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PRESENTATION

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

Good morning. This is Joyce Brooks, Vice President of Investor Relations. Thank you for joining today's call for a discussion of McCormick's fourth-quarter financial results and our outlook for 2015. We posted a set of slides to accompany our call at ir.mccormick.com.

(Caller Instructions)

As a reminder, the conference is being recorded.

With me this morning our Alan Wilson, Chairman and CEO; Gordon Stetz, Executive Vice President and CFO; Lars Kurzius, Chief Operating Officer and President; and Mike Smith, Senior Vice President, Finance Capital Markets and CFO North America.

During our remarks we will refer to non-GAAP financial measures. These include adjusted operating income and adjusted earnings per share that exclude the impact of special charges and a 2013 loss on voluntary pension settlement. A reconciliation to the GAAP results is included in this morning's press release as well as the slides that accompany this call.

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 factors. As seen on slide 2, our forward-looking statements also provide information on risk factors that could affect our financial results.

It's now my pleasure to turn the discussion over to Alan.



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

Thank you, Joyce. Good morning, everyone, and thanks for joining us. I'd like to start by also welcoming Lawrence to this morning's call. In addition to his continuing role as President of our Global Consumer business, Lawrence now has responsibility for our businesses worldwide in his newly appointed role of COO and President. At the end of our remarks, I may ask him to weigh in on some of your questions.

While he's not on this call, I'd like to also congratulate Malcolm Swift on the formalization of his position as President Global Industrial. Malcolm continues to have geographic responsibility for our businesses in Europe, the Middle East and Africa, and in Asia-Pacific.

In 2014, McCormick delivered solid financial performance despite its difficult environment. Our on-trend categories are growing in markets around the world with increasing consumer demand for flavor. We're driving growth in sales and profits and in 2015 are stepping up our cost-reduction activities to fuel our growth.

During the fourth-quarter of 2014, we made progress on a number of fronts with the successful launch of new products, additional investment in brand marketing to drive growth, and building customer intimacy. For the fiscal year, our cash flow exceeded \$500 million and we returned a record amount of cash to shareholders. Employees throughout McCormick delivered \$65 million in cost savings from our comprehensive continuous improvement program, CCI, and we have embarked on a more aggressive cost savings plans for 2015.

Fourth-quarter earnings per share exceeded the guidance we provided back in October with a lower tax rate and an excellent result from our joint venture in Mexico. For our consolidated businesses, sales and operating income were below our projections for this quarter as we continue to face a competitive environment in several markets and in China, where we were impacted by weak sales to major quick-service restaurant customers. Gordon will go into more details in the fourth-quarter financial results.

I want to comment more specifically on our US consumer business. Our main challenge in this market has been fragmentation in the spice and seasoning category with US retailers bringing smaller brands onto store shelves. These items included value-priced products, ethnic brands, and premium as well as organic items.

As we head into 2015, this pressure continues. However, we're in a much better position than we were a year ago with accelerated innovation, brand equity building, and our actions to win at retail. Among our top performing US launches in 2014 were Grill Mates burger seasonings, gluten-free recipe mixes, and McCormick skillet sauces. We increased our US brand marketing by 7% to support these launches as well as fund an expanded holiday campaign and reinforce our taste-you-trust message with ads that feature our product quality.

Organizationally we have new leadership in place and more category management resources close to our customers. In working with our retail customers in category management, our objective is to improve their sales and profit as well as sales and profit for McCormick, a win-win solution. While we've made good progress, there is still work to be done.

Taking a look at 2014 IRI retail consumption data for recipe mixes, the category rose 1%. Sales of our brands grew 3% and we gained 2 percentage points of category share. We're pleased with the strong response to our product innovation and marketing programs.

The same data showed a 3% increase in spice and seasoning category sales and 1% sales growth for McCormick products. These are good results and ahead of many other food categories. However, we saw some share gains by smaller brands, none with a category share greater than 3%, and both McCormick brands and private-label brands lost share.

As we head into 2015, we're pleased with the category growth rates and we're working to extend our success with recipe mixes to the spice and seasoning category. We said at the outset of 2014 that we expected improvement in our US consumer business to take some time. I believe we have the right team in place and the right actions underway to drive the growing demand for flavor in this important market.

Next I'd like to provide a broader perspective on our 2014 performance, our growth initiatives, and our 2015 outlook. Across all of our businesses, we grew sales in local currency for fiscal year by 3%, within our 3% to 5% target range. The strongest contribution toward this growth was in our China consumer business, driven both by the strong growth from WAPC and an 18% increase in the base business.

For 2015 we're setting a goal to grow sales 4% to 6% in local currency. With about a 2% sales increase from pricing expected, this range is in line with our long-term goals, even without the impact of an acquisition. However, based on the prevailing exchange rates, currency is expected to lower the sales growth range by 3 percentage points.

As you look across the food industry, a 4% to 6% sales growth may seem ambitious, but it's based on several factors that are in our favor. First is the rising demand for flavor. On slide 6, spice and seasoning category growth was strong in 2014 and is projected to grow at a mid-single-digit rate globally in 2015, with roughly 4% growth in developed markets, and nearly a 10% increase in emerging markets.

