Co. reported 2017 constant-currency sales growth of 7%, income from unconsolidated operations of $8.4m, and adjusted EPS of $0.82. Expects FY17 constant-currency sales growth to be 5-7% and adjusted EPS to be $4.05-4.13.
Good morning. This is Kasey Jenkins, 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 2017. To accompany this call, we've posted a set of slides at ir.mccormick.com. (Operator Instructions) With me this morning are Lawrence Kurzius, Chairman, President and CEO; and Mike Smith, Executive Vice President and CFO.

During our remarks, we will refer to non-GAAP financial measures. These include adjusted operating income and adjusted earnings per share that exclude the impact of special charges 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 is now my pleasure to turn the discussion over to Lawrence.

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

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

McCormick’s strong second quarter results reflect the effectiveness of our sales and profit growth strategies driven by the engagement of our employees around the world. We delivered growth in sales, operating income and earnings per share. With our year-to-date financial results and momentum heading into the second half of the year, we are well positioned to deliver our financial outlook for fiscal 2017.

Our strength this quarter was evident in our top line results. In constant currency, we grew sales 7% for the total company with solid performance from both segments. Base business growth, new products and acquisitions, are 3 drivers of long-term sales growth, were all contributing factors.
Year-to-date, we’ve grown sales in constant currency 6%. And based on these results, we reaffirm our fiscal year outlook for a 5% to 7% constant currency sales increase.

In the second quarter, we increased constant currency adjusted operating income 9%, led by the higher sales and savings from our Comprehensive Continuous Improvement program, CCI. Similar to the first quarter, both segments increased operating income. Year-to-date, we’ve also achieved a 9% constant currency increase, which is within our fiscal year 9% to 11% objective.

At the bottom line, second quarter adjusted earnings per share of $0.82 was 9% higher than the year ago period. Our strong growth in adjusted operating income drove this increase as well as our higher income from unconsolidated operations and lower shares outstanding. 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 rate. For the fiscal year 2017, we reaffirm our outlook for adjusted earnings per share of $4.05 to $4.13.

I’d like to turn next to some business updates with the focus this morning on highlights from our consumer and industrial segments, our great new product lineup for the second half of 2017 and finally touch on some of our recent announcements.

For the consumer segment update, I’ll start with the Americas, where we grew constant currency sales by 5%, including 2% from our acquisition of Gourmet Gardens. The remaining 3% was driven by higher pricing, volume and product mix. This growth was a sequential improvement from the first quarter which was impacted by U.S. food industry slowdown.

In our March call, we expressed our belief that the slowdown for our spices and seasoning categories was short term, attributable to a confluence of likely temporary factors and we would see growth in our second quarter 2017 sales. This has been borne out.

In the U.S., our IRI data indicated strong second quarter category dollar sales for spices and seasonings at 7%.

During the same period, scanner sales of McCormick’s U.S. branded spices and seasonings grew 4%. It is important to consider, however, unmeasured channels, including club, e-commerce and Hispanic retail chains. And in doing so, we estimate we grew McCormick’s U.S. retail sales for spices and seasonings another 2 percentage points. Overall, we’re seeing good growth in our spice and seasoning brands in the U.S. market, and we know we have more room to grow. As consumers are increasingly shifting their buying between channels and the industry outlook reflects a greater share of growth coming from e-commerce, club and discount formats, we’re pleased with the double-digit sales growth we have experienced in unmeasured channels and expect it to continue. The shift to unmeasured channels is just one indication that the food industry is operating in a period of rapid and fundamental change in both consumer preferences and an evolving retail landscape.

Quarter-to-quarter, our sales growth is going to be impacted by retailer actions and other marketplace factors in this dynamic environment. We are, however, well positioned to capitalize on these changes through agile -- through increased and agile consumer marketing investments, a focus on customer intimacy and product innovation. We’re staying relevant with the consumer and have a compelling product offering for every retail strategy and channel.

Our outlook for the U.S. sales of spices and seasonings for the balance of the year remains strong and unchanged from our prior projections. We’re confident the initiatives we have underway position us to continue our trajectory of long-term growth. This optimism for our Americas consumer business is bolstered by several factors and successes: first, as I’ve already discussed, our strength and continued growth in unmeasured channels.

We’re excited about the strength in our grilling platform. In May, we released our McCormick 2017 Flavor Forecast annual GRILLING EDITION, featuring recipes for 5 sizzling flavors using products from our core spices and seasonings as well as dry and wet recipe mixes. In addition, Grill Mates and Stubb’s barbecue consumption is growing, and we’re investing in Grill Mates TV advertising in the third quarter. Additionally, our Canadian business has grown its grilling platform double digits versus last year through a strong promotional campaign, expanded distribution and growth in Stubb’s.

Gourmet Garden continues to build momentum in the U.S. with consumption growth over 20% and household penetration better than expected. During the second quarter of 2017, we built on the distribution we established in late 2016 and introduced Gourmet Garden lightly dried products
in Canada, with strong retail acceptance. Our closer-to-fresh platform is resonating with consumers’ desire for fresh flavor and ingredients. Our U.S. gourmet product line is growing in dollars and units due to organic trends and new distribution in addition to lapping the disruption we experienced last year from the conversion of the product line to organic.

Outside of spices and seasoning, we're growing share in recipe mixes, Asian foods, stock and broth, wet marinades and mayonnaise. Canada has gained share through the success of organic spice bags as well as positive consumer response to our purity campaign. We have strong retail acceptance of our first half new products and distribution gains, including Grill Mates and Stubb's marinades, Kitchen Basics Bone Broth, Lawry’s Casero products and Zatarain’s biscuit and cornbread mixes. In a few minutes, I'll talk about our exciting new products for the second half of the year. And importantly, our products remain well aligned and on trend with consumer demand for flavorful healthy eating.

