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EDITED TRANSCRIPT

MKC - Q4 2017 McCormick & Company Inc Earnings Call

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OVERVIEW:

Co. reported 4Q17 income from unconsolidated operations of \$10m and adjusted EPS of \$1.54. Expects 2018 sales, including estimated 1 percentage point favorable impact from currency rates, to grow 12-14% and GAAP EPS to be \$6.89-7.14.



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PRESENTATION

Kasey Jenkins

Good morning. This is Kasey Jenkins, Vice President of McCormick Investor Relations. Thank you for joining today's fourth quarter earnings call. To accompany this call, we've 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 margin, adjusted operating income 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 impact associated with the recently enacted U.S. tax legislation 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 statement, whether because of new information, future events or other factors. As seen on Slide 2, our forward-looking statements also provide 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.

Our fourth quarter 2017 capped another year of record financial results with strong core business performance and the incremental impact of acquisitions. Our broad global flavor portfolio continues to drive growth and differentiate McCormick. We exceeded each of our key financial targets in 2017, delivering double-digit growth rates in sales, operating income and adjusted earnings per share. We achieved substantial cost savings, expanded adjusted operating margin and delivered our sixth consecutive year of record cash flow. Our sales growth and focus on profit realization



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drove excellent financial results across both our consumer and industrial segments and reflects the effectiveness of our strategies and engagement of employees around the world.

McCormick's business platform is growing and advantaged. Across all regions and categories, as seen on Slide 5, McCormick is flavoring food and beverages. You probably enjoy something flavored by us every day no matter where or what you choose to eat. This morning, you'll hear about our 2017 accomplishments, which were driven by successes spanning the portfolio.

Our sales growth in flavors, organically and through our Giotti acquisition, continue to shift our portfolio to more value-added products. We further strengthened our flavor leadership, expanding condiments and sauces as well as branded foodservice with the RB Foods acquisition. Our investments in new products, brand marketing, capabilities and infrastructure drove growth across several categories, including U.S. spices and seasonings, where we significantly increased our product innovation versus recent years. Heading into 2018, I am confident our momentum will continue.

This morning, I will begin with our fourth quarter results, reflect on our 2017 achievements, provide an update on our RB Foods integration and then share with you some of our 2018 business plans. After that, I'll turn it over to Mike who will go in more depth on the quarter-end results and the details of our 2018 financial guidance.

Let's start with our fourth quarter results on Slide 6. On our third quarter call in September, I said we were well positioned heading into our last quarter to deliver an excellent FY 2017. This is now evident in our results as our growth momentum continued into the fourth quarter. In constant currency, we grew sales 20% for the total company with strong results in both segments. Base business growth, new products and acquisitions, our 3 drivers of long-term sales growth, were all contributing factors. Incremental sales from our acquisitions, RB Foods and Giotti, contributed 15%.

In our consumer segment, we grew sales 18% in constant currency, led by incremental sales from RB Foods. Our consumer base business, excluding RB Foods, achieved nearly 5% constant-currency growth with increases in each of our 3 regions in the fourth quarter.

In the Americas, we continued the sequential improvement of our growth rate excluding acquisitions versus prior quarter's performance. This was led by strong base sales growth in the U.S. across both the branded portfolio and private label. Our U.S. IRI data indicated strong fourth quarter category growth for spices and seasonings at 6.5%. During the same period, McCormick's U.S. branded spices and seasonings grew 4%. Our holiday season has been impacted by a large retailer's decision to convert a control label to private label, along with related promotional and merchandising actions. The environment remains dynamic, and we continue to work with our customers to optimize category performance.

Additionally, as in the past quarters, we have had strong growth in unmeasured channels. Overall, we continue to see good growth in our spice and seasoning brands in the U.S. market and know that we have more room to grow. In a few minutes, I will briefly comment on our 2018 growth plans with more detail being provided in a few weeks at CAGNY.

In Europe, Middle East and Africa, the EMEA region, consumer sales returned to growth as we fully lapped the impact versus a year ago of a large U.K. retailer's reduction of shelf space for food products. And in our French branded business, Ducros and Vahine sales increased. In the Asia/Pacific region, our strong sales in China led consumer segment growth in addition to continued momentum from India.

Turning to our industrial segment. We grew sales 23% in constant currency, with incremental sales from RB Foods and Giotti contributing 17%. Our industrial base business, excluding acquisitions, achieved 6% constant-currency growth. The base growth in all 3 regions benefited from higher volume and more favorable product mix.

In the Americas, we increased sales of snack seasonings and continued branded foodservice growth as well as driving a double-digit increase in savory flavor products not only for the quarter but for the full year as well. Savory flavors from Brand Aromatics continued to deliver excellent results. In our EMEA and Asia/Pacific regions, we continue to win with our customers through new products and promotional activities, particularly with quick-service restaurants.

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We have not only been focusing on sales growth but also profit realization to drive additional adjusted operating income growth and adjusted operating margin expansion. With our higher sales, cost savings led by our Comprehensive Continuous Improvement program, CCI, and our portfolio shift to more value-added products, we grew the fourth quarter's adjusted operating income 36% in constant currency and our adjusted operating margin expanded 220 basis points. Both segments contributed double-digit adjusted operating income growth and triple-digit basis point expansion in adjusted operating margin.

At the bottom line, our fourth quarter adjusted earnings per share of \$1.54 was 21% higher than \$1.27 in the fourth quarter of 2016. Our strong growth in adjusted operating income and the lower 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.

Moving from our fourth quarter results, I'm delighted to share our performance for the fiscal year, starting with our excellent financial results. As I indicated, we achieved growth rates that exceeded each of our long-term financial goals, which are to grow sales 4% to 6%, adjusted operating income 7% to 9%, both in constant currency, and to grow adjusted earnings per share 9% to 11%. We drove a 10% constant-currency sales growth with the incremental sales from our acquisitions of RB Foods, Giotti and Gourmet Garden contributing 6% of this growth. I'm pleased to highlight that our base growth was up 4%, which is within our long-term objective even without the benefit of acquisitions.