For recipe mixes, the projected global growth is also at a mid-single-digit rate. Flavor is well-aligned with the broader changes in the way that people are eating today, whether it's spicier food, eating more fresh produce and protein, simple ingredients, or the move towards healthier eating. We think that these changes are here to stay and that each of them drives demand for flavor. This is a catalyst not only to our consumer business but also to our industrial business. As an example, more than one-third of our 2014 industrial new product briefs had some type of health-and-wellness attribute.

Second, we're continuing to increase our investment in brand marketing. Our current level of marketing is up more than 50% from 5 years ago and our latest campaigns were emphasizing new products, quality and freshness, everyday cooking and holiday celebrations. We're planning a further increase in 2015. Digital marketing has a particularly high ROI and we're making it a greater part of the mix. This year it's planned at one-third of our total advertising, up from 11% in 2010.

As we develop our marketing programs, a leading audience is millennials. In the US, a recent study shows that household penetration of our brands with millennials is right in line with other age groups. We also conducted an attitude study. This work revealed that 46% of US millennials regard the McCormick brand as the best spice brand in the market and another 37% categorized it as one of the best. Again these metrics are similar to what we see with other age groups.

Third, our 2015 sales growth projection includes a strong impact from innovation. With 16 innovation centers in 12 countries around the world, we continue to invest in product development. Earlier this month we opened a new product development facility for our US consumer business. In 2014 we had particular success with our squeeze pouch package that led to a 25% increase in check catch-up sales in China, and in North America with gluten-free recipe mixes and skillet sauces. In France our Vahine premium vanilla has driven category growth.

In the first half of 2015, we have a great lineup of innovation and are particularly excited about the relaunch of our entire US gourmet line featuring greater variety of flavor seal technology that locks in flavor, color and aroma, and packaging that has a more premium fresh appearance. We're introducing flavored sea salt grinders across North America, an Indian range of seasoning blends in the UK, and further extension of our Vahine dessert items in France.

For our industrial business, much our growth in 2014 came from innovative seasonings for snack chips, crackers and snack bars, as well as beverage flavors. And we have more in the innovation pipeline in 2015. With our foundation in spices and herbs, industrial customers continue to view McCormick as a go-to supplier to help grow their range of healthy and flavorful products. Across both businesses, 8% of 2014 sales came from new products that were launched in the last three years.

The fourth factor to drive 2015 sales growth is customer intimacy. For retail customers, our share of voice, social media presence, digital marketing initiatives, product innovation and category analytics distinguished McCormick from the competition in just about every market where we participate. As discussed during 2014, we're using our category analytics to optimize sales and profitability for us and our customers, achieving a win-win solution.



For industrial customers a vital part of customer intimacy is support for our global growth. In this regard, we opened a small R&D center in Brazil during 2014 and by 2016 we expect to establish a footprint in the Middle East to support our customers' expansion into this region. Clearly our business at McCormick is well-aligned with healthy category growth and we have strong initiatives underway to drive sales.

Along with these factors an integral part of our long-term success has been our cost-savings activity. As depicted on slide 10, for the past decade a combination of our CCI program and streamlining actions have generated significant cost savings. We've used these savings to fuel our growth through brand marketing and product development, offset material cost inflation, and drive profits.

In 2013 we began to go at this more aggressively with the announcement of reorganization activities in our EMEA region. This was followed in 2014 by the realignment of certain manufacturing operations in our US industrial business and some additional SG&A streamlining in the fourth quarter. In 2015 we've set a goal to generate at least \$85 million in cost savings led by our CCI program. We expect additional cost savings this year as we wrap up previously announced streamlining actions.

We're also taking the next step in our North American effectiveness initiative that began in 2014. Following the formation of our North American organization and leadership team, we're undertaking cost savings and productivity improvements in this part of our business. Through these actions we expect to achieve annual cost savings of approximately \$25 million by 2016.

As demonstrated in previous years, we have the ability to offset the impact of material cost increases, minimizing the profit impact on both consumer and industrial businesses. For 2015 pricing actions and anticipated cost savings will be a major offset to the higher material costs.

Let's move from sales growth and fuel for growth to our profit performance and outlook. We met our FY14 sales objectives and exceeded the cost savings targets. However, adjusted operating income growth at 3% was below our initial range of 6% to 8%. A major reason was the more rapid growth in international markets but slower growth in our more profitable US businesses. As a result, we had a lower contribution to operating income, although there was some offset at the net income line through a more favorable tax rate. At the bottom line, adjusted earnings per share rose 8% to \$3.37. This was above our initial target largely due to the favorable tax rate and strong growth from our unconsolidated McCormick to Mexico joint venture.

As you know, our long-term goal was to grow earnings per share 9% to 11%. On a comparable basis, we've achieved a five-year compounded annual growth rate of 8%, just below our long-term goal. While we've had solid sales growth, we've managed through a number of headwinds during this period, including higher than normal material cost inflation and retirement benefit expense. In recent years, we've taken actions to reduce retirement benefit costs, including a lump-sum payout and closing our pension plans.

In 2015 we expect both the retirement expense and material inflation to once again cause profit pressure along with the unfavorable impact of currency exchange rates. We're responding to these cost pressures with more aggressive cost-savings actions while continuing to invest in marketing programs and innovation. We're committed to building our brand equity and competing effectively in each of our markets. Consumer demand for flavor is increasing and we want to help drive this growth.

Let me summarize. I'd like to recognize employees throughout McCormick and our leadership team for their engagement and accomplishments. As we navigate through this period of competitive activity and cost inflation, we're pursuing attractive category growth opportunities in a very robust environment for flavor around the world. One of our strategic imperatives is growth, to win share with global focus. And that's driving focus for me, as well as the entire organization in 2015.