Now turning to outside the Americas. In Europe, Middle East and Africa, EMEA, a difficult environment driven by economic, political and competitive factors has persisted and affected our consumer business. The primary impact is in the U.K, where a challenging retail environment has hindered our performance, driven by a large retailer’s reduction of shelf space for food product. Given these conditions, it is particularly important to keep our brands relevant through marketing and new products. We have invested in both marketing with the launch of our purity campaign in the U.K. and in new products which I will speak about further in a few minutes.

In the Asia/Pacific region, China grew sales in the second quarter of 2017 at a double-digit rate in constant currency. China's growth was broad-based across our different brands and channels, including e-commerce, and we expect this performance to continue throughout 2017. We're also pleased with our performance in India, where sales also grew at a double-digit rate as we have lapped the impact of our prior decision to discontinue certain low-margin Kohinoor products.

Second quarter sales across the consumer segment were up 4% over the year ago period in constant currency. With the benefit of higher sales and our CCI-led cost savings, we grew second quarter adjusted operating income 7% in constant currency.

Turning to the industrial segment. We had excellent performance starting at the top line with 12% constant currency sales growth. In the Americas, we continue to benefit from shifting our portfolio to more value-added products, expanded distribution, the increasing trend of consumer snacking and from our customers’ move towards better-for-you products.

A significant part of our volume increase for the quarter was driven by new products. We had double-digit growth in sales of savory flavor products as well as in snack seasonings, particularly from our Latin American business.

We continue to make inroads with additional restaurant chains, winning business using our FlavorCell technology. In our branded food service business, we had solid sales growth driven by expanded distribution, and we were recognized as vendor partner of the year by a significant foodservice customer. Together, these successes are driving not only our top line growth but strong profit growth as well.

In EMEA, incremental sales from our Giotti acquisition contributed double-digit sales growth to the second quarter of 2017. Our integration is progressing well, and we’re pleased with Giotti’s performance. Base sales in the region, excluding the impact of Giotti, also grew at a double-digit rate in constant currency. We continue to win with our customers through new products, expanded distribution and promotional activities with quick service restaurants.

Industrial sales in the Asia/Pacific region, mainly Thailand, China and Australia, benefited from new products and promotional activity of quick service restaurants. In addition to the segment’s overall 12% constant currency sales growth, our cost-reduction efforts and portfolio shift to more value-added products drove a 13% constant currency increase in adjusted operating income.

Now I'm delighted to share with you our robust second half plans for new products in our consumer segment. Our new products are important to us to differentiate our brands and drive growth. Our U.S. business, as seen on Slide 8, has 3 robust upcoming new product platforms. First, as mentioned during our Investor Day in April, we're thrilled to extend our presence into the breakfast occasion with the McCormick Good Morning. The breakfast occasion offers tremendous opportunity to leverage our flavor expertise beyond where McCormick is typically found.
Consumers are looking for ways to bring great flavors to today's breakfast staples without all the sugar or artificial ingredients in many of today's products. We will be launching a range of 4 product lines with clean labels: breakfast toppers, breakfast seasonings, slow cooker breakfast and smoothie boosts, aligns with both our great flavor while also delivering benefits like real fruit, flax and chia seeds and boosts of protein. Consumer research has been outstanding and customer reaction positive.

New products in our liquid portfolio also offer exciting growth opportunities. We are introducing McCormick's Simply Better Wet Gravies in 3 varieties. Made with real ingredients, including stock, vegetables and McCormick herbs and spices, these ready-to-serve gravies will be a hearty addition to holiday and everyday meals this fall, plus there are no artificial flavors, no added MSG, they're gluten-free and are in BPA-free packaging.

Simply Asia broth and noodle new products capitalize on current trends and ethnic flavors. A Vietnamese beef broth and a Japanese chicken broth, coupled with the introduction of 4 noodle varieties, offers consumers the opportunity to prepare authentic Asian dishes at home. And continuing our strong momentum with Bone Broth, we’re introducing 2 new flavors, beef bone broth and turmeric and ginger with lemongrass.

We're enthusiastic about spices and seasonings with the launch of over 30 new SKUs, a significant increase from our product innovation in the category versus previous years. In response to consumers trading up to larger sizes, we're launching a new super deal format that offers a better value and includes new flavors, and we’re upsizing some of our pure specialty extracts. Additionally, we're launching a new range of pasta seasoning blends with flavors like white cheddar and sun-dried tomato, basil; premium garlic products like black garlic powder; and even a turkey brine and rub kit for the holiday.

Our lineup for products outside the U.S. is just as exciting. In Canada, we're building off the success of organic spice bags and continuing to appeal to millennials with the launch of organic recipe mixes. We’re expanding our Club House gravies into the hot chicken and barbecue segment with sweet and spicy dipping sauces and homestyle gravies. And following the launch of unpasteurized honey earlier this year, we're introducing 100% Canadian organic honey.

In Central America, we’re launching salad dressings in 2 packaging formats as well as hot sauces in a variety of flavors. In EMEA, we're extending Thai Kitchen into France to capitalize on the fast-growing ethnic food trend. Responding to consumer health and wellness preferences, we're introducing organic core herbs and spices and homemade dessert products in France, and our launch of gluten-free recipe mixes in the U.K. continues to build momentum.

In our Asia/Pacific region, Australia is introducing 6 Gourmet Garden finishing drizzles to flavor grilled meat. These drizzles are single-use pour pouches with refrigerated placement next to the meat department. Drizzles in flavors such as basil pesto, salsa verde and chimichurri offer consumers a closer-to-fresh alternative to flavor their grilling occasions.