Our consumer segment sales grew 8% in constant currency, led by the RB Foods and Gourmet Garden acquisition impacts as well as base business increases driven by the U.S. and China. Constant-currency sales growth in our industrial segment was an exceptional 14%, with RB Foods and Giotti driving 8 percentage points. All 3 regions delivered industrial base growth at the high end or above our long-term sales objectives.

We grew adjusted operating income 21% in constant currency versus 2016. This increase, offset partially by higher interest expense, drove a 13% growth in our adjusted earnings per share to \$4.26 for fiscal 2017. And this adjusted earnings per share comparison included the impact of unfavorable currency exchange rates versus last year. Led by our CCI program, our fuel for growth, we reached a record \$117 million of annual cost savings and are well on our way toward reaching our 4-year \$400 million goal, having realized \$226 million in the past 2 years. These savings continue to fuel our investments in brand marketing and new products and contribute to margin expansion.

With higher sales, CCI and our portfolio shift, we increased our adjusted operating margin to 16.3%, which is a 140 basis point expansion from last year. We expanded this margin in both of our segments, hitting record-high margins in each. Our progress in our industrial segment is noteworthy as we continue to see positive results from our margin improvement strategy, migrating our portfolio to more flavors and branded foodservice, which, combined with CCI, lifted the adjusted operating income margin for our industrial segment to 11.9% for the year. In the last 3 years, we've grown our industrial adjusted operating income 66% and expanded operating margin by 360 basis points.

2017 was the sixth consecutive year of record cash flow from operations, ending the year at \$815 million. We're making great progress with our working capital improvements and expect the programs we've put in place will continue the momentum into 2018. And at year-end, our Board of Directors announced an 11% increase in the quarterly dividend, marking our 32nd consecutive year of dividend increases. We have paid dividends every year since 1925 and are proud to be a dividend aristocrat.

Now I'd like to comment on some of our 2017 achievements beyond our financial performance. We refreshed McCormick's vision and mission and launched 5 principles, as seen on Slide 8, to keep our culture contemporary and enhance our competitiveness. Simply put, we want to bring the joy of flavor to life and make every meal and moment better.

The integration of our Giotti acquisition went extremely well and is now completed. We're delighted with not only Giotti's sales and profit performance but the overall impact it has had on our industrial segment. Giotti has expanded our flavor capabilities in the EMEA region and further broadened our portfolio with complementary products, natural flavors, aromatic herbal extracts and concentrated juices. It has also provided us with opportunities with new customers and strengthened strategic partnerships with our global customers. This acquisition has exceeded our expectations thus far.

Our industrial segment's exceptional results in 2017 not only benefited from Giotti but also from strong broad-based business performance. Our range of flavor solutions for our industrial customers is one of the broadest in the industry, as evidenced by product development that has been the significant driver of our 2017 industrial sales growth. As our customers move their portfolios toward natural, organic, clean label and better for



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you, 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 competitively differentiates us and is valued by our customers.

Along with our innovations, our customer intimacy is driving growth. For instance, as of 2017, we have won global flavor supplier status with 9 large packaged food and beverage companies, an increase of 6 companies over the last 3 years. We continue to win with new and existing industrial customers, and it is across all categories and applications.

A key driver of sales growth was our brand marketing, which reached a new high of \$276 million, up 39% over the last 5 years and 10% over 2016, including the incremental impact of RB Foods. As we shared on our September earnings call, our leadership in this area was rewarded again in 2017 with recognition as a top 3 brand by L2 Research on their Digital IQ Index. This marks our fourth consecutive year on the top 5 ranking of food and beverage brands on the effectiveness of our website, digital and social media as well as our advances in the rapidly growing e-commerce channel. Our investments in content development and dedicated resources to build our e-commerce business are paying off. In pure-play e-commerce, which is an important developing part of our business, we grew sales 67% globally in 2017, with double-digit growth rates in each region.

In the product development area, we've partnered with a leading artificial intelligence technology firm. Computational creativity using advanced analytics and machine learning combined with our unparalleled repository of consumer preference data will differentiate McCormick and allow us to accelerate new product development with new perspectives and thus, increase our value to our customer. We will share more about this at CAGNY in February.

New products remain integral to our sales growth, with 9% of 2017 sales from product launches in the last 3 years. For our consumer segment, we are excited about our 2017 launches and the momentum they are gaining, including the introduction of our breakfast platform, increased spice and seasoning new products and expanding our organic and non-GMO offerings as well as condiments, gravies, stocks and broths. Sales growth from new products continue to be particularly strong in our industrial business and driven in part by our successful work at the intersection of health and flavor. This year, over 60% of our new product briefs for U.S. industrial customers had some type of health and wellness attribute, which is up from approximately 50% last year.

In 2017, we increased our capacity to support our growth in the Asia/Pacific zone and are continuing to do so in 2018. We completed the construction of a new larger facility in Shanghai to accommodate our growth in China. In Singapore, we opened a new regional headquarters and Technical Innovation Center, which allows us to further focus on customer intimacy and make our company's technology fully available to our customers in this region. We also begun construction in Thailand on a new regional manufacturing facility to expand both production capacity and capability to support both segments' growth in Southeast Asia.

We continued to work on strengthening our organization with a cultural shift to faster decisions, more personal accountability and actionable insights. In 2017, we announced our Global Enablement organization. This organization is reinventing our business processes and executing a step change in working globally and cross-functionally. The result will be simpler, more standardized and efficient global processes to provide a platform to grow while realizing the advantage of our scale.

And we're making measurable progress toward our 2025 sustainably goals. Just a few days ago, McCormick was recognized by Corporate Knights in their 2018 Global 100 Most Sustainable Corporations index, ranking #1 in the food products industry. Also during 2017, we were recognized as a DiversityInc top 50 company for the first time. This recognition is a testament to our continued emphasis on embracing and leveraging diversity and inclusion globally.

This past year, we also had 2 new members join our Board of Directors: Gary Rodkin, former CEO of ConAgra; and Tony Vernon, former CEO of Kraft Foods. Both bring deep consumer product industry expertise and further strengthen the impressive group of leaders that comprise our Board of Directors.



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And finally, in 2017, with our acquisition of RB Foods this past August, we reinforced our focus on growth and strengthened our flavor leadership with addition of the French's and Frank's RedHot brands to our global portfolio. These flavorful category-leading products with their simple high-quality ingredients fit perfectly within McCormick as we continue to capitalize on the growing consumer interest in healthy, flavorful eating.