At this point I'm going to turn it over to Gordon for a closer look at the fourth quarter and our 2015 guidance. Gordon?

Gordon Stetz - McCormick & Company Inc - EVP & CFO

Thanks, Alan, and good morning, everyone. As Alan indicated, our fourth-quarter earnings per share exceeded our projection with a favorable tax rate and higher joint venture income. These favorable variances more than offset a greater than expected decline in adjusted operating income mainly in our consumer business.



I'd like to comment on our sales and operating results for each segment. As seen on slide 15, we grew consumer business sales 3% in local currency. The impact of pricing actions taken in response to higher material costs and higher volume and product mix contributed to this increase.

Sales in the Americas rose 4% in local currency with the benefit of a 2% increase in volume and product mix as well as higher pricing. In the third quarter, we discussed the timing of retailer purchases under our holiday display program. In 2014 versus the year ago period, we had fewer purchases in the third quarter and more of these purchases in the fourth-quarter. A look at America's consumer business sales for the second half eliminates the impact of this year-on-year shift in sales between the third and fourth quarters.

For the second half of 2014, we grew sales in local currency 2% with pricing up 1.5% and volume and product mix up about 0.5%. This was a significant improvement from the first half when sales in local currency declined 4% due to lower volume and product mix. In EMEA consumer business sales in local currency were comparable to the fourth quarter of 2013. We had sales pressure from competitive conditions in several markets along with a favorable impact from higher pricing, product innovation, and expanded distribution.

In local currency, consumer business sales in the Asia-Pacific region were comparable to the year-ago period. In this region we grew sales 5% in China, offsetting weakness in Australia and India. In total for the consumer business, adjusted operating income declined 4% from the fourth-quarter of 2013, excluding special charges and last year's loss on voluntary pension settlement. While we grew sales and achieved CCI cost savings, we funded a \$5 million increase in brand marketing support and business mix was unfavorable.

Turning next to our industrial business, fourth-quarter sales were down slightly from the year-ago period in local currency, with lower volume and product mix largely offset by higher pricing as seen on slide 20. In the Americas region, we grew industrial business sales 1% in local currency. Throughout 2014, snack seasonings have been a source of strong growth. This increase, along with higher sales of branded food service products, more than offset continued weakness in sales to quick-service restaurant customers.

In our EMEA industrial business, we grew sales 2% in local currency, driven by pricing actions taken in response to higher material costs. Weaker sales of branded food-service products led to the decline in volume and product mix this period. Industrial business sales in the Asia-Pacific region declined 9% in local currency compared to the fourth quarter of 2013.

Given the news of weak sales from the large quick-service restaurants in China, we were appropriately cautious in our fourth-quarter outlook. Even with this weakness in the latter part of 2014, we grew Asia-Pacific industrial sales 2% in local currency for the fiscal year. We were extremely pleased with the profit results for our industrial business in FY14 with adjusted operating income up 13% from a difficult 2013 and up 10% on a two-year comparison to 2012. We achieved higher sales and increased margins from CCI cost savings and a more favorable business mix.

As we anticipated in our previous earnings call, fourth quarter adjusted operating income declined, mainly due to the lower volume in China as well as a year-on-year increase in incentive compensation. Across both segments, adjusted operating income for the total business declined 6% from the fourth quarter of 2013.

Gross profit margin was up 20 basis points due in large part to our cost-savings efforts. During the quarter we funded \$5 million of additional brand-marketing programs. We recorded \$3 million in special charges this quarter related to streamlining activity in EMEA and other regions.

Below the operating income line, the tax rate was 26%. This was above the 24% tax rate in the fourth-quarter of 2013, but below our guidance due to discrete tax items. Based on our current outlook, we expect a tax rate of 27% to 28% in 2015. This range is an increase from the 26.3% tax rate for FY14.

Income from unconsolidated operations rose to \$9 million this quarter, from \$7 million in the fourth quarter of 2013. This performance was led by our joint venture in Mexico which grew sales 8% and is operating in a new, more efficient manufacturing facility. We expect this 2014 performance to lead to higher cash dividends paid by this joint venture to McCormick and expect further profit growth as well in 2015. At the bottom line, adjusted earnings per share for the fourth quarter was \$1.16.



As you can see on slide 28, this was a year-on-year decrease of \$0.04, comprised of lower adjusted operating income and a higher tax rate, offset in part by the favorable effects of higher joint venture income and lower shares outstanding.

Turning next to slide 29, we've summarized highlights for cash flow and the year-end balance sheet. Our cash flow from operations in 2014 exceeded \$500 million for the first time and increased \$38 million from FY13. This improvement included higher adjusted net income and a lower pension contribution in 2014. During 2014 we used \$244 million of cash to repurchase 3.6 million shares of McCormick stock.

At quarter end, we had \$116 million still available on our \$400 million authorization. Our capital expenditures were approximately 3% of sales. Some of the larger 2014 projects included a plant expansion in Poland and plant modernization for Zatarain's production in Louisiana. Toward year-end we purchased a new office facility in Shanghai to accommodate our growth in China.