Turning to our industrial segment. While we do not get too specific with our product development in this segment, we are executing against a new product pipeline of on-trend and better-for-you products. Our range of flavor solutions for our industrial customers is one of the broadest in the industry as evidenced by recent product development that has been a significant driver of our year-to-date industrial segment sales growth. As our customers move their portfolios to more natural, better-for-you and organic, they want to ensure that taste is not compromised. Our distinctive food-first approach, our deep understanding of food and the use of natural ingredients, like herbs and spices, competitively differentiates us and is valued by our customers.

Now I’d like to recognize some of our recent news. During our Investor Day, we unveiled McCormick’s new vision, mission and 5 principles, as seen on Slide 10. We’re very excited about how this positions McCormick for the future. Our vision is to bring the joy of flavor to life. Our new mission is to support our new vision and mission, we’ve also evolved our 5 pillars of success to 5 key principles that now speak to our purpose, competitive advantage and ambition. Three of our principles remain the same: passion for flavor, power of people and the taste you trust. We introduced 2 new principles, driven to innovate and purpose-led performance, to reflect our continuous reinvention of our business and our commitment to delivering top-tier business results with responsibility to people, communities and the planet.
In May, we announced that we were recognized by DiversityInc on their 2017 top 50 companies for diversity. This is a highly competitive award, which highlights successes and best practices that promote the growth and advancement of underrepresented groups in the workplace. This marks McCormick’s first time on the list, and the recognition demonstrates our power of people principle, our commitment to supporting a global workforce that values and respects diversity.

In May, we were pleased to have Tony Vernon join our Board of Directors. Tony is a former CEO of Kraft Foods, and many of you know him from his previous role. Tony brings a deep consumer product industry expertise to our board, has managed some of the world’s most respected and iconic brands. We believe he will further strengthen the great group of leaders that comprise our board.

Lastly, during Investor Day, we shared that we had embarked on our McCormick Global Enablement initiative, MGE, to evaluate the processes, capabilities and operating model we will need as a larger-scale business. The objective of this initiative is to execute a step-change acceleration in working globally and cross-functionally to align, simplify and grow. In addition to building a scalable platform for future growth, this initiative will help lower our costs through expanding end-to-end processes, building on our current shared services foundation and enabling faster decision-making, increased agility and creating capacity within our organization.

Through this 3-year initiative, we expect to achieve annual cost savings of approximately $30 million to $40 million once fully implemented. While we are still finalizing the details of our operating model, we expect the cost to implement MGE will be approximately $55 million to $65 million of special charges and be recognized over the course of the initiative. Mike will cover the impact to our 2017 reported earnings when he discusses our outlook in a few moments.

Let me summarize by restating that we have achieved strong results through the first half of 2017. We have confidence on our fiscal year outlook with our growth plans for new products across both our consumer and industrial segments, strong marketing programs and our opportunities to expand distribution. We’re balancing our resources and efforts to drive sales, with our work to lower costs and are on track to deliver at least $100 million in 2017 cost savings, led by our CCI program. I want to recognize McCormick employees around the world for their efforts and their engagement.

It’s now my pleasure to turn it over to Mike. Mike?
For the consumer segment in total, our second quarter adjusted operating income rose 6% to $91 million. In constant currency, adjusted operating income rose 7% from the year ago period, with the impact of sales growth and CCI-driven cost savings more than offsetting higher material costs. Our brand marketing was comparable to the year ago period.

Turning to our industrial segment and Slide 19. We had excellent results this quarter in both sales and profit, continuing our momentum from the first quarter. Starting with sales growth. We grew constant currency sales 12% with increases in each of our 3 regions. Our acquisition of Giotti contributed 4%.

We grew industrial sales in the Americas 8% in constant currency, led by double-digit sales growth in both savory flavors and snack seasonings across the U.S and Latin America and expanded distribution of U.S. branded foodservice products. Partially offsetting this growth were lower sales to quick service restaurants.

Sales of Giotti contributed 23% of our 33% constant currency growth in the EMEA. The remaining growth was driven by higher volume and product mix and pricing in response to rising commodity costs with both quick service restaurants and packaged food companies. Sales growth was partially offset by the discontinuation of low-margin South African business.

We grew industrial segment sales in the Asia/Pacific region 3% in constant currency. The main driver was higher sales to quick service restaurants in the region, benefiting from both new product and promotional activities.

Adjusted operating income for the industrial segment ended the quarter up 8% at $46 million. In constant currency, the growth was even greater at 13%, driven by higher sales, a shift to more value-added products and the impact of our CCI program. We increased marketing for this segment in support of our branded foodservice business.

Across both segments, adjusted operating income, which excludes special charges, rose 7% in the second quarter from the year ago period. If we also exclude the impact of unfavorable currency, we grew adjusted operating income by 9%.

Adjusted operating margin expanded 20 basis points from the second quarter of 2016. Gross margin was down year-on-year, an 80 basis point decline. As we had previously indicated, there was pressure on our gross margin driven by the unfavorable impact of currency exchange rates and the timing of some pricing actions.

Our selling, general and administrative expense as a percentage of net sales was down year-on-year by 100 basis points from the second quarter of 2016. Leverage from sales growth as well as CCI-led cost savings during the period drove the decline.

Our brand marketing was comparable to the year ago period as we are timing some of our investments to support our second half new products. We are also getting more value out of each marketing dollar, and therefore, we now expect a mid- to high single-digit increase in 2017 brand marketing, including currency impact. This increase is at a higher rate than our anticipated sales growth and highlights our commitment to invest in our brands.

Below the operating income line, the tax rate on a GAAP basis this quarter was 23% compared to 23.1% in the year ago period. Both periods were favorably impacted by discrete tax items. We continue to expect the full year tax rate to approximate 28%, which considers the change in the accounting for taxes related to equity awards. Keep in mind that in the third quarter of 2016, we had a very low tax rate of 22% due to discrete tax items.