Now let me move on to provide you with an update on the RB Foods integration. Our integration of the business has been progressing well. In the last 4 months, since our update on our September earnings call, we've continued to drive plans to capitalize on the growth and synergy opportunities. Starting with synergy opportunities. We're on track with our plan for \$50 million of cost synergies, with the majority expected to be realized by the end of 2020. We're very pleased with our momentum for identifying and capturing the opportunities and, in fact, are pacing a bit ahead of our original synergy target for 2018.

From a supply chain perspective, logistics and customer service, we fully integrated the U.K. business ahead of schedule, enabling us to address customer service issues. And in just a few days, February 1, we will have the Americas business fully integrated into our SAP platform and business processes. This includes supply chain, manufacturing, logistics and customer service as well as finance, human relations and information technology services. With this integration, we will be closing the Chester, New Jersey location, which was the RB Foods headquarters, on March 31. I'm also very happy to share that in the fourth quarter, due to our strong cash flow, we made a \$250 million prepayment on our 3-year term loan, secured as part of the acquisition's financing.

From a commercial perspective, we've progressed in our alignment of the organizations to create a stronger, focused team to quickly deliver on opportunities and aggressively drive growth. In doing so, we retained the RB Foods sales team and product expertise. Our integrated commercial organization now enables us to further capitalize on opportunities to drive growth through the combination of the knowledge of the RB Foods sales members and McCormick's experience, tools and capabilities.

In our Americas consumer business, we increased sales coverage through dedicated category focus. We now have 2 focus teams, one dedicated to spices and seasonings and one to condiments and sauces. We've also extended our category management efforts and resources to the Frank's RedHot and French's portfolio. Focusing the expertise of -- on each of these categories increases customer intimacy and insight. With the integration of French's into our Americas industrial business, our branded foodservice team expanded to include dedicated teams to focus on national accounts, specialty channels, cash and carry and e-commerce and distributors. This also enhances our level of customer intimacy and engagement. Across North America, we believe these combined and expanded teams will be a key enabler to our sales growth.

In Latin America, we completed the transition of the previous Mexican RB Foods distributor to our Mexico joint venture partner, a leader in the food industry in that region. In the fourth quarter of 2017, both Frank's RedHot and French's consumption was impacted by the previous owner's planned reductions in trade support and promotional activities, and we expect some minor impact from the February 1 cutover to our systems, which is reflected in the guidance you'll hear in a few moments.

As we move into 2018, we're excited about the brand marketing programs we are planning, the many growth opportunities across our now even broader portfolio and the impact of applying McCormick's consumer insight, innovation expertise and category management strategies to French's and Frank's. We not only look forward to results of those efforts but also sharing depth on those plans in a few weeks during our CAGNY presentation.

In summary, we're pleased with our progress so far and the early results from the RB Foods business. Since August, we've operated under a transition service agreement, with the seller still providing certain services. As we near the end of this agreement, we're eagerly looking forward to taking complete control of the operations and realizing the full impact of our strategies to drive further results. Our enthusiasm for this acquisition and our confidence that the combination of our powerful brands will drive significant shareholder value only strengthened in the fourth quarter. We're well positioned to capitalize on the opportunities for growth and cost savings.

Our investments and achievements in 2017, our effective growth strategies and our strong momentum all bolster our confidence in delivering another strong year of growth and performance at McCormick in 2018. Mike will go over our 2018 guidance in greater detail in a few moments, but I will mention a few highlights related to our sales growth and business plans. We expect to again increase sales at a rate ahead of our long-term 4% to 6% constant-currency objective, driven by the incremental impact of the RB Foods acquisition, our base business and new products.



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At the foundation of our sales growth rate is a rising consumer demand for flavor. We are 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 effective strategies, enables us to drive sales growth.

Across our consumer segment, we're also differentiating our brand and building capabilities. In 2018, we will continue to drive sales through additional investments in brand marketing, category management, analytical capabilities and, of course, new products. New product innovation is an important way to differentiate our brands and drive growth. Our plans include: strengthening our spices and seasonings leadership through packaging innovation, expanding our organic range even further and innovation in new flavors and varieties.

In 2018, we will also continue to drive growth globally through e-commerce, including pure play, brick-and-mortar customers and direct-to-consumer. We'll be making further investments to drive content, expanding resources to support acceleration in developing programs and items tailored to this channel. I'm also pleased to share that just a few days ago, we've launched our direct-to-consumer e-commerce platform in China.

Across our industrial segment, the migration of our portfolio to more technically insulated and value-added categories will continue in 2018 with the opportunities gained from the Giotti acquisition, the rapid growth across other flavor categories such as in savory products, and in branded foodservice, we also expect to realize further results against this strategy, including the impact of Frank's RedHot and French's and our branded foodservice business. Our industrial plans in 2018 also continue to capitalize on our food-first approach, our deep understanding of food and the use of natural ingredients like herbs, spices and extracts. This approach differentiates us with customers as they move their portfolios to more natural, better for you and organic products while ensuring that taste is not compromised.

With this foundation, our customer intimacy and our expanded global supplier recognition, we expect to continue our new product momentum. We're also continuing our groundbreaking work in computational creativity to accelerate our development of consumer-preferred flavors.

We're looking forward to sharing more details regarding our 2018 sales growth plans and market dynamics in just a few weeks at CAGNY.

Beyond our strategies to drive sales growth, we will continue to focus on profit realization. We plan to achieve sales growth, adjusted operating income growth and adjusted earnings per share growth all ahead of our long-term objectives. Mike is now going to provide more details on our financial guidance and additional remarks on the financial results for the quarter. Before I turn it over to him, let me summarize on Slide 12.

2017 was a milestone year for McCormick. We achieved record financial results driven by both strong core business performance and acquisitions. The RB Foods acquisition was made from a position of strength. With a broad and advantaged portfolio, our base business results continue to differentiate McCormick, even more so now with contributions from French's and Frank's RedHot. We're driving strong momentum with our strategies to grow sales balanced with our work to lower cost, to build fuel for growth and higher margins.

