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CORPORATE PARTICIPANTS

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

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

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

CONFERENCE CALL PARTICIPANTS

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

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

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

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

Jonathan Patrick Feeney *Consumer Edge Research, LLC - Senior Analyst of Food & HPC and Managing Partner*

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

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

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

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

PRESENTATION

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

Good morning. This is Kasey Jenkins, Vice President of McCormick Investor Relations. Thank you for joining today's second quarter earnings call. To accompany this call, we posted a set of slides at ir.mccormick.com. (Operator Instructions) We'll begin with remarks from Lawrence Kurzius, Chairman, President and CEO; and Mike Smith, Executive Vice President and CFO.

During our remarks, we will refer to certain non-GAAP financial measures. These include adjusted operating income, adjusted income tax rate and adjusted earnings per share that exclude the impact of transaction and integration expenses related to the Reckitt Benckiser Foods, or RB Foods, acquisition, special charges and income taxes excluding certain nonrecurring impacts associated with the recently enacted U.S. tax reform, which we refer to as the U.S. Tax Act as well as information in constant currency. Reconciliations to the GAAP results are included in this morning's press release and slides. In our comments, certain percentages are rounded. Please refer to our presentation, which includes the complete information.

As a reminder, today's presentation contains projections and other forward-looking statements. Actual results could differ materially from those projected. The company undertakes no obligation to update or revise publicly any forward-looking statement whether because of new information, future events or other factors. As seen on Slide 2, our forward-looking statements also provides information on risk factors that could affect our financial results.

It is now my pleasure to turn the discussion over to Lawrence.

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

Thank you, Kasey. Good morning, everyone. Thanks for joining us. With our strong second quarter and first half results, we are confident we are well positioned to deliver strong results in 2018. Our successful execution of our strategies and engagement of employees around the world have driven strong double-digit sales, operating profit and EPS growth as well as significant operating margin expansion across both segments in both the second quarter and year-to-date.

Starting on Page 4. We have a broadened advantaged global flavor portfolio, which is continuing to drive growth. Among the second quarter highlights across our portfolio, we grew our underlying business in our consumer segment, particularly in the Americas and China. In our flavor solutions segment, we continue to make progress on expanding our portfolio with additional growth in flavors, particularly in savory this quarter while pruning some low-margin business. And we're driving strong broad-based growth in our branded foodservice business.

The reshaping of our flavor solutions portfolio is a significant driver of operating margin expansion. In addition to the solid growth on our core business, we're pleased with the Frank's and French's performance and their positive impact on our portfolio of condiments and sauces and branded foodservice. Overall, we're confident that the breadth and reach of our portfolio continues to position us to fully meet the demand for flavor around the world and grow our business.

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

Starting with our top line for the second quarter. We grew sales 19% and in constant currency grew 16% for the total company. This was driven by strong results from both segments, led by the Americas. Base business growth, new products and acquisitions, our 3 drivers of long-term sales growth, were all contributing factors. Incremental sales from our acquired Frank's and French's brands contributed 13%. In our consumer segment, we grew sales 16% in constant currency. And in the flavor solutions segment, we grew sales 15% in constant currency. The growth of both segments was led by incremental Frank's and French's sales, which contributed 14% to our consumer segment and 12% to our flavor solutions segment.

In addition to our top line growth, our focus on profit realization drove additional adjusted operating income growth and adjusted operating margin expansion. With our higher sales, cost savings led by our Comprehensive Continuous Improvement program, CCI, and our portfolio shift to more value-added products, including the addition of Frank's and French's, we grew second quarter's adjusted operating income 48% in constant currency and our adjusted operating income margin expanded 330 basis points.

Both segments contributed double-digit adjusted operating income growth and a triple-digit basis point expansion in adjusted operating margin. We're achieving the margin accretion we expected from the Frank's and French's portfolio. And equally as important, we're driving significant margin expansion in our core business, led by CCI as well as a shift in our portfolio to more value-added products.

At the bottom line, our second quarter adjusted earnings per share of $1.02 was 24% higher than the $0.82 in the second quarter of 2017. Our strong growth in adjusted operating income drove this increase, partially offset by higher interest expense from debt related to the RB Foods acquisition as well as higher shares outstanding. Our strong results are in line with our expectations and with the increased guidance we provided last quarter and our outlook for 2018 performance remains strong.

I'd like to turn now to some business updates. I'll begin with highlights from our consumer and flavor solutions segments and follow with a fairly deep look at our Frank's and French's portfolio. In the consumer segment, as seen on Slide 6, we grew sales nearly 16% in constant currency with incremental sales from Frank's and French's contributing 14% and our base business and new product growth contributing 2%, driven by the U.S. and China. In the Americas, growth was particularly strong driven by the large impact of Frank's and French's, which contributed 20% growth. Our underlying Americas business grew 2% on both pricing and higher volume and mix.