Despite unfavorable currency, income from unconsolidated operations rose 9% to $8.4 million. The increase is driven by our Eastern joint venture in India, which is delivering sales and profit growth. The performance of our largest joint venture, McCormick de Mexico, has been masked by unfavorable currency impact as it continues to perform well, with sales in constant currency up 8% year-to-date. Based on prevailing currency rates, we expect a mid- to high single-digit decline in 2017 income from unconsolidated operations.
At the bottom line, second quarter 2017 adjusted earnings per share was $0.82, up from $0.75 for the year ago period, mainly due to higher adjusted operating income as well as higher income from unconsolidated operations and lower shares outstanding. This year-to-year comparison includes the unfavorable impact from currency on both consolidated and unconsolidated income.

On Slide 28, we summarize highlights for cash flow and the quarter end balance sheet. Through the first half of 2017, cash flow from operations was $177 million compared to $213 million in the year ago period. An increase in net income was offset mainly by the timing of income tax payments and incentive compensation payments related to 2016’s financial performance.

We returned $253 million of cash to shareholders through dividends and share repurchases and used $66 million for capital expenditures. At the end of the second quarter, $191 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 fund future investments to drive growth.

Let’s now move to our current financial outlook for 2017 on Slide 29. Our strong outlook for the year is unchanged except for the impact of foreign currency exchange rates on sales and the impact from special charges related to the organization and streamlining actions we have underway. Based on prevailing rates, we now estimate an unfavorable impact to the net sales growth rate of 1%, down from our original estimate of 2%.

Our 2017 projection of special charges has increased to approximately $20 million from $11 million, mainly driven by expenses related to our MGE initiatives. At the top line, we reaffirm our plan to grow sales 5% to 7% in constant currency, which includes the incremental impact of approximately 2% from acquisitions completed in fiscal year 2016 and Giotti, acquired in December 2016. We anticipate a combination of pricing and higher volume and product mix to contribute 3% to 5% of growth.

Including the estimated impact of currency, we project sales growth of 4% to 6% in 2017. On a constant currency basis, we continue to expect to increase adjusted operating income 9% to 11% from adjusted operating income of $657 million in 2016. Currency is expected to lower this range to 8% to 10%. We plan to drive this increase with higher sales and at least $100 million in CCI-led cost savings. With this fuel for growth, we plan to also fund a mid to high single-digit increase in brand marketing.

We reaffirm projected adjusted earnings per share of $4.05 to $4.13. Excluding the estimated 2 percentage point impact of unfavorable currency rates, this range remains an increase of 9% to 11% from adjusted earnings per share of $3.78 in 2016. As a final remark on our outlook, we are on track for another year of strong cash flow for fiscal year 2017, with higher adjusted net income and actions under way to improve our working capital.

That completes my remarks. So let’s turn now to your questions.

**QUESTIONS AND ANSWERS**

**Operator**

(Operator Instructions) Our first question comes from the line of Robert Moskow with Crédit Suisse.

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

A couple of questions. One is, if you look at our Nielsen tracking data, the thing that stands out the most is that private label continues to gain share. You folks didn’t mention this trend in your statements today. And I know we’ve talked about a lot in the quarters past, but do you see anything different emerging here? Or any greater threats from private label in your outlook? And then secondly, just a question about the earnings guidance, make sure I understand. So the tax rate in this quarter was well below what we thought, and that helped your EPS by about $0.03. Is your guidance kind of implying that you’re going to take that $0.03 and use that as cushion to help you get to the rest of the year and – because of concerns? Or how should I interpret that?
Lawrence E. Kurzius - McCormick & Company, Incorporated - Chairman, CEO and President

Rob, I'm going to start off with addressing the private label question, and I'm going to pass the second question over to Mike Smith. But on private label, we really don't have anything new to add. We continue to see strong growth in private label. About half of that growth is coming from the conversion of a smaller brand to private label by a major retailer. We have -- we're approaching the lapping of that, but another retailer is doing the same thing. And so we expect to see continued strong numbers on private label, again, with half of it coming from the conversion of smaller brands to private label. As you know, we're a supplier of private label, so that's part of our business. We participate in that growth as well. And I'll just add that although there's certainly an impact on all brands from the growth of private label, we actually think that the smaller brands are being disproportionately impacted. And if you sort of run through that Nielsen data, I think you'd see some of the smaller brands that are having an impact that's proportionately bigger than us. Mike, do you want to take the second?

Michael R. Smith - McCormick & Company, Incorporated - CFO and EVP

Yes. On the tax question, Rob, we're still calling for 28% tax rate for the year. Year-to-date versus prior year, we're around the same tax rate, 26%, due to those discrete tax items, as we mentioned. We've adopted this new accounting for equity awards, which is introducing a lot more variability to the timing of that. And our underlying tax rate, as we've talked the past, is 29% to 30%, with some of these discrete items for the year driving it down to 28%. But for the remainder of the year, unless there's other discrete tax items, we'll be in the 29% to 30% range, which would get us back to 28% at year-end. The nice thing of having a tax rate year-on-year the same year-to-date, it really gives visibility to the strong growth from adjusted operating profit line and through EPS.

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

Sure. Just a quick follow-up on the guidance I think you maintained guidance for high single-digit marketing investment growth this year. How much conviction do you have that you can -- you're going to maintain that level of growth? Because I think, in years past, we've -- you've ended up kind of easing back on that.

Michael R. Smith - McCormick & Company, Incorporated - CFO and EVP

Well -- I'll take this one, Lawrence.

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

Okay, go ahead.