Our success is driven by our people, our best and brightest asset as we bring the joy of flavor to life. I want to recognize McCormick employees around the world and thank them for their efforts and engagement. Looking forward, with this engagement, our effective strategies and momentum, we are well positioned to deliver another strong year in 2018.

Thank you for your attention, and it is now my pleasure to turn it over to Mike.

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

Thanks, Lawrence, and good morning, everyone. As Lawrence indicated, our fourth quarter financial results were a strong finish to the year. I'll begin with some additional perspective on these results and discuss in more depth our 2018 financial guidance.

On a constant-currency basis, we grew sales 20%. Acquisitions, pricing taken in response to higher material costs and higher volume and product mix each contributed to the increase, as seen on Slide 14. In constant currency, both our consumer and industrial segments delivered strong top line growth. The consumer segment grew sales 18% in constant currency, with increases in each of our 3 regions. Our acquisitions of RB Foods



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contributed 14% of the sales growth. The combined growth from pricing, volume and product mix improved sequentially from the previous quarters in 2017.

On Slide 15, consumer segment sales in the Americas rose 24% in constant currency versus the fourth quarter of 2016, with 19% of the increase from the acquisition of RB Foods. The remaining increase was driven by pricing, new products and expanded distribution, with growth achieved across the branded portfolio as well as in private label.

EMEA consumer sales increased 2% in constant currency. The sales growth was led by the acquisition of RB Foods as well as Ducros and Vahine. Additionally, as Lawrence mentioned, we returned to sales growth in the U.K. as we lapped the impact versus a year ago of a large retailer's reduction of shelf space for food products.

We grew consumer sales in the Asia/Pacific region 4% in constant currency. In China, sales increases were driven by the base business, including e-commerce, as well as by new products. Sales growth in India was led by improved category management and the launch of spice mixes.

For the consumer segment in total, we grew adjusted operating income 29% to \$235 million. In constant currency, adjusted operating income also rose 28% from the year-ago period. The impact of sales growth and cost savings more than offset increases in brand marketing, material costs and freight costs. And as Lawrence mentioned, we expanded our consumer adjusted operating margin compared to the fourth quarter of last year by 160 basis points.

Turning to our industrial segment on Slide 19. We had excellent results this quarter in both sales and profit, continuing our momentum from the first 3 quarters. Starting with sales growth. We grew constant-currency sales 23%, again, with increases in each of our 3 regions. Our acquisitions of RB Foods and Giotti contributed 17% of the sales growth.

We grew industrial sales in the Americas 24% in constant currency, with RB Foods contributing 19%. The remaining growth was led by sales of snack seasonings in the U.S. and Mexico, a double-digit increase in savory flavor products and continued growth in U.S. branded foodservice.

In EMEA, acquisitions, primarily Giotti, drove 22% of the 31% constant-currency increase in the fourth quarter's industrial sales. We have solid growth with both quick-service restaurants and packaged food customers. Sales growth was partially offset by the discontinuation in 2016 of a low-margin South African business.

We grew our industrial segment sales in the Asia/Pacific region 11% in constant currency. The main driver was strong sales to quick-service restaurants in China, benefiting from both new products and promotional activities.

As shown on Slide 23, adjusted operating income for the industrial segment ended the quarter up 70% at \$72 million with minimal impact from currency. This increase was driven by the favorable impact of higher sales, a shift to more value-added products and the impact of our CCI program, which led to an adjusted operating margin expansion of 370 basis points compared to last year.

For the fiscal year, we were very pleased with our industrial segment's performance, with adjusted operating income growth of 37% in constant currency and adjusted operating margin expansion of 190 basis points. As Lawrence mentioned, we reached an 11.9% adjusted operating income margin in this segment for fiscal 2017. Our strategy to migrate our industrial portfolio to more value-added products is working.

Across both segments, adjusted operating income, which excludes the transaction and integration costs related to RB Foods and special charges, rose 36% in the fourth quarter from the year-ago period with minimal impact from currency. Adjusted operating margin expanded 220 basis points from the fourth quarter of 2016. For the fiscal year, the increase in adjusted operating income in constant currency was 21% and adjusted operating margin expanded 140 basis points. In the fourth quarter, we increased adjusted gross profit margin, which excludes transaction and integration expenses related to RB Foods as well as special charges, by 180 basis points year-on-year to 45.8%. We ended the full year with a 50 basis point increase driven by product mix and CCI-led cost savings.

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Our selling, general and administrative expense as a percentage of net sales was down year-on-year by 40 basis points from the fourth quarter of 2016. Leverage from sales growth as well as CCI-led cost savings drove the decline. We realized this leverage while also increasing our brand marketing driven by the U.S. and China as well as absorbing increased freight costs driven by constrained carrier capacity. We expect the elevated level of freight to continue into 2018. Below the operating income line, interest expense increased \$31 million in the fourth quarter from the year-ago period, primarily driven by the debt secured for the RB Foods financing.

Turning to income taxes on Slide 25. The tax rate on an adjusted basis this quarter was favorably impacted by discrete tax items and was 26.2% compared to 29.1% in the year-ago period. For the full year, our adjusted tax rate was 26.1% compared to 26.0% in fiscal 2016.

Income from unconsolidated operations was \$10 million compared to \$12 million in the fourth quarter of 2016, which included an impact from special charges attributable to minority interest in our joint ventures. Excluding this impact, both the fourth quarter and full year performance was comparable to 2016. We were pleased with this result for the fiscal year given the significant currency headwind for our joint venture in Mexico. For 2018, we expect our income from unconsolidated operations to be comparable to 2017. At the bottom line, as shown on Slide 27, fourth quarter 2017 adjusted earnings per share was \$1.54, up 21% from \$1.27 for the year-ago period, mainly due to higher adjusted operating income and a lower income tax rate, partially offset by higher interest expense and shares outstanding.

On Slide 28, we've summarized highlights for cash flow in the year-end balance sheet. Our cash flow from operations ended the year at a record high of \$815 million, up from \$658 million in 2016. Working capital improvement was the main factor driving this increase. For the fiscal year, our cash conversion cycle was significantly better than the year-ago period, down 12 days, as we executed against programs to achieve working capital reductions such as extending payment terms with our suppliers and inventory management programs.