In 2015 we expect capital expenditures of \$130 million to \$140 million. This projection includes a new facility to accommodate the growth of our Shanghai manufacturing operations, as well as construction of a production facility in the Middle East to support the expansion of our industrial customers. Our balance sheet remains sound. We are close to our target debt level and well-positioned to fund investments to drive growth, including acquisitions.

I'll wrap up our remarks with McCormick's 2015 financial outlook. As Alan described, we expect solid growth in sales and profit from our consolidated operations, higher income from unconsolidated operations, and the benefit of lower shares outstanding. We expect to grow sales 4% to 6% in local currency, to include higher pricing and a 2% to 4% volume increase. Based on prevailing rates, foreign currency exchange is expected to lower the sales range by 3 percentage points. We anticipate a 4% to 5% increase in adjusted operating income from \$608 million in 2014, with the projected increase driven by higher sales and at least \$85 million of cost savings from both CCI and streamlining actions.

Offsets include projected mid-single-digit material-cost inflation, unfavorable currency exchange rates, increased retirement benefits expense, and an increase of at least 5% in brand marketing. Those of you who have followed us in recent years are aware of fluctuations in retirement benefits expense driven by the actuarial assumption for the discount rate. In 2015, we expect a \$10 million increase in this expense due to a lower discount rate along with new US mortality assumptions that reflect a longer life expectancy. Keep in mind that although we expect an increase in retirement benefits expense, the cash contributions to our plans are expected to be approximately \$16 million which is close to 2014's low level of contributions.

Our projected range for adjusted earnings per share is \$3.51 to \$3.58. This is an increase of 4% to 6% from adjusted earnings per share of \$3.37 in 2014. Along with higher operating income, we anticipate continued growth in joint venture income and further reduction of shares outstanding in the absence of acquisition activity.

At the EPS line, higher retirement benefit expense and unfavorable currency are expected to lower our year-on-year EPS growth rate by about 3%. And excluding these factors, our 2015 adjusted EPS guidance is a 7% to 9% increase. For the first quarter of 2015, we expect earnings per share to be up slightly from the year-ago period. While our tax rate should be lower than the 31% rate we recorded in the first quarter of 2014, we expect operating income to be under pressure from currency rates, higher brand marketing, increased retirement expense, and the timing of material-cost increases versus our pricing actions.

For FY15, we expect another year of strong cash flow. This will provide funding for the higher dividend approved by the board in November, as well as our capital expenditures and share repurchase activity.

Let's turn now to your questions, then some closing remarks from Alan. Operator, we're ready for the first question.

QUESTIONS AND ANSWERS

Operator

Thank you.



(Operator Instructions)

Alexia Howard, Sanford Bernstein.

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

Can I just turn to the US consumer business? There seems to be a bit of confusion about the pricing strategy there and what we're seeing in the Nielsen data versus the price increase that I think you mentioned this time around. We're seeing fairly sharp reductions in price per pound to the tune of about a mid-single-digit rate. Some of that might be negative mix, which I think you mentioned.

But we're also curious about what is actually happening there, not just in the quarter but as we look out to 2015, as you take that next price increase are you worried about further share losses to some of those smaller brands? And are you confident that the innovation that you've got in place is going to allow you to drive that mid-single-digit topline growth overall? Thank you.

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

Sure. There's a couple things going on there. First, to first iterate, we've made no changes in list prices in our US business. We increased prices at the end of 2013 and in 2014 we've made no changes in list prices.

So a couple things were happening. One is what we've seen is that more of our promotional spend in 2014 ended up in the second half of the year. The second is there is a sizable controlled label, which is an extreme value product, which we've had in the market with one customer for a long period of time that was pretty heavily promoted in the second half of the year and it shows up as a McCormick brand and it is a brand that we own in the data. And so that is driving some of it.

And in another case, we actually took the number of units in our recipe inspirations from six spices in the line to three and reduced the price of that offering. So there's a good bit going on there.

We don't plan any price increases at this point in our US consumer business. We're dealing with some commodity inflation, with our cost reduction activities and as you saw being more aggressive on that, but we expect to see more stable pricing in our US business. Now we are taking pricing in our industrial businesses to help offset some of the commodity increases and in some of the other markets. But in our US business our plan is to hold pricing more stable.

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

Can I just follow up quickly on that control brand? Do you expect that intense promotional activity to continue as we go into 2015? And then I'll pass it on. Thank you.

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

We don't expect it to continue at the level that it has in the second half of the year.

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

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



Operator

Jonathan Feeney, Athlos Research.

Jonathan Feeney - Athlos Research - Analyst

I wanted to dig in on the consumer volume side because I was looking at this quarter, and I know there was a seasonal shift last year, but the comparison even for the half as a whole got -- was relatively easy and the fourth quarter versus the third quarter was easier. So I guess my first question on that is, do these sort of volume numbers, particularly in US consumer and AsiaPac consumer, meet your expectations going into the quarter?

And secondly, as we go into next year, you've expressed confidence about a comeback in that topline. What gives you that confidence within consumer? What regions make you feel like presumably it's going to be -- sales growth mostly volume driven, why there'd be that sort of inflection point? Thank you.

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

Couple things. In the US business we did see a better momentum in the second half of the year than we had in the first half of the year. And that's a combination of getting traction with some of our category management efforts as well as some of the new products kicking in, which we're pleased to see.

We actually grew share in recipe mixes. That's driving some of the momentum there. And then the number of our markets around the world. In France, for instance, we grew share both in spices and seasonings as well as in desserts. And so we're pleased with the momentum we have there.