Michael R. Smith - McCormick & Company, Incorporated - CFO and EVP

I mean, we moved it from high to mid to high, so we've broadened the range a little bit. Frankly, as we get into the year, we move things around. We have an active CCI program so we get more efficient at our marketing spend this year, we're getting more efficient at nonworking capital. So yes, we're still spending at higher than the rate of our sales, so we still feel like we're investing in the brands to the best of our abilities. So we're okay with our marketing spend.

Operator

The next question comes from the line of Ken Goldman with JPMorgan.
Kenneth B. Goldman - JP Morgan Chase & Co, Research Division - Senior Analyst

At your Investor Day, you commented, and I think you made a point of this, on your strength of your relationship with Amazon, right, how you’re servicing them as a top customer even before they necessarily are. I think the opposite is sort of true with Whole Foods. I don’t think you’ve ever really had a -- much of a relationship there. And correct me if I’m wrong. So I’m just wondering, is it -- and I’m sure it’s way too early to answer the question, but I’m just trying to get a sense of how you guys are thinking about it. Do you think that there’s an opportunity for you to grow your presence in Whole Foods as a result of the merger? Or is it still out of the question? I just wanted to kind of pick your brain a little bit on your initial thoughts there.

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

Thanks, Ken. That’s a great question, and of course, we are thinking a lot about the impact of Amazon -- the Amazon and Whole Foods deal on the industry as a whole, and I’m sure -- as I’m sure everybody is. And you do have it exactly right. With Amazon, we’ve got a terrific relationship. We’ve resourced them at a really high level. Actually, there’s only one customer that has a larger account team behind it, and a lot of those people have very specific skills for that channel of trade. 1.5 years ago, we were their grocery supplier of the year, and we think we have a lot of momentum. I’m sure somebody will ask it sometime on the call so I’ll just put it out there that our pure e-commerce channel business is growing at a very strong, strong rate. We did not quite hit triple digits this quarter with our U.S. business, but we’re not far off of it, so tremendous growth. But on the flip side of that, at Whole Foods, we were very underrepresented. Some of our secondary brands are in distribution at Whole Foods like kind of our regional favorites like OLD BAY, our Asian products. The Simply Asia brand and Thai Kitchen brand are well represented. But in the -- or the heart of our category, we’re pretty light. So we do think that this probably has more opportunity for us than risk, and we think we’re really well positioned based on our relationship with Amazon.

Kenneth B. Goldman - JP Morgan Chase & Co, Research Division - Senior Analyst

Okay, that’s helpful. And for my follow-up quickly, also at your Investor Day, you’ve talked pretty confidently about your desire to pursue some larger acquisitions. You called out condiments as a business that makes sense for you. Could you update us on these comments in any way? And just to follow up because, last year, I know this was the case on Premier Foods, were there any abnormal charges related to M&A this quarter like you’ve had with Premier Foods? Just trying to get a sense of your thoughts on that matter, if you could.

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

Sure. Well, I’ll say that we have a robust pipeline of acquisition opportunities, but I really don’t want to say any more than that at this point. Mike, do you want to comment...

Michael R. Smith - McCormick & Company, Incorporated - CFO and EVP

Yes. From an acquisition cost perspective, yes, we did have some significant costs in last year’s second quarter for Premier Foods. We have an underlying base of acquisition costs that flow through the company now as we’ve upped our game on the M&A side. We also, though, have had more integration costs in the second quarter compared to last year from Giotti, so not much of a savings year-on-year.

Operator

Next question comes from the line of Alexia Howard with Bernstein.
So can I ask about pricing versus input cost dynamics, particularly in the U.S.? We've been hearing that pricing is particularly hard to come by at the moment, a lot of retailers getting sharper on price points. And I know you have a fair amount of input cost inflation this year, particularly in certain areas. How easy is it to take and hang on to the price increases that you need to cover that? And are you the right way up in terms of the gap between the pricing you’re able to take and the input cost pressures that you’re seeing this year?

Alexia, I’ll start this and talk about the pricing, and I’ll let Mike speak to the input cost half of the question. On pricing, we did take pricing action in the U.S. earlier this year. I’ll -- and so that has been really fully in place for the whole second quarter. We’ve got a partial benefit from that in the first quarter. It was pretty narrow -- it was narrowly focused, but large increases on certain items due to the underlying commodity cost. And so things like vanilla, we took some pretty big increases on, and we also had some larger increases on garlic items in the first part of the year. We are planning another round of increases on vanilla, reflecting the continued increase in the cost of that commodity. So those are -- those increases are going into effect now. You didn’t ask about the rest of the world, but I’ll just tell you that we also took pricing action more globally. And so we did take increases in Europe as well. Those increases really were not effective until well into second quarter, so in the year-to-date, we’ve got relatively little impact from those. So as we go forward into the second half of the year, we expect to have those fully in place, plus another, I’ll say, a minor round in the U.S. And yes, the pricing environment is, as you can imagine, difficult. We’ve got tools that we use to understand what our elasticity impact is, and we work collaboratively with our customers on taking those price increases. The discussions around pricing always have a certain amount of natural commercial tension in them, but we’ve been successful in getting all of that pricing away. Mike, you want to talk about...

Yes. And similar to last quarter, for the year, we’re saying cost increases are mid-single digit. And Alexia, you asked a question last quarter about the FX impact in the second quarter, and as you can see, it came through our gross margin, putting a little pressure there. But as we said last quarter, this is the most difficult quarter, and we see an easing over the next 6 months.

I wanted to go back to one of the questions about just the guidance in the quarter, and maybe stated a little bit differently, just want to be as clear as I can about this. So it seems like you had a nice quarter here, and you handily topped your original expectations for the quarter, so yours not the consensus one. You lowered the FX impact on the top line. You lowered your outlook for advertising spending. But there’s no change to the full year guidance, so there’s -- there’s got to be some kind of balances here to make that full year EPS number not move. Can you talk a little bit about it? Because so far I’m not clear, apologies if I should be.