We returned a portion of this cash flow to our shareholders through dividends. Additionally, we reduced our debt in the fourth quarter by \$350 million, including making a \$250 million prepayment on our 3-year term loan, secured as part of the RB Foods financing. We finished the year with a pro forma debt-to-adjusted-EBITDA ratio of 4.5x, which was ahead of our target and positions us well to achieve our 3.0x target by the end of 2020.

Our capital expenditures were \$182 million, in line with our guidance and a step-up from prior years due to the completion of our Shanghai plant and construction in Southeast Asia to support our growth in that market. For 2018, we expect our capital spending to be approximately \$200 million, which includes the completion of our regional manufacturing facility in Thailand as well as incremental spending from the RB Foods acquisition. We expect 2018 to be another year of strong cash flow, and we have plans to return a significant portion to our shareholders through dividends and to pay down debt.

During my comments and Lawrence's, we've already shared some remarks on 2018, so let's put this all together and discuss our guidance on Slide 29. We are well positioned for another year of strong performance with our broad and advantaged flavor portfolio, effective growth strategies and focus on profit realization. As Lawrence indicated, our financial objectives for 2018 are above our long-term goals for sales, adjusted operating income and adjusted earnings per share on a constant-currency basis.

At the top line, we expect to grow sales 12% to 14%, including an estimated 1 percentage point favorable impact from currency rates. The incremental impact of the RB Foods acquisition is projected to add approximately 8% of the sales growth. We anticipate the remaining increase will be driven primarily by higher volume and product mix. Pricing is expected to have a low single-digit impact on sales growth related to the incremental impact of 2017 actions as well as moderate 2018 expected actions to offset cost increases. We expect a low single-digit increase in material costs, which, combined with CCI and strategy execution on shifting to a more value-added portfolio, leads to 2018 adjusted gross profit margin that is projected to be 150 to 200 basis points higher than 2017. We expect to increase adjusted operating income 23% to 25% from \$786 million in 2017, which includes a 1 percentage point impact from favorable currency rates. Our cost-savings target is at least \$100 million, and we are planning to increase brand marketing at a rate above our sales growth.

Our 2018 income tax rate will be significantly impacted by the U.S. tax legislation enacted late in December 2017. The most significant changes in 2018 will be to our GAAP tax rate, which will be impacted by the net favorable effect of 2 nonrecurring items: first, the favorable impact of the

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revaluation of our U.S. net deferred tax liabilities, partially offset by the unfavorable impact of a repatriation tax under that legislation. Due to the net favorable effect of these 2 nonrecurring items, we expect that our fiscal year 2018 GAAP tax rate will be negative.

We expect that our non-GAAP underlying effective tax rate for fiscal year 2018, excluding the net favorable effect associated with these 2 nonrecurring items, will approximate 24% based upon our projected mix of earnings by country in addition to our state tax rate. Additionally, I want to note that this fiscal year 2018 tax rate will not be our enduring tax rate as the legislation is not fully effective for us and other non-calendar year companies until fiscal year 2019. We expect our enduring underlying effective tax rate to be slightly higher in 2019 and beyond. Our priorities have not changed because of the impact of the new U.S. tax legislation. We continue to have a balanced use of cash, making investments to drive growth, returning cash to shareholders and paying down debt.

Our guidance range for adjusted earnings per share in 2018 is \$4.80 to \$4.90. This compares to \$4.26 of adjusted earnings per share in 2017 and represents a 13% to 15% increase. This range of growth includes an estimated 1 percentage point impact from favorable currency rates. We expect that the impact of favorable currency will be greater in the first half of the year than in the second half. For the fiscal year, we expect our higher profit and working capital initiatives to lead to another year of strong cash flow. In summary, our 2018 constant-currency outlook for sales, adjusted operating profit and adjusted earnings per share growth is projected to be above each of our long-term objectives, following record double-digit performance across each objective in 2017.

Our 2018 GAAP earnings per share range is projected to be \$6.89 to \$7.14. There are several projected 2018 adjustments which are expected to drive our GAAP to non-GAAP reconciliation: first, approximately \$23 million for integration expenses related to RB Foods, which is in line with our previous estimate; second, approximately \$18 million of special charges related to previously announced organizational and streamlining actions; and as I mentioned a few moments ago, the net impact of 2 nonrecurring items required by the recent U.S. tax legislation, a favorable \$400 million noncash impact of the revaluation of our U.S. net deferred tax liabilities less the unfavorable \$70 million to \$90 million cash impact of the repatriation tax. This net impact is expected to be a tax benefit in 2018, ranging from approximately \$310 million to \$330 million. The total net impact of these adjustments is anticipated to be a \$2.09 to \$2.24 favorable impact to our GAAP earnings per share.

And finally, before we move to your questions, let me recap the key takeaways from our remarks this morning. With our fourth quarter results, we delivered a year of record sales, profit and cash. Our results reflect the effective execution of our balanced strategy to drive both sales and profit realization, combined with the engagement of our employees around the world. Our performance continues to give us confidence in the momentum of our business and that we will have another successful year in 2018.

Operator, let's take the first question.

QUESTIONS AND ANSWERS

Operator

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

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

Okay. So just a couple of areas. There's obviously a bit of confusion, I guess, about this conversion of the control brand to private label. Could you quantify how much that might have affected the IRI numbers in terms of the consumer takeaway? And do you make the private label for that customer? And if you were to strip all that out, is your branded product in the U.S. still losing share to private labels, excluding the impact of that conversion? And then I have a quick follow-up.

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

Alexia, that -- you recently put out a note on this that I think described the situation very well. We try not to talk about specific customers. So you named the customer in that note. I'm not going to name that customer, but I think everyone will know who we're talking about. There was a major customer with whom we had a controlled-label brand that we sold exclusively to them, and they made the decision, as they have with many other brands, to convert that brand to private label. And we continue to be the manufacturer of that brand. That conversion of the brand itself reads through the data, the kind of all-channel data as big growth in private label, with a big impact on us in that all-channel data, and that's a big driver of the difference between all-channel and grocery. And if you look at the grocery portion of the market, we actually gained share in herbs and spices in the fourth quarter. But when you look at the multichannel data, we lost about 90 basis points, and that's because of that conversion with that customer. I'll just go on to further comment on that, that the conversion in itself really is not financially meaningful to us. The margin structure of the business is comparable. We're a substantial provider of private-label herbs and spices to the industry. That's a profitable business for us. And so this was neutral in that aspect. The customer did make the decision to have very strong promotion and merchandising programs for that private-label product through the holiday season. That was a detriment to both the category profitability for that customer, and to the extent that there was trade down from the McCormick brand, that was a -- that would have been a negative for us confined to that customer.