UK's a little bit of a tougher competitive market. And in China, even without the acquisition, that acquisition far exceeded our expectations, but our consumer business in China continued to grow at double-digits, so we feel pretty good about that.

The key effort and the thing that we have to do in order to make this plan is really to get core growth in our US business in spices and seasonings, And that's where a lot of the effort is in this year, both in terms of category management as well as innovation.

Jonathan Feeney - Athlos Research - Analyst

So I'm interested -- just to follow up on that. You felt better versus your plan in the second half versus the first half? I know the headline numbers were better, but the first half of 2013 and even if we go back to first half of 2012, was stronger -- at least in US consumers, a lot stronger. But you're saying versus your plan, second half was stronger than first?

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

I didn't say versus our plan; I said versus the actuals. Certainly we believe we've got a lot of work to do still in our US business, and we're encouraged by what we saw in the second half, but we still believe we've got a lot of work to do.

Jonathan Feeney - Athlos Research - Analyst

Okay. Thanks very much.

Operator

Robert Moskow, Credit Suisse.

Robert Moskow - *Credit Suisse - Analyst*

A follow-up to John's question, your guide is for 4% to 6% sales growth and organically the Company hasn't done better than 2% for the last two years. So I guess you're right, Alan. You need to get big market share gains in order to achieve this plan. And it has to come from the US.

Can you give us an update on how many of your customers have adopted this category management strategy that you rolled out? I think last quarter you said that you were targeting 60% of the ACV. You thought you were halfway there. Have you made any progress in that regard?

And also have there been any losses in that kind of metrics? Have there been any customers who have moved further toward private label?

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

Actually what we've seen in the recent periods is that private label has actually declined a bit. And the traction has come from some of the smaller brands, really small brands, and I would say that we're continuing to tell that story. I don't have a number in terms of are we now at 70% of ACV?

But what I would say is we're continuing to gain traction with the story to get sharper price points on the shelf. Again that sharper price point's not because we've taken reduction but because we've applied trade promotions more tactically and because we're working with the customers to make sure we have the right mix of pricing on the shelf.

We're continuing to see the category fragment. There's lots of competition and we're continuing to work to build our share of shelf along with our share of voice and advertising.

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

The only thing I would add, Rob -- this is Gordon -- is in the discussion we talked about healthy-category growth rates. So it's not even necessarily true that we've got to have large market share gains. We just need to continue to grow with category growth rates when we hit those numbers.

Robert Moskow - *Credit Suisse - Analyst*

Okay. But the category, you said, is growing about 1% right now in the US?

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

No. About 3%.

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

We said overall the category on a global basis is going to be growing in the mid-single digits.

Robert Moskow - *Credit Suisse - Analyst*

Okay. So 3% in the US is the expectation?



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

Yes.

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

Yes.

Robert Moskow - *Credit Suisse - Analyst*

Okay. One follow-up. I think you mentioned a value brand that you control and is showing up in the Nielsen data as being very heavily promoted. What caused that heavy promotion on that brand? Was it the retailers doing it? And do you have any control in the future over whether they continue to do that? It can't be helpful to your core McCormick business when that happens.

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

Yes, it was a specific retailer strategy that implemented and we're working with them on making sure that we're maximizing the category.

Robert Moskow - *Credit Suisse - Analyst*

Okay. Thank you.

Operator

Chris Growe, Stifel.

Chris Growe - *Stifel Nicolaus - Analyst*

Just had a question for you, if I could. In relation to the cost inflation coming through this year, you gave some of the inputs where that's coming through, pepper being about half of the increase. That would cut across both consumer and industrial. You said you're not going to take some pricing in US consumer. So should we expect the balance of 2% pricing across the remaining divisions? Europe consumer, Asia consumer, as well as the industrial business or is there one division that's more heavily influenced by that?

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

It's going to be pretty balanced between the industrial and consumer segments. And given the fact that we're not taking it in the US, you'll see pricing elsewhere in the world and the other markets on the consumer side.

Chris Growe - *Stifel Nicolaus - Analyst*

Okay. And then to go back to the question Alexia asked about the promotional spending being higher, at least in the data that we see, I know there was some time elements both to the prior year and to this year. Should we expect any incremental promotional spending to continue?

And if I can ask a related question, if you look at your spending this quarter on marketing being up around \$5 million, I think you've been talking something closer to \$11 million or more, was there any shift more so to promotions versus advertising and will that continue in 2015?



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

No. We're going to continue -- part of our promotion is volume driven and so what you saw a little bit was a reduction in volume versus expectation. So we didn't get the volume hit, so we didn't take the spending. But we're not expecting a change in how we balance it. In fact, what we're trying to do is drive more efficient promotion spending than we have.

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

I'd just point out for FY14, the advertising component of the increase was the vast majority. We were up \$15 million year-on-year on an advertising basis. So a lot of the activity is still continuing to drive innovation in the brand equity.

Chris Growe - *Stifel Nicolaus - Analyst*

It was less than expected in the fourth-quarter though. Is that correct? Is there any change to your views on advertising in the quarter?

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

No. We pretty much -- around the advertising campaigns that were planned, we executed against those. To Alan's point, some of the more volume-related promotional events fell out of the quarter but the advertising programs were left intact.

Chris Growe - *Stifel Nicolaus - Analyst*

Okay. Thank you for the time.

Operator

Ken Goldman, JPMorgan.

Ken Goldman - *JPMorgan - Analyst*

Lawrence, congratulations on the promotion.

Lawrence Kurzius - *McCormick & Company Inc - President- McCormick International Management Committee*

Thank you.

Ken Goldman - *JPMorgan - Analyst*

Alan, you've talked about, in the US, getting prices on shelf more in line with where you think is ideal for the category. I think you touched on this a little bit, but are we where we need to be or do you think customers still need to make some adjustments, either up or down, to get an ideal revenue and profit dollar point at this point?



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

No. There is still work to do on the shelf. And some of it is driven by the fact that there's an awful lot of value-priced product that isn't necessarily doing anything for the category. It's creating more fragmentation. And so what we want to do is make sure that we are telling the story, that we're giving the consumers what they're looking for, and that we're getting our absolute price points to the level that makes the most sense.

Ken Goldman - *JPMorgan - Analyst*

Okay. And then following up, is the M&A environment, is it a bit more challenging than usual for you? I may be wrong, but I can't recall McCormick really talking this aggressively about share buybacks in the past. I think usually your target's 1% to 2%; this year it's 2%. You're being vocal about returning cash to shareholders. So I'm wondering, are you maybe suggesting that alternate uses of cash are not as attractive at the moment or am I reading too much into that?

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

No. I would say that we do have a very active pipeline and we're working hard, as we always do, on acquisitions. Just like we always have, when we don't have an acquisition imminent, we'll continue our share buyback and if it's a small acquisition, we'll continue it. If it's a larger one, we may curtail it for a bit. But we're not signaling anything at all with that. We've got some very attractive acquisition candidates that we're continuing to work on.

Ken Goldman - *JPMorgan - Analyst*

Great. Thanks very much.

Operator

Eric Katzman, Deutsche Bank.

Eric Katzman - *Deutsche Bank - Analyst*

I want to follow up on the inflation question. Gordon, you highlighted that material cost inflation was up mid-single digit. And I just assume you're talking about the pure raw spices and seasonings. But it would seem that there's a lot of other things that are actually beneficial, whether it's just pure energy or derivatives such as like the bottles and the packaging. So when you look at overall inflation for FY15, what's your expectation?

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

Well, just to remind the group, 80% of our cost of goods sold is raw and packaging. So it's an overwhelming factor as it relates to our overall cost structure. So the mid-single-digit really is a driver on our margin.

There will be obviously some benefit in freight rates. We classify that more down in SG&A, but it's not going to be material enough to offset what approximates \$100 million increase in our raw material costs. So that's why we're leaning heavily into our whole CCI program is to try and help offset all this.

Eric Katzman - *Deutsche Bank - Analyst*

Okay. And then it sounds like at this point, Alan, that you are very reluctant. You're willing to take some pricing on the back of that inflation, whether it's in consumer outside the US, but there's some industrial pass-through. At what point in the US do you feel that you need to -- we don't really

have a lot of visibility into some of those more esoteric crops? Is the bias on pepper and vanilla and some of these other things up in that we have to worry about you taking pricing? I just don't have a lot of visibility into those crops.

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

It's more around what drives the elasticity of our volumes. And so typically what we've been able to do is pass through the commodity inflation, but because we've seen such extreme volatility, and especially with pepper, that's the one that drives McCormick more than anything else. Over the last five years, it's up by a factor of five.

And so we feel like we're getting to a price point where it's pretty stretched and so we're looking at other tools to try to offset that and it's largely behind our cost reduction at this point. Now, we don't think that -- we aren't going to be able to take pricing forever and ever, but where we are at this point, with the category and the competition, is we feel like it's prudent that we're not taking pricing at this point.

Eric Katzman - *Deutsche Bank - Analyst*

Okay. Last question. On the US retail strategy, I think in the past you had alluded to some of the competition that had made gains. They were finding space in other parts of the store? Such as like the produce aisle? Is part of your strategy -- and are you having success in getting your items out of the or in addition to the center of the store, but getting placement in other areas? And is that one of the reasons why you think you can maintain or recover share in FY15?

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

We're getting products off the -- not just in the spice set, but into other parts of the store where we have found competition. And I'll ask Lawrence to weigh in a little bit on this.

Lawrence Kurzius - *McCormick & Company Inc - President- McCormick International Management Committee*

Well, of course from a merchandising standpoint, this has always been part of our program and it has received particular emphasis in light of this competitive situation. Certainly if you go into any retailer in the US during the holiday season, you'll find that McCormick products are scattered throughout the store and are pretty prominent. A great deal of our innovation efforts also in this second half of last year and into 2015 are targeted towards getting us into some of those other parts of the store as well or really negating the reason for being for those brands, those minor brands that have found their way into some of the niches.

A big part of our win at retail effort and category management effort also is to bring this presence of other small brands in other parts of the store to the attention of the category buyer, who often doesn't have the full picture from a profit standpoint of the impact of those brands on the spice category in total for the store because those small brands go through other profit centers in the retailer.

Eric Katzman - *Deutsche Bank - Analyst*

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

Operator

(Operator Instructions)

Rob Dickerson, Consumer Edge Research.



Rob Dickerson - *Consumer Edge Research - Analyst*

Just a couple questions. The first question is just in Q4, I know in Q3 you guided on the operating profit income for the year. But then you said you missed original guidance for the year and that was partially because of the mix shift and path you're going and (inaudible) markets and the margin differential in both, et cetera.