I mean, our guidance range is $4.05 to $4.13, so it’s a rather large range. And as I said before, I mean, the A&P spend is a broadening out. It’s not -- it might be a couple of million dollars, so it may be just $0.01 a share. So it is not -- I don’t think we’ve really moved. FX, though, we did move on the top line from 2% to 1%, but at the operating profit line and at the EPS line, we still kept to our last guidance. It’s about a 2% impact bottom line. Remember we have an unconsolidated operation in Mexico, which is driving that with the peso devaluation. So I think we’re pretty clear on where we stand from the [present time].
Lawrence E. Kurzius - McCormick & Company, Incorporated - Chairman, CEO and President

Yes. Mike, you didn’t mention it, but the tax benefit that we got in the quarter was a benefit that we anticipated, and we talked about this at the beginning of the year. We just didn’t know the timing of that. So it doesn’t change our outlook for tax on the year. We just didn’t know what quarter that would fall into. So there really isn’t anything incremental there. I’ll just echo what Mike said, we have a pretty wide range still. It is early in our fiscal year. Our biggest quarters of the year are fourth quarter and third quarter, and so we’re still looking at the biggest part of our year ahead of us. And I think it’d be premature for us to change our -- any kind of guidance on the bottom line at this point with so much of our year still ahead of us.

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

That’s fair. That’s really helpful. Can I follow up with a longer-term CCI question? I think this is the first time you guys quantified the MGE program. And I think you mentioned it at the Analyst Day, but I don’t recall the numbers being issued at that point in time. When you bring CCI with the MGE together, do we add this on top of the $100 million per year CCI? So presumably -- I know MGE it’s a episodic program. It’s -- in year 3, it’s $30 million to $40 million. So do we just add it on top of it and it’s in addition to the typical $100 million in CCI?

Michael R. Smith - McCormick & Company, Incorporated - CFO and EVP

I mean the way I think of it is -- programs like this, our CCI initiatives, efficiency programs such as this, whether they’re in the plants or other areas -- when we set out our program at CAGNY last year, and remember we’re only about 1.5 years into this and setting that $400 million target, you don’t have line of sight to every program that you’re going to have 3, 4 years down the path. So at this point, while we’re very happy with the early indications on CCI, we’ve overdelivered last year’s $100 million target and we feel real confident about this year’s, I wouldn’t necessarily say it’s going to be additive at this point. That’s something -- we get midway into the 4-year cycle, and think we’d take another -- a hard look at whether things like this could be additive or not. But I’d say at this point, because it is such a program that goes through 2019, I consider it part of the $400 million, if you’re modeling into that right now.

Operator

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

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

I just wanted to follow up on Ken’s question earlier as it relates to Amazon and their pending acquisition of Whole Foods. You guys are the leaders, I would say, in the food space in the e-commerce side. I know you’ve received quite a few awards. I’m not sure how much investors appreciate that. But in any event, can you -- I don’t know if you mentioned what you think the implications of that are for the overall industry. There’s -- obviously, there’s a view that prices across the board are going to come down, and private label penetration broadly is going to go up. And you are seeing coincidentally an increase in private label penetration in your categories. So I know you talked about Amazon. We know it’s really a solid business for you, growing almost triple digits. But can you give us -- and if I missed it, I’m sorry, but just broader implications and talk a little bit about price impact and private label for your categories and how you see that playing out as a result of this?

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

Well, again, I’m just going to go back to say that we really believe that we are well positioned. When you look at our consumer business, the part that is really impacted is the Americas consumer. That’s -- about 40% of our total sales as a company is in the Americas consumer part of the business. And again, we think we’re just -- we ourselves are doing the right things to address this. But the industry as a whole -- I mean, I think that the trends that we already as an industry acknowledge are -- if anything, they’re just either confirmed or maybe even accelerated by this. There is a move to
e-commerce by the consumer. Companies that aren’t acting on this, I think, are going to have problems down the road. There -- for us, it says that -- it’s telling us we’re doing the right thing by over resourcing this class of trade and continuing to build a sales channel with the pure-play e-commerce customers. And to -- and to continue to work to market our product directly to the consumer with the great digital, social and mobile marketing programs that we have. We just don’t believe that consumers long term are going to shop much differently for their food than they do for other things. And we look at consumer shopping behavior broadly, and there’s no doubt about it, it involves e-commerce as a big and growing part of it. It probably does put pressure on our retailer customers to consolidate further and work to differentiate themselves to be as competitive as they can be with this channel. Most of the smart traditional retailers have e-commerce programs of their own to try to continue to capture the shopping behavior -- the changing shopping behavior of their consumers with different kinds of click-and-collect programs and so on. And we do participate and support those programs with those retailers. We don’t count that when we talk about our e-commerce business, though. Is that getting at your question, Akshay?

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

Yes, it’s definitely helpful. If you can maybe touch on the private label piece, that would be helpful. And I just had -- the second question I had was on MGE. Can you give us some sort of real-life anecdotal examples of what this will fix in terms of speed to market? Maybe you can look back and say, "Well, we did this historically and we now expect X to happen." Just some -- the cost-saving numbers, you did a great job outlining exactly what those are. But this is really about getting more agile and efficient, right? And so can you give us some anecdotal evidence or some examples of what you expect will happen when this is fully in place?