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

And then just as a follow-up...

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

I think I hit all your points there, by the way.

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

Yes, absolutely. Can I just follow up on the e-commerce in the U.S.? Should we be worried that Amazon will be focusing heavily on its 365 brand since the Whole Foods' [market] acquisition with the online side? And how profitable are your online sales in the U.S. relative to the brick-and-mortar stores? And I'll pass it on.

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

Well, again, I hate to talk about specific customers, so I'll speak to e-commerce pretty broadly. Our e-commerce growth, I think we've mentioned on the call, globally, last year, was 67%. It was very strong in the U.S. We have one of our largest customer teams dedicated to the customer that you named, and our business with them is pretty strong and robust. We don't see an undue impact on private label in that customer. And I think if you did a survey of the front pages of the spice section and went line by line through it, you'd find that we are pretty -- you'd find that we are very well represented, actually. This is an area that we've overinvested in for several years now. We continue to overinvest in it. We expect very strong growth in e-commerce as a channel through the -- certainly through 2018. And we believe that -- this is founded on our belief that consumers ultimately will shop for food the way they shop for everything else, which means it's going to be a very strong e-commerce component. So we continue to invest heavily in this. I have to say we're pretty strong performer -- we're pretty pleased with the performance of our e-commerce business. This is one of the areas where we think we are ahead of the curve and where we bring an awful lot to the party with the brands that we acquire.

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

And we also saw the RB Foods brands, Frank's and French's, are somewhat underrepresented in e-commerce, so we'll be able to grow those along with our platform.



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

And the margins, are they comparable? And I'll pass it on.

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

Oh, sorry. Yes, I'd say so. Yes, absolutely.

Operator

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

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

I guess I'd like to ask about the planned trade promotion reductions that you mentioned by RB. Can I assume that, that's mostly just French's mustard? And maybe to break down how RB is performing a little more -- in a little more detail, is Frank's still growing the way you expected? And maybe a little bit about your plans for growth on both of these for 2018 and how you're coping with the trade promotion in the first quarter.

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

Great. The reduction in trade promotion was planned by the seller, so this is part of the promotional plan that we inherited from the seller that was already in place in the prior year. The brand -- some promotions that were unprofitable and moved a lot of volume but at a margin loss. So those promotions were planned to be scaled back. And if you were to -- I don't know if you all do this in the Nielsen data that you have, but in our IRI data, we can separate base volume from incremental volume, from promoted volume. The base volume component on the French's business -- when I say French's business, I'm including Frank's because it was not just French's mustard, it was French's and Frank's RedHot as well. The underlying business shows good base business growth. It was on the incremental volume part that the decline occurred. And again, that was planned. That would have been expected by running fewer of these unprofitable promotions. We're pretty pleased with the offtake trends. I will admit that we've had some supply chain hiccups along the way. I would say that we're still operating under a transition services agreement with the seller. I would say that we would have put a different priority on some of the customer service needs as the owner of the brand than they would as being no longer the owner, and so I would expect to see that improve. And I also think that as we bring our category management and other analytical tools to bear, which were really capabilities that they did not have, as we bring those to bear, we're going to see improving trends on both brands as we go through fiscal '18 once we have this fully under our control. We've got the sales organizations consolidated in the fourth quarter. We get the full control of supply chain and logistics in a few days. I just -- I think that there's -- when we have this fully in our control, we're going to do better. We have already, with our selling organization, begun securing additional distribution points and, at a number of important customers, improved shelf placement and improved share of shelf. I'm pretty optimistic about it, so...

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

And just one follow-up question. From an operating profit standpoint, I mean, fourth quarter results were just a little bit light versus us and, I think, The Street; and then the guidance, a little bit light too; sales in line. How did it compare to your internal expectations for operating profit?

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

Rob, this is Mike. We gave guidance in the third -- at the third quarter call of operating profit increase of 20% to 21%. So we came at 19.7%, so slightly short, as you noted. As most of the rest of the industry, we saw an uptick in freight in the fourth quarter, especially due to the carrier constraints, so that was part of the miss. We also -- we over-delivered the CCI, which helped the gross margin line, but we invested some of that in



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A&P. And we gave guidance of high single-digit growth in A&P for the full year, and we came in at almost 10%. So we did invest a little bit more behind -- primarily in North America and China, we had strong holiday programs, to support that holiday and also the -- our liquid gravies. In China, we're opening key mall store, so a lot of digital support over there. So we're reinvesting some of those earnings, and that was really -- but freight, I'd say, is the big driver of that.

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

Okay. But your guidance is for low single-digit material cost inflation, Mike. So does that include the freight element? Or is that on top of that?

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

Well, for next year -- remember, we have freight -- on inbound, freight goes to cost of goods sold, but we have freight for outbound distribution that goes through SG&A. So when you see, and a couple of people noted, SG&A is up, it's because of outbound distribution freight. Most companies put it into cost of goods sold.

Operator

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

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

I wanted to follow up on Alexia's questioning around the U.S. business. And just thinking more sort of long-term brand health-wise and category management, just your update on the initiatives there. I know in a recent conversation I had with you, Lawrence, you mentioned that you felt confident that -- about the health of the business and that consumers are not trading down to private label even though the [uptick's] a little bit confusing on our end, right? So can you just give us a high-level view of why you're confident of that? Any data points you could share, that will be helpful. And then as it relates to your category management initiatives, can you tell us sort of where you are or where your retail customers are in adopting some of the changes that you have suggested over the years? And why is it that one of your largest customers is seemingly doing something that you would not have suggested? And then just lastly, when should we expect to see market share gain, if that is an expectation you have? Because 4% growth is a pretty good outcome, even though you're losing share, so I just want to make sure you still have that goal of growing share.