But then what was the real miss in Q4? Because it seemed like in Q4 you grew consumer more quickly than industrial and within consumer you grew the Americas more quickly than what I would presume to be your lower-margin international businesses.

So then you also -- seems as if you've also pulled back a bit relative to at least the expectations that we had on the marketing side. So I'm just trying to bridge the gap between expectation in Q3 for the year for operating profit growth and then what you actually reported.

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

As we said in the remarks, we are very pleased with the progress we made in the US consumer business, but it was not up to the expectation we had been thinking when we gave you the guidance at the end of Q3. Obviously that's a big profit generator in Q4. And as a result, that was one of the main factors impacting the results versus what we were guiding to.

Rob Dickerson - *Consumer Edge Research - Analyst*

Okay. Cool. Second question is just, I know in the Q3 call, I may have missed it --

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

Hello? It sounded like you cut out for a minute there.

Rob Dickerson - *Consumer Edge Research - Analyst*

I just said on the Q3 call you had mentioned ACV. There is an acceptance rate of the new pricing program or the new strategic dynamics, so to speak, for the business and it seems like really just in the Americas, from the retailers.

The one question I had was, what's the pushback from the ones that haven't accepted it? What's the reluctance for not accepting the new program?

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

Some of it's just timing. And our programs and our selling proposition is really different in the fourth quarter than it is the rest of the year because it's so promotionally driven and making sure that we have the holiday execution. And so we're back in with that whole category management discussion now.

The pushback hasn't been aggressive because we have a pretty rational story to tell. It's more, as Lawrence said, getting the category managers to understand where things are eroding in other departments that aren't necessarily their cost centers.

Rob Dickerson - *Consumer Edge Research - Analyst*

Okay. Fair enough. And then a maintenance question, I'm not sure, again, if you mentioned on the call, but was there two targets, one on gross margin for FY15? And then, two, was there a target for incremental market expense? Thank you.

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

We did not provide any gross margin targets and the incremental marketing target is at least a 5% increase year-over-year.

Rob Dickerson - *Consumer Edge Research - Analyst*

Okay. Great. Thank you. I'll pass it on.

Operator

Akshay Jagdale, KeyBanc.

Akshay Jagdale - *KeyBanc Capital Markets - Analyst*

My question's on cost savings. Obviously on the CCI side, you've done a great job and aggressive targets of 2015. And I know in the past you've done some studies on your SG&A as well because optically, it looks pretty high relative to the average for the industry.

Can you talk about just the cost savings opportunity that lies perhaps potentially in the SG&A line? Because given the current environment, obviously there's a lot of focus on cost savings in general. Thank you.

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

Sure. We recognize the opportunity that lies there. Some of the drivers on the line in general is our global scale which adds complexity. And we have joint ventures below the line, which require management and resources. So those are factors, we do want to remind people that require management and resources and don't end up as a percentage of net sales because it's all below the line.

But having said that, we continue to look at how we can become more efficient as well as effective through faster streamlining of our decisions and more consolidation of back offices. In the more recent activities, you're well aware of what we talked about for our European organization last year. That is part of the guidance that we have this year as we continue into a shared service environment there.

As well as more recently announced North American actions that align more effectively under the structure that we have now which again results in efficiencies in our decision-making there. So it's a balancing act to make sure that we are being aggressive on that line but, at the same time, we are growing categories and we want to make sure we're putting proper resources behind the growth that these categories enjoy.

Akshay Jagdale - *KeyBanc Capital Markets - Analyst*

That's helpful. Just one follow-up. Can you give us an update on India and where you stand with that acquisition and the plans that you had in place?

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

We're building our supply-chain capabilities there. We've introduced some of the value added products and we're seeing those getting traction in the marketplace. Obviously we'd like to see progress faster, but we're doing the things that we laid out when we made the acquisition. And feel like we can see a positive path forward.



Operator

Ladies and gentlemen, we are experiencing technical difficulties. Please stand by.

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

I'm sorry, Akshay. Are you there?

Akshay Jagdale - *KeyBanc Capital Markets - Analyst*

I am there, yes.

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

Somehow our phone disconnected. It went. So I'm not sure how much of my answer you got.

What I was saying is we believe that India is a long-term investment and a long-term growth engine for McCormick. We'd like to see progress faster, but we've done the things that we laid out in the acquisition, which is moving to more value-added products, getting our supply-chain and our supply base in good order to be able to grow the business and service the customers. But we're not pleased with the progress and we believe that we can do better there.

Akshay Jagdale - *KeyBanc Capital Markets - Analyst*

I'll pass it on. Thank you.

Operator

David Driscoll, Citigroup.

David Driscoll - *Citigroup - Analyst*

Wanted to ask a little bit more -- I know this has been talked about quite a lot, but in the United States you've seen a 70 basis point share loss in the spice category. But more broadly, going back over the last four years of our new AOC Plus C Nielsen data, it's a 330 basis point decline in market share for McCormick. The question is when I see share losses that large, and ongoing share losses, there is just a concern that fundamentally these price gaps really need to be put into a different place and that you should take a price decline.

Can you respond to that? And how do you think about these share losses? Am I too concerned about this multiyear stretch of share losses?