Michael R. Smith - McCormick & Company, Incorporated - CFO and EVP

Yes. Actually, this is Mike. I mean, if you think about a company like ours, which has grown up really regionally, so we have 3 regions. Over time -- we put in SAP 15, 17 years ago, over time. So processes have developed at different levels. What we’ve been trying to do -- and MGE will be a continuation of building our shared service foundation that we started in the U.S. about 15 years ago and expanded more into Europe in the last 3 or 4 years. If you can get your processes aligned, you can do things like new product introductions faster. So I would say things like that. You could have a more unified -- you’ve got a customer service that acts quicker because it might be in one region supporting the whole region as opposed to -- into 5 different time zones. So there’s things that -- as you do things one way, you can be more efficient and you can service your customer much more effectively. And you could -- as our customers are more global now -- we service big industrial customers around the world. It’s important to make sure, as they’re global, we service them -- we have one face to them.

Operator

Our next question comes from the line of Rob Dickerson with Deutsche Bank.

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

Just a couple of hopefully easy questions. So in the first half of the year, I believe inclusive of currency, I think operating income looks like it’s growing -- or it’s grown maybe 6%. So just kind of I’m curious. What do you see as the core drivers of an accelerating operating profit growth in the back half of the year to get to you to the 8% to 10% that’s not changing, a.o. [amongst others], off of what you put out this morning? And I don’t know if part of that is because of slightly lower -- like you said, like a little bit slightly lower other brand investment or it’s just because this is the peak of the higher cost cycle really in Q2 and would that just ease in the back half?

Michael R. Smith - McCormick & Company, Incorporated - CFO and EVP

Yes. Rob, this is Mike. No, you hit the main driver on the head. We did say that the second quarter would be the high point of the FX transactional impact. We see that easing into the second half. You heard Lawrence also say some of the additional pricing actions we have globally that will kick in fully in the second half. And as we said on the last call, our CCI this year was somewhat back loaded versus 2016 where it was a little more front
loaded. So those 3 positive trends as well as the really strong new product platforms and products that Lawrence mentioned are going to help drive both the top line and the bottom line.

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

And I'll also just mention that the sales growth, of course, is stronger in the second half than in the first. First half is muted by the first -- really by the first quarter, where there were a number of factors that came into play that we thought were temporary in nature. That's actually proven to be the case. We're sitting here this quarter with over 7% constant currency sales growth. And that gives us -- that strong top line is performance we expect to continue, and so that gives us a lot of confidence in the second half operating profit.

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

Okay, great. And then just in terms of pricing -- I know a few people have touched on this, this morning and we probably all touched on this over the past month or so with respect to just the overall grocery environment and what's happening in food pricing and arguments around inflation versus deflation, cost versus retail pricing, et cetera. So I'm just curious how your experience was with the retailers in general in getting the pricing that's coming through now, namely in the U.S. Kind of relative to history, was it a little bit harder, or it was no problem at all, they're happy to take your pricing? Even though a number of other companies in the space are saying maybe it is a little bit harder now to get that incremental price or not getting as much pricing as expected, but for you, it seems like everything's fine.

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

Yes. I'm not going to say everything's fine. Getting pricing is not easy. If we were trying to go out there with a blunt-force broad price increase the way people did it in the old days, I'd say we'd have a lot of trouble with getting that through and with our customers. We have done a lot of work over the last several years around price elasticity and category analytics. When we -- and our price increases really not just this -- not this year but last year, the broader price increases that we took were really quite well supported by data and involves -- while we got net price increases, some items went up, some items went down. It did result in a net increase to us, and it was a rational case that could be presented to retailers. Now this year, our pricing action has really been driven by the underlying commodities and has been fairly narrow and narrowly focused on the items that are big movers. Again, the biggest impact has been vanilla, where there's a well-recognized worldwide shortage of vanilla. Our retailers are experiencing price increases on vanilla not just from us but from all suppliers, when suppliers have supply to even offer. And so the situation on vanilla has been relatively unique to that commodity and maybe makes McCormick a little bit of a special case on this.

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

Okay, great. And then just one last question in M&A. I think you've pointed to -- I don't know publicly, but, I mean, I know you've spoken to a number of investors about it. You've kind of pointed to kind of sizing a potential acquisition at, I don't know, let's call it, 30% kind of max or so of market cap and that's a -- and correct me if I'm wrong, which is essentially in line with some of your larger transactions historically. So kind of, one, just thoughts around that. And then, two, you bid on Premier previously, which, obviously, has a decent amount of U.K. exposure and then kind of since then, we've seen the pressures that are coming through in the U.K. and kind how they're hitting results now in this quarter. So I'm just wondering, in terms of kind of acquisition-focused perspective, is the thought process the same now as it was a year ago? Or is there -- maybe a little bit -- shifted a little bit more back to the U.S. and more emerging market? Or is Europe still interesting? Just any color on that would be great.

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

Sure. Well, I'll [indiscernible] say that we have a robust pipeline of acquisition opportunities. We always bring a financial discipline to the work that we do in this space. And so as part of that financial discipline, we build a business model, and that reflects the -- not just the kind of the modeling elements around financing but also the prospects for the business and the objective attractiveness of the market in which it's operating. And so all of that would be factored in. We have said that we have a broader and bigger ambition for acquisitions, and that is still the case. And we -- and
as far as size goes, we've said that we'd be willing to -- and we've demonstrated a willingness in the past to stretch to acquire important strategic assets, and that would continue to be the case. But I don't really want to get too specific about anything beyond that right now.

Operator

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

Christopher Robert Growe - Stifel, Nicolaus & Company, Incorporated, Research Division - MD and Analyst

So just a couple of quick follow-ups from earlier questions. I guess I wanted to make sure I was clear that when I look at the gross margin performance in the quarter, it was a little weaker. We talked about some translation effect. I want to also be clear, is cost inflation about the same? You talked about an increase in -- another round of pricing coming through in some areas. Is that due to incremental inflation that's affected your outlook there?