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

Great. Sure. Thanks. That was a long question. So Akshay, I'll try and touch on everything, but if I miss something, remind me at the end. And I'll start with that 4% growth that you mentioned. I mean, McCormick brands were up 4% in the urban spice category in the U.S. in the fourth quarter. Private label certainly was up by more than that. But I don't know if you all have noticed that all other brands were down almost 4%. The -- at least in our category, this idea of challenger brands is 2 years ago news. As private label grows and we, as the largest player in the category, grow, those smaller players are the ones that are really suffering and who are actually losing volume. So both McCormick and private label are growing. The private label growth numbers are bigger than ours, and so we have lost some share. But again, that was in the all-channel, and it's a bit distorted by what's happening at one particular non-grocery customer. If you look at grocery alone, we gained share in the fourth quarter, and we continue to be optimistic that we're going to -- that we -- not just optimistic, we continue to drive plans to grow share in herbs and spices in the U.S. I'll point out that we are participating in a lot of other categories. We gained share in recipe mixes, which is a significant category for us. And I would expect that growth -- that share growth to continue, and I would expect that -- in condiments, that we'll also be a share gainer as we go through 2018. That all said, we're also not chasing unprofitable growth, and we recognize that -- we participate in the profitable growth of private label side of the business as well. And so that figures into our calculations as well. Did I get everything there, Akshay?



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

Yes, you got most of it. Just one follow-up on that, and then I have a question for Mike. But the follow-up I had was -- so I mean, should we just expect an absolute sort of growth number more so than market share gains when we're looking at specifically the Nielsen data? I mean, like 4% growth is nothing to apologize about, right? And so I'm just wondering if we should have an expectation for market share gain in a category that's growing 6% in the U.S.? And then I have a follow-up for Mike.

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

I will still stand by what I said about U.S. herbs and spices. We are a company that is pretty competitive, and I think that, right now, there's some -- a bit of distortion because of what's happening on the private label side. But it'd be our expectation to get back to share growth, and it's certainly one of our goals. I'll admit it has been more elusive than I would have liked it to be.

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

And don't underestimate the fact that gaining share in grocery using these category management tools, we've really made a lot of progress with those grocery customers. So we're really happy internally about that, and we think we can replicate that with the customer that has made this decision.

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

Some of these decisions are being driven by broader store categories rather than a strategy related to herbs and spices specifically. So there's a lot of concern for customers that are targeting the same consumer segment that the discounters entering the market are encountering. And they have very strong efforts to differentiate themselves and establish strong positions on price to protect themselves at that end, and that's driven some of these strategies that may be irrational for the category as a whole but might make sense for them as a retailer brand.

Operator

Our next question comes from the line of Andrew Lazar with Barclays.

Andrew Lazar - *Barclays PLC, Research Division - MD and Senior Research Analyst*

So to wrap some of these together a little bit, and it may be hard to parse out some of this, but if we were to try, the best we can, account for the control brand conversion that you've talked about as well as the better growth that you see in a lot of the unmeasured channels, I guess, how much closer to the 6.5% category growth rate do you think McCormick would have been, understanding that you are gaining share in grocery? Because -- I guess what I'm getting at is it seems like the gap had been -- the market share gap had been narrowing, and then given some of these other distortions, maybe it's widened again. But I'm trying to get a sense of it ex those distortions, if it really has been widening or not.

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

I don't have the hard numbers on that, Andrew. I think that is a great question. I would say that we've got the same sense though. We've gotten to share growth position in grocery, as we were just saying, and unmeasured channels are contributing a substantial part of growth. They were -- I mean, they contributed about 1.4% to our growth rate in the fourth quarter. And so they are very meaningful for us. It's hard to put a number on it. We do believe that we're making progress. I'll also say that we believe that the -- that this control label issue is really more around the promotional merchandising activity that the customer put behind it in the holiday season. They already recognize that it was unprofitable for them and have made change to that strategy, and we see that really as more of a short-term phenomenon than as an enduring issue. So there's a lot of noise in the month-to-month data. And if you hang on any one particular month or even 12-week period, you can be led astray.



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

Also, Andrew, you have to be careful. When we take pricing because of the pricing differentiating between brand and private label, say we take a 2% price increase -- because private label, they're passing through pennies on black pepper and vanilla, their percentage increase on pricing is higher, maybe it's 3%. So that's a little bit of that gain of share that you're seeing.

Andrew Lazar - *Barclays PLC, Research Division - MD and Senior Research Analyst*

Got it. That's helpful perspective. And obviously, historically, you've been pretty effective at ultimately pointing out the data to certain large retailers and getting them to sort of come around, which I would assume you'll do pretty aggressively this time around as well. One follow-up would be on the pricing. You mentioned some incremental pricing that you took in 2018. Was that similarly on where you've taken pricing before, like vanilla and garlic? Or is it a little bit broader based? And I think, last quarter, you mentioned the elasticity around the volume was even a little bit below perhaps what you had expected. Is that still kind of the trend that you've seen with respect to incremental pricing?

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

Yes. So Andrew, it's a little different. In '17, we were taking -- we had mid-single-digit cost increases, primarily led by garlic and vanilla. Garlic has come back down, as we thought. Vanilla stayed pretty high, and actually, that's still going up, a lot of crop shortage still. What we're seeing in 2018, black pepper is continuing to trend down, which is great; garlic, as I mentioned before. Other commodities, like cinnamon, are going up. And packaging is going up, some flexible film. Oil is going back up, so plastics and things like that. So we're going to do some surgical pricing. Most of the pricing impact you'll see coming through the P&L will be from last year's pricing wrap, however. There's not a lot of new pricing planned for this year, more surgical based.

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

But Andrew, I think you're asking about 2017 pricing that we actually got away, and that was definitely more surgically targeted.

Operator

(Operator Instructions) Our next question comes from the line of David Driscoll with Citi.

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

So I'll keep it to one, that's fine. I'm sure there's plenty of good questions coming after me. Tax rate, just wanted to talk a little bit about what went into the 24%. I think the old tax rate guidance was like 27%, but pretty much, you guys had kind of come in at 26% for a bunch of years. And then if something like 60% of the business is U.S., the 14 point percentage reduction in the statutory federal rate would have suggested to us a larger impact than what you guys are talking about with the 24%. And then I think you said in your prepared comments that after the next fiscal year, it actually goes up a little bit more. So would just love to hear a few of your comments about how this tax reform affected you, maybe why wasn't it maybe more like 21%. And then the final related point here was, did you reinvest any of those savings? And I'll leave it there.

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

I think you got 3 questions in there, David. This is Mike. Yes, we're guiding to 24%. That's really the underlying tax rate. As you know, we've given guidance in the past, 28% to 29%. You have these discrete tax items which came through. Stock comp income has come through. That's new accounting rules. This quarter, we had some settlements on some tax audits, which were favorable. So when you think about 24%, I'd compare that to the 28% to 29%. But there are -- we've been favorable in the last couple of years. As you've mentioned, we've gone down to 26% for the

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last 3 to 4 years in a row. But overall, this is positive for us. This is a transition year for us. We're a non-calendar-year company. So the first month is at 35%. The next 11 months are at 21%. The full tax bill doesn't come into effect for us until 2019, so some of the non-U. S. income minimum taxes, like the guilty tax or the BEAT tax, don't come in until 2019. So that's why we're saying the underlying tax rate of 24% might slightly go up in '19. But we're -- and don't forget state and local. I think everyone forgets the 1% to 2% for state and local as you do your models. So consider those. And from capital allocation perspective, we're not changing anything. We're -- we have invest -- we'll invest the savings in growth. We'll invest them in -- we're a dividend aristocrat, continue to pay dividends on our accelerated EPS growth. And we'll pay down debt, which we're really excited about paying down the RB debt faster, just like we did the prepayment in 2017.

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 one -- I guess my one question is just rate of reinvestment on RB Foods. I know -- I think when you announced the acquisition, I asked about reinvestment. The bit of the line on that point was basically this is very well-run business and had sizable or, let's say, substantial enough reinvestment to support the brands. And I realize, even though there are some distortions in some tracked channel data that we're seeing overall, we are -- those tracked channels actually are still significant. And what we're not seeing is, let's call it, a higher rate of growth than I think we would have expected. So I'm just wondering, on the reinvestment side, as you guide to brand investment being higher than the rate of sales, has the forecast for your investment increased for '18 relative to maybe where you saw it? And whether or not it has -- where do you plan on really strategically investing the most? Is it on spices? Is it on [R&D], et cetera?

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

Well, I'll take the sales side of it, and then I'll pass it over to Mike to talk about the reinvestment side. And I will just say that our plan for RB sales growth and, in fact, absolute sales dollars for fiscal '18 exactly matches our acquisition model. And we still are expecting strong growth under our full ownership. We are still expecting the same level of accretion that we talked about when we did the deal. And if anything, our early experience with the brand has been more positive than we expected. We are seeing, I'd say, more opportunities than we initially assessed in the food service side of the business. We are experiencing some tremendous growth in the Canadian market. And we're off to a really good start in the conversion of the whole international business to our very robust international infrastructure. So I'd say, if anything, well, our internal plans are tied to the original model that we are more optimistic about the growth potential of the brand than we were in the beginning. So Mike, can I...

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

Yes. And I think, overall, Rob, we're happy with the level of advertisement and promotion on RB in total dollars. But as we said on the call 3 months ago, we're going to focus it on higher ROI investments. A good example is they haven't had new TV ads in 7 years. So we're going to -- we're developing a new ad now, which will -- we believe in TV investments, and A&P has high IRR, just like digital does. So those are the types of things we're going to do, but we're still within the model's bounds.

Operator

Our last question for today comes from the line of Brett Hundley with The Vertical Group.



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Brett Michael Hundley - *The Vertical Trading Group, LLC, Research Division - Research Analyst*

It's related to organic revenue growth. And I really wanted to isolate the U.S. retail market and just talk about gaining share versus an overall growth rate that you desire. And really, the crux of the question is just, when we do store walks, at least here in my mid-Atlantic region, we are seeing some retailers drop assortment or linear space for some categories, including spices, some condiment areas. And so I'm just curious. If that is more broad-based going forward, across more regions, do you still believe that you can grow at an overall growth rate that you want in that environment as you filter in e-commerce? Or do you think that shareholders should maybe shift growth expectations a little bit towards more international?

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

Well, first of all, I'd say that our organic growth rate in the U.S. market is pretty strong. I mean, we were nearly 5% in the fourth quarter and -- excluding acquisitions. And I think that we have no reason -- which is right in the middle of our -- kind of our long-term guidance for the company as a whole. And so we have -- we see no reason to back off of that. Again, as you look at herbs and spices specifically, we've grown private labels, grown -- it's been those other brands that have gotten killed, and a lot of the shelf space losses have been to them, notwithstanding the stores you've gone to. And by the way, send Kasey, after this call, a list of those stores so I can get on the right salespeople. But notwithstanding your observation, we've actually gained points of distribution in the last year, and we would expect to continue to do so in 2018. So I think our outlook for organic growth in the U.S. continues to be strong, and I think -- and we would expect a good balance of U.S.-based and international growth. Mike, do you want to add to that?

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

No. I think, again, just to reiterate, our category management tools are probably influencing some of the things you're seeing with some of those facings of smaller brands going away.

Operator

Ladies and gentlemen, we have come to the end of our time for questions. I'll turn the floor back to Mr. Kurzius for any final comments.

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

Well, thanks, everyone, for your questions, and my apologies for those to whom we didn't get to in the queue. We have gone more than 10 minutes over time. And so I would encourage you to give Kasey Jenkins a call after we conclude here because we want to take everybody's questions. And thank you for participating in today's call.

McCormick is a global leader in flavor, and we're differentiated with a broad and advantaged portfolio, which continues to drive 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 incredibly proud of the top-tier 2017 business results we delivered and where McCormick is as a company and our continued growth trajectory. I'm confident in our continuing momentum for growth in 2018, and I look forward to reporting to you on the shareholder value we will continue to create.

Kasey Jenkins

Thank you, Lawrence, and thanks to everyone for joining today's call. If you have any further questions regarding today's information, you can reach me at (410) 771-7140. This concludes this morning's conference.



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