a different way. There did seem to be a little bit of margin pressure in the consumer segment in the quarter despite very impressive top line organic sales growth. But if you just look at the year-over-year in dollars in operating profit, I think it's up around $14 million. And if we think about what that RB contribution likely would have been off of a 9% year-over-year on the top line, it sort of, I think, implies that the base would maybe have been flat to down in consumer despite the top line up. So I don't know if I'm thinking about that the right way. If you could just provide some color around base operating profit in consumer.

Michael R. Smith ***McCormick & Company, Incorporated - Executive VP & CFO***

Yes. The base was definitely up ex RB. It might even get a little messy because the 2 weeks last year and the full impact of RB this year is causing some of the math, I think, in your mind. But operating profit for the base business was definitely up.

Lawrence E. Kurzius ***McCormick & Company, Incorporated - Chairman, President & CEO***

Yes, that was the margin. And I'll say that your question really is around is there margin pressure on that part of the business, and I'm going to have to say no. We've gotten pricing through that we expected to get early in the second quarter, so you're seeing that come through in the third quarter results. And so that's not a pressure point. And I think that the freight costs -- freight distribution cost pressure that we've had this quarter is really not a significant change from the prior. Our outlook forward isn't any -- there's not pretty meaningful change there either. So I'll just say that we're not feeling any margin pressure in that part of the business other than kind of, I'll say, the normal commercial tension that exists between the supplier and customer. But there's not -- I would not characterize that as being under margin pressure. We've made some decisions around spending and investing behind our brands that are different than decisions that have been made by some other CPG companies. So we've leaned into a brand marketing investment that's very consumer-directed to drive the continued growth of our business. We're confident that, that spending has a strong ROI. Our holiday advertising, our digital advertising are some of our highest-return items. In those areas where we've leaned in, we're able to start holiday relatively early. We're able to up our digital spending going into the quarter -- sorry, going through the quarter. And then, of course, we've -- as we've said all year that we would, we are going to introduce marketing campaigns behind French's and Frank's, and that's what you're seeing coming through.

Operator

The next question is from the line of Steven Strycula with UBS.

Steven A. Strycula ***UBS Investment Bank, Research Division - Director and Equity Research Analyst***

So it's good to see a food company investing in brand equity advertising, so congratulations there. One -- Curious, Lawrence, what is your view when you speak -- especially with bringing in new brands such as French's and Frank's, what is the temperament from a lot of the retailers right now as to whether they want to see you guys investing in your business and partnering with between the gross to net sales line, which you're touching on in the last question, versus necessarily the brand equity advertising that you appear to be signaling and how you're spending in third quarter and fourth quarter? Any type of context would be helpful. And then I have a follow-up.

Lawrence E. Kurzius ***McCormick & Company, Incorporated - Chairman, President & CEO***

Yes. I'll just comment -- I'm going to -- we've asked everyone to limit themselves to one question, but I'm going to give you a 3-part answer to it. So sorry to those of you on the call, just roll with me. We may go a minute over here. But first of all, the initial response was terrific to us buying these brands because retailers expected that we were going to make brand-building investments. And some of the incumbent players in these categories were more focused on, I would say, brand management and taking profitability out of the category and were not as focused on building brands. I'm not going to name any names, but you can probably imagine who I'm talking about. So that's the first thing. The second thing is that, as we have introduced the different brand-building ideas and our category management ideas, they've been strongly embraced by retailers so that the demeanor there has been very positive. I'll say that's true on both the retail side of the business and the foodservice side of the business. And then the third thing is that the retailers, it's not really an A&P question, but it's an innovation point. They are appreciating some of the innovation that we're bringing to these brands and in particular, the launch of the frozen wings, which we've, for the first time, mentioned on this call. That's -- I've said that we have a long pipeline of terrific innovation ideas. This is one of them coming to market. That has really been embraced pretty well by the retailers as well.

Operator

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

Akshay S. Jagdale ***Jefferies LLC, Research Division - Equity Analyst***

I just want to clarify one clarification, which is regarding the EBIT guidance. It sounds like to me -- and I know you don't want to be specific for competitive reasons. It sounds like to me the main FX-neutral EBIT guidance is the same. So FX is one of the primary drivers of the adjusted EBIT being down. But the other one which might be a similar amount or close to that is brand investments, right? I mean, it's a pretty significant increase that you're planning, and it looks like you're taking the opportunity to really step on the gas on that. So I feel what you're trying to tell us is that the underlying trends are good and there is momentum so you're investing back in the business more than you previously expected, right? That's what I'm hearing. Is that a fair sort of characterization of what you're trying to communicate?

Michael R. Smith ***McCormick & Company, Incorporated - Executive VP & CFO***

Akshay, this is Mike. I'd characterize kind of leaning into the brand-building activities toward the end of the year. And if you follow -- those of you who've followed us a long time, you know that we over-deliver on CCI a lot of times. We'll push it into brand marketing. So it's kind of a similar thing. We're leaning in and really setting ourselves up great for the fourth quarter next year.

Akshay S. Jagdale ***Jefferies LLC, Research Division - Equity Analyst***

Got it. And then just one last one on -- just one follow-up on the U.S. business. Obviously, really strong organic sales growth there and good momentum. But if you take a step back and think about sort of the market share issues, et cetera, where are we over like a 3-year period? I mean, how much closer are we to being at least share-neutral, all the noise aside? I mean are we -- how do you feel about that?

Lawrence E. Kurzius ***McCormick & Company, Incorporated - Chairman, President & CEO***

Well, I think that you got to -- I want to, first of all, say that our -- I think the market share you're referring to is specifically in the herbs and spices category. We're -- while there's still some share erosion, we have closed the gap, I would say, in the unmeasured channels we're doing. We continue to do well, and we're confident that we're on the right track there. In other categories like the recipe mix category, we are definitely gaining share. And in particular, if you look at the traction that we're gaining on the acquired brands in the most -- I think the most recent data is beginning to show the distribution gains that we've gotten. You're seeing some of the best trends of the year. We've talked all year that we expect a sequential improvement, as we went through the year, on our consumer business and in particularly -- particular in the Americas. And that's what you've seen. And I think we feel really good about the guidance that we've got for the year, which is for a strong finish to the year and continued strong growth.

Operator

I will now turn the call back to Lawrence Kurzius for closing remarks.

Lawrence E. Kurzius ***McCormick & Company, Incorporated - Chairman, President & CEO***

Great. Thanks, everyone, for your questions and for participating on today's call.

McCormick is a global leader in flavor, and we're differentiated by a broad and advantaged portfolio, which continues to drive our growth. We're responding readily to changes in the industry with new ideas, innovation and purpose. With a keen focus on growth performance and people, we continue to perform strong globally and build shareholder value.

I'm pleased with our strong year-to-date results, and I'm confident in our continued momentum in the last quarter of 2018 to drive even further growth. And I look forward to reporting to you on the shareholder value we will continue to create.

Kasey A. Jenkins ***McCormick & Company, Incorporated - VP of IR***

Thank you, Lawrence, and thanks to all for joining today's call. If you have any further questions regarding today's information, you can reach us at (410) 771-7140.

This concludes this morning's conference call. Have a nice day.