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

No, we're concerned as well. That's why we're taking the actions that we are. And we feel like we're doing a lot of the right kinds of things. We're driving innovation, we're talking to customers, we're talking to consumers, and so we take this very seriously.

We're in a growing category and through history, we have always been the driver of growth in the category and we expect that we're going to do that, but we're not happy with the performance that we've had the last couple years and we're doing things differently.



David Driscoll - *Citigroup - Analyst*

Maybe just a final question is that, on the long-term guidance, the 9% to 11%, so including the 2015 expectations that you laid out, you'll have three straight years of missing the long-term EPS of 9% to 11%, the compounded rate in these three-year period would be about 5.5%. I think you said in your prepared script the five-year historical number was 8%.

Why not reduce the long-term guidance? Do you give much thought of that? Is the long-term guidance just a flagpole out there or how hard core are you about that stuff?

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

What we really do is focus on what we need to do in the current year. As you know, it's been pretty volatile. And as we think about where we're going long-term, we believe that this business should generate that kind of growth. We should be able to do the sales growth that we talk about with an acquisition or with a steady stream of acquisitions. Our acquisition record over the last couple of years has not been as consistent. So the acquisitions we've made have been good, but we haven't done one every year as our long-term guidance would suggest.

The second thing is we've had so much volatility over the last five years in cost. As I said earlier, pepper's up 500% basically in the last five years and so we had to deal with a lot of that volatility. And then the other pieces are the ups and downs of things like pension expense and those sorts of things.

What we're really focused on is making sure that we're running the businesses the right way, that we are driving the category and driving growth to be able to perform that way. So we do discuss the long-term goals. We lay out plans that we believe will hit it and then we adjust year-on-year based on what's actually happening in both our cost structure and with our customers.

I will say the two changes that I think you're seeing for McCormick right now is we're being more aggressive on costs because we recognize we have to do that. And secondly, we are being aggressive in the marketplace with our customers. And in terms of bringing them ideas and bringing them lots of programs to help drive growth in the business.

David Driscoll - *Citigroup - Analyst*

I think bringing comfort to the shares situation is critical for your investor base. It's very hard to see this kind of share losses and then to know how the Company can achieve those long-term guidance targets. I just say that for maybe future calls. I'll leave it there and thank you for the comments.

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

Yes, fair point.

Operator

Andrew Lazar, Barclays.

Andrew Lazar - *Barclays Capital - Analyst*

Just two quick questions on some of these smaller brands that you've talked about that have been gaining share, just so I'm clear on it. First is, what is the selling point or proposition you think that they're using with retail customers to actually get this space on the shelf?



And then, more importantly, once they've gotten some of that placement and we see that in the shares, what's the velocity of those items off of the shelf? Are they actually delivering anything for these retail customers at the end of the day? Or does that make your case ultimately easier once you have the data to be able to go back to your customers with?

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

The selling proposition is a couple. One is either an ethnic brand that will appeal to a different customer. I was in stores this weekend and walking through and I saw a Caribbean brand. I saw more of a southern ethnic-style brand. I saw Hispanic brands. I saw things that had meat rings where the ring goes to the meat department as opposed to the core category.

So there is a lot of those sorts of things that people are using as selling propositions. Typically the velocity of those individual SKUs or even of those brands is much lower than what we see of McCormick. And so that's a big part of our category story, is to the trade. You don't necessarily need all this fragmentation. There's certainly a value consumer. There's a premium consumer and then there's a consumer who's looking for things in the middle. We serve all those needs.

And so what we're trying to help them with is understanding the impact on their inventory levels and the velocity of what's actually happening in the category. So we are telling that story but there's a lot of different stories as to why brands are finding their way into the market.

Andrew Lazar - *Barclays Capital - Analyst*

Got it. I guess, from your perspective, you believe you have enough of those options, if you will, for consumers and the retailers in terms of what they're looking for. It's so much easier, as we all know, to create brands now and create disruptive sorts of brands, whether it's social media and all of that, that I wanted your perspective on do you feel you have enough of those sorts of options out there or does there need to be some additional interactivity from you, even if it's outside the standard McCormick brand proposition?

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

And we are doing some of that kind of thing. As a for instance, with our bag brand. Seven of the 10 that grew share in the last period were bag spices. We have a bag brand with our Mohave foods line. And so we are using some of those, as well as these controlled value players, as fighter brands to some of those. So there is a strategy there. But it's not unique to the spice and seasonings category. We're seeing it across food.

Andrew Lazar - *Barclays Capital - Analyst*

That is for sure. Thanks very much.

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

Since there's no further questions, I want to thank everybody who participated in today's call. Consumer demand for flavor remains strong. Our geographic presence and our private portfolio are aligned with the move toward healthy eating, fresh ingredients, ethnic cuisines, and bold taste.

We're investing in marketing and innovation to drive sales and, in a competitive environment, working with our customers to win at retail. We're stepping up our cost-reduction activities and plan to use these savings to offset higher costs and invest in our brands.

In 2015 we expect to deliver solid sales growth, higher profits, and strong cash flow. We look forward to reporting to you on our continued progress in the upcoming quarters.

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

Thanks, Alan. I'd also like to thank those who joined us this morning. Through February 11, a replay of today's call can be accessed by dialing (877) 660-6853. The conference ID number is 13596246, and you can also listen to a replay on our website later today. If anyone has additional questions regarding today's information, you can reach us at (410) 771-7244. That concludes this morning's conference.

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