Michael R. Smith - McCormick & Company, Incorporated - CFO and EVP

Yes. This is Mike, Chris. The -- for the full year, we still see the mid-single digits. There are pockets of ups and downs that we are taking care of through either trade promotions or taking more pricing on certain commodities, as Lawrence mentioned. But for the full year, we still feel good about that mid-single-digit range. From a timing perspective, the transactional -- you see the translational impact. Year-to-date, it's about 2.5%, which we call out for constant currency purposes. But underlying transactional, I mean the first half of the year, post Brexit, you saw what the pound, the euro did. That really makes it a hard year-on-year comparison, that first half of the year as we're -- as our foreign units are buying in U.S. dollars these spices and herbs. So we see that easing a lot in the second half, and that's going to contribute to our gross margin being up on a year-on-year basis in the second 6.

Christopher Robert Growe - Stifel, Nicolaus & Company, Incorporated, Research Division - MD and Analyst

Okay. Great. And then I just wanted to be clear also on the Global Enablement program. Did I hear that right that you said -- is that just part of the CCI savings overall? Is that the way that falls into that bucket?

Michael R. Smith - McCormick & Company, Incorporated - CFO and EVP

Yes. I would consider at this point -- we're only 1.5 years into the $400 million program, so yes, I would consider it at this point within there.

Christopher Robert Growe - Stifel, Nicolaus & Company, Incorporated, Research Division - MD and Analyst

Okay. And I had just one quick follow-up, which would be in relation to marketing. And can you say how much marketing was up year-to-date? I'm just trying to understand if you're kind of tracking along to the mid- to high single-digit increase for the year. And forgive me if I didn't hear that properly.

Michael R. Smith - McCormick & Company, Incorporated - CFO and EVP

Yes. I mean, on a reported basis, sales were up 3 -- it's actually the same, 3.1%. And advertising and promotion is up 3.1%. Yes, we're at the rate of underlying sales growth.
Christopher Robert Growe - Stifel, Nicolaus & Company, Incorporated, Research Division - MD and Analyst

So that to accelerate in the second half of the year then?

Michael R. Smith - McCormick & Company, Incorporated - CFO and EVP

Yes. And we do have some investments in the grilling program. You might have seen some of our grilling TV already in the U.S.

Operator

We have time for one additional question this morning, which will be coming from the line of Adam Samuelson with Goldman Sachs.

Adam L. Samuelson - Goldman Sachs Group Inc., Research Division - Lead Analyst

A lot of ground has been covered, but maybe a question in the industrial business and really a question kind of the operating leverage there. I mean you had some pretty strong organic sales growth with a very nice contribution from volumes, but really no EBIT margin leverage. You also had contribution from Giotti, which I would presume should have a better-than-average margin structure than your base business given its focus. And I'm just trying to think about the operating leverage kind of potential in industrial as you seem to have a good top line cadence here but not seeing that really translate on the operating margin aside.

Michael R. Smith - McCormick & Company, Incorporated - CFO and EVP

Adam, this is Mike. I mean, the gross margin impacts really hit industrial hard. I mean, we have large European operations primarily -- a lot of manufacturing in the U.K., for example. So in the second quarter, the impact was significant on them.

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

It wasn’t -- gross margins it’s currency transactions.

Michael R. Smith - McCormick & Company, Incorporated - CFO and EVP

Oh yes, gross margin -- because of the currency transaction, sorry. From a Giotti perspective, we love that business, and -- but as I mentioned before, we have integration costs in the first 6. So that -- we've said, for the year, there should be no impact overall, but for the first 6, we've had to integrate that business. That's a little bit of a drag on the gross margin in industrial at this point.

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

And I know we've hardly talked about Giotti at all on this call or in our remarks, but I'll just add that with our experience it's been these acquisitions that we've done in the industrial space that have brought new technology into the business and new capabilities and, in particular, new flavors talent have proven to be really great adds, just as Giotti is going to be a tremendous contributor to the growth of our flavor business in Europe and Asia.
Adam L. Samuelson - Goldman Sachs Group Inc., Research Division - Lead Analyst

And maybe just a little bit of color on the top line, the volume growth that you talked about. I think you alluded to some new snacking wins in Latin America. But any view on the top line, the ability to sustain that kind of mid- to upper single-digit organic growth range in the business for the balance of the year?

Michael R. Smith - McCormick & Company, Incorporated - CFO and EVP

Yes. I mean, for the full year, just like we have for the whole business, each of the segments, we think, are going to be 5% to 7% constant currency growth. You’ll have ups and downs, and especially in industrial, new product launches of our customers ebb and flow. But to have -- really, we have broad-based growth across industrial this quarter, with North America up 8%, Europe was up 10% underlying growth, which is great. But again, you have -- it is a little bit variable, so you have to be cognizant of that.

Operator

I’ll now turn the floor to Lawrence Kurzius for closing remarks.

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

Great. Thanks, everyone, for your questions and for participating in today’s call, and my apologies to the callers that we didn’t get to today. Kasey Jenkins will be available to take your questions all day long. She is delighted to, as a matter of fact.

McCormick is a global leader in flavor, a growing and advantaged business platform. We’re continuing to capitalize on the global and growing consumer interest in healthy, flavorful eating, the source and quality of ingredients and sustainable and socially responsible practices. We’re allied with the increased demand for great taste and healthy eating, and we’re confident in our growth plan. With a steadfast focus on growth, performance and people, we’re building value for our shareholders, and we’re well positioned to deliver strong financial results in 2017.

Kasey Jenkins

Thank you, Lawrence, and thank you to everyone for joining us today. If you have any further questions regarding today’s information, please give us a call at (410) 771-7140. As Lawrence indicated, I will be delighted to take any questions today. And this concludes this morning’s conference.