In U.S. spices and seasonings, our IRI data indicates scanner sales through grocery channels grew for the category at 4% and McCormick branded at 3%. Both the category, and to a greater extent, our consumption was impacted by a slow start to the grilling season driven by cold and wet weather. While we had strong growth in other parts of the portfolio, such as branded recipe mixes, partially due to this cold and wet weather, it did have an unfavorable impact on overall sales.

Outside of grocery, we continue to be impacted by a large retailer's decision to convert a control label to private label, along with related promotional and merchandising actions, which we have discussed on previous earnings calls, reducing McCormick's measured multi-outlet sales growth to 1%. While this decision hurt our branded spices and seasonings share performance, it drove growth in our private-label sales. We again had solid branded growth in grocery and growth in unmeasured channels, including club, e-commerce and Hispanic markets.

The environment remains dynamic, and we continue to work with our customers to optimize category performance. Overall, we continue to see good growth in our spice and seasonings brands in the U.S. market and remain confident the initiatives we have underway position us to continue our trajectory of long-term growth.

In Europe, Middle East and Africa, the EMEA region, growth was led by France. Year-to-date, France's broad-based growth across both branded and private label has driven this region's growth. In the Asia/Pacific region, our strong sales in China led the consumer segment growth, driven by continued share gains on core products as well as e-commerce growth. China's direct-to-consumer storefront on Tmall continues to gain momentum since its launch earlier this year. It is already ranked in the top 15% of food category Tmall stores.

Our confidence for our consumer segment's growth for the second half of 2018 is bolstered by a strong America summer grilling, fall and holiday season with a combined McCormick's and Frank's and French's promotional and merchandising programs as well as a significant increase in brand marketing; Frank's and French's continued momentum and actions I'll mention in my update on that portfolio in a few minutes; Americas new distribution gains secured in spices and seasonings and the full impact of pricing actions effectively in the second quarter; new product growth in EMEA plus our launch of our first choice brand renovation initiative in addition to significant brand marketing increases related to new products, advertising and product superiority. And importantly, our products remain well-aligned and on-trend with consumer demand for flavorful, healthy eating.

Turning now to the flavor solutions segment. We grew sales 15% in constant currency in the second quarter with incremental sales from the Frank's and French's portfolio contributing 12%. In the Americas, constant currency sales growth of 22% was led 17% from Frank's and French's. 5% growth was driven by strong momentum on flavor and seasonings sales and branded foodservice. Branded foodservice sales growth was broad-based driven by increased distribution with national and regional customers, promotional activity with operators and expansion in emerging channels. And within flavors, our most significant growth was an on-trend savory flavors, where we've been winning with existing business as well as with new products and new customers.

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. We're continuing to refine and optimize our portfolio, increasing our sales of higher-margin flavor business and exiting lower-margin business. Across our flavor solutions segment, the migration of our portfolio to more technically insulated and value-added categories will continue in 2018. We have again realized further results against this strategy in our second quarter with flavor sales up double digits in North America. Beyond our strategies to drive sales growth, we will continue to focus on profit realization as is again evident in our second quarter results.

Our confidence for our flavor solutions segment's growth for the second half of 2018 is bolstered by strong momentum of our flavor growth, particularly in on-trend areas and new product and new customer wins, driven by our expertise in clean label and culinary approach; Frank's and French's continued momentum and actions I will discuss in a few moments; growth in branded foodservice driven by expanded distribution and increased marketing activity and customer promotions; and wins with quick service restaurant customers through new products and promotional activities.

Let's move now from our strong core business results and on to our Frank's and French's portfolio, starting on Slide 8. We are pleased with our progress so far and with the results from the Frank's and French's portfolio. With the acquisition and integration complete, we are excited about the impact we're having on these brands and the growth plans we are continuing to successfully execute against. I'd like to share now some updates on our progress, starting with our North American consumer business. We're successfully growing these brands through stranding distribution by leveraging the scale and capabilities of our newly organized sales force, particularly in category management as well as applying our strength in emerging channels.

Starting with the performance of the Frank's. As of the end of May, our fix the mix initiative, which focuses on having the right assortment of flavors and sizes on shelf to drive velocity has increased over U.S. total distribution points of Original RedHot and Buffalo by 7% and 12%, respectively. And we're increasing Frank's share of distribution on shelf.

One example of how we're driving the increase in through the addition of Original RedHot small and large bottle sizes at a significant retailer. These sizes are underdeveloped in the market and are critical for building trial and providing a value offering. In another example, through our investment in a new smaller case pack for recent Frank's line extensions, we were awarded more space at a significant retailer as it allowed a more efficient placement on shelves. These wins drive both our branded and overall category sales growth. We're just beginning to see the benefits of the additional sizes come through the consumption data.

From a regional perspective, we've worked with retailers in areas where Frank's is not the market leader, and as of the end of May, increased our total distribution points in the West by 8% and Mid-South by 7%. These distribution gains on Frank's RedHot sauce and Buffalo sauce create a foundation for growth.

Turning to French's mustard. We are seeing success in our initial category management efforts. We are convincing retailers to remove duplicative secondary brands as they work to maximize the efficiency of their shelf space. Our analyses have been well received. And retailers, including several large ones, are beginning to implement our recommendations, eliminating lower-ranking yellow mustard brands and expanding the share of shelf for French's and their store brand. As we said before, mustard will take a while to turn around. But we are pleased with the progress we have made thus far to influence the fundamentals on shelf.

After years of declining distribution, we have stabilized overall points of distribution year-to-date and expect to lap the losses we inherited in the second half. We still have many key objectives yet to implement in our category management efforts and continue to dedicate resources and increase capabilities related to mustard category management. We're confident our ongoing focus in this area is driving results.

We're also focused on accelerating growth in unmeasured channels and are establishing these brands with early success. While off a small base, we have already realized double-digit growth in this area, including increasing the e-commerce availability of Frank's and French's. While influencing distribution, share of shelf and channel participation is a continuous effort, we're pleased with our progress so far. We are in the early stages and have robust plans to further leverage our scale and capabilities to deliver growth.

We're also excited about being able to drive stronger promotion and merchandising performance by combining the strength of our entire portfolio. Our first opportunity to leverage increased promotional scale is through the launch of our summer grilling event. U.S. grilling season begins with Memorial Day and heightens during the summer months. This year, the grilling season was delayed due to a rainy and cold spring in broad parts of the country.

Despite this, we experienced solid May assumption growth across our grilling portfolio, including Frank's, French's, Stubb's, Grill Mates and Lawry's products. The summer grilling season has just gotten started, and we've planned substantial increases in third quarter grilling promotions and display pallets to drive growth across the portfolio. For the combined Frank's and French's portfolio, this was the best start to summer grilling since 2014.

And we're seeing the same, if not better, performance in Canada, where grilling is off to a strong start. We are winning with increased merchandising displays across large retailers. As an example, at one large Canadian retailer, consumption of French's ketchup was up 79% versus last year's second quarter, driven by an unprecedented level of display. With this same retailer, we also launched a promotional grilling kit to meet grilling flavor needs of the consumer. The kit combines Canada's classic La Grille Montréal Steak seasoning with Frank's hot sauce, French's mustard and ketchup as well as Stubb's barbecue sauce and new Le Grille products for trial. The promotional kit sold out in less than 1 week.

We've also began to drive an innovation agenda on Frank's and French's. To date, we have launched new SKUs in seasonings and dip mixes. And retailer acceptance has exceeded our expectation. As I mentioned at CAGNY, there is an exciting longer-term pipeline of new concepts developing. And I look forward to sharing details of innovation news in the coming months as we launch these products.

We're planning increased marketing support against Frank's and French's, which will be more significant in the second half of 2018 than in the first half. We're just starting to launch new messaging and support for the brands. In April, Canada was our first location to launch a new television commercial with their new [Do You French] campaign for mustard and ketchup. The commercial received breakthrough scores in consumer testing. In the third quarter, we're launching the first dedicated mustard campaign in the U.S. in 3 years. This campaign actually kicked off this week.

And for Frank's, we're significantly increasing working media in the second half. And we'll be running a U.S. national television ad for the first time in 7 years. To date, we've dramatically improved social media engagement by 115% and an exponential increase in online content. For example, our McCormick culinary experts have already created 100 new recipes for mustard usage, which we are already promoting across our robust digital platforms, including 15 how-to videos. Wrapping up North America consumer for Frank's and French's, performance in these categories is robust and we're very happy with our results.

Next, I'm excited to share some Frank's and French's updates related to our North American flavor solutions business on Slide 9. Our combination of complementary strengths of the McCormick and RB Foods foodservice sales organizations has strengthened our go-to-market model in the North America's flavor solutions business and is enabling us to leverage our full portfolio across operators. Our new scale has created strong momentum within foodservice. And over the past months, we've had successes in key areas.

We're pleased with our progress on increasing penetration with national and regional chain accounts. Through May, we have incremental sales to over 19,000 new restaurant locations, including to more than 10 large national accounts as well as regional accounts. In addition, we're also gaining momentum with securing and converting local restaurant operations. Deeper penetration across restaurants also includes an increase in menu participation and front-of-house presence. Our successes on menu items have included permanent additions as well as limited-time offers and include products across our full portfolio. As an example, we've partnered with a Canadian quick service restaurant to launch a menu item including our Montréal Steak, Cattlemen's barbecue and French's crispy product. We've also secured menu mentions in both restaurant on-site and television media campaigns to build brand awareness with the end consumer through foodservice.

Our efforts in increasing front-of-house presence are not limited to restaurants but cover the full spectrum of the foodservice industry, including business cafeterias, sports venues and lodging. Examples of our early successes include double-digit increases of French's mustard dispenser placements and mid-single-digit sales increase across our portfolio of Frank's, French's, OLD BAY and McCormick tabletop items. Enabled by our new scale across our commercial teams, we are successfully cross-selling our culinary line, McCormick For Chefs, and Frank's and French's foodservice items in the restaurants.

Our foodservice promotional activity is also driving results. With Frank's, we doubled the operator participation in King of Wings program, anchored in the February and March sports season. We're planning to capitalize on this success and increase Frank's awareness during another high wing consumption period, the beginning of football season, by offering King of Wings for the first time in the fall. Further, for North American flavor solutions, we're leveraging our product superiority to drive differentiation. Products like our Cattlemen's barbecue sauces provide superior performance, and therefore, tangible benefits to operators, such as a more natural appearance, thicker consistency and better overall application on product. We've strengthened our marketing and selling materials to more prominently emphasize these functional differences and have started leveraging them in our sales efforts.

Turning to the international markets on Slide 10. We are progressing on integrating the Frank's and French's portfolio into our global network. We are continuing to apply discipline to establish the proper foundation to manage the brands globally, for example, ensuring proper product registration, trademarks and labels. We're also building a more professional presence in market with a more sophisticated and optimized network and country-specific labeling where applicable to enable stronger growth. We have transferred nearly 50 distributors from RB Foods management to McCormick. And we've also added new distributors in 14 countries.

We're also converting to McCormick direct infrastructure where we have scale. As an example, in Mexico, we are already utilizing the infrastructure of our joint venture partner. We have established a co-marketing program with a leading food company, specializing in protein to drive awareness and trial of Frank's. The program is targeting the millennial consumers' social eating occasions, such as at universities, concerts and sporting events, to enjoy wings and other snacks.

Overall, we're progressing as we plan to grow these brands and are excited about the momentum we're carrying into the second half of 2018. Now that the integration is behind us, we're even more confident that the combination of our powerful flavor brands will drive significant shareholder value.

Mike is now going to provide more details on the financial results for the quarter and on our financial guidance. Before I turn it over to him, let me provide a few summary comments on Slide 11. At the foundation of our sales growth is the 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 execution against effective strategies, will drive strong results as we go through the year. We're balancing our resources and efforts to drive sales and the work to lower cost to build fuel for growth and higher margins. Our second quarter financial results across both our consumer and flavor solutions segments are strong. We have confidence our fiscal year outlook and are well positioned to deliver another strong year in 2018.

Around the world, McCormick employees are driving our momentum and success. And I thank them for their efforts and engagement. Thank you for your attention, and it's now my pleasure to turn it over to Mike. Mike?

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

Thanks, Lawrence, and good morning, everyone. As Lawrence indicated, we delivered strong growth with our second quarter results. I'll begin with a discussion of our results and then follow with comments on our current full year 2018 financial outlook.

As seen on Slide 13, we grew sales 19% and in constant currency, 16%. Acquisitions, pricing and higher volume and product mix each contributed to the increase. Both our consumer and flavor solutions segments delivered strong top line growth, driven primarily by the Americas. In addition, we have delivered significant increases in adjusted operating income and adjusted earnings per share as well as significant operating margin expansion. The consumer segment grew sales 16% in constant currency. Our acquisition of the Frank's and French's portfolio contributed 14% of the sales growth.

On Slide 14, consumer segment sales in the Americas rose 22% in constant currency versus the second quarter of 2017 with 20% of the increase from Frank's and French's incremental sales. The remaining increase was driven by both pricing and higher volume and product mix. Pricing included some incremental impact of 2017 pricing actions as well as actions taking late during the second quarter of 2018. While the colder weather impacted the start to the grilling season, as Lawrence mentioned, it drove volume growth in items such as brand recipe mixes.

EMEA consumer sales increased 2% in constant currency, driven by sales of Frank's and French's as well as growth in France led by private label. Partially offsetting these increases was an impact from trade payments to expand distribution in the U.K. We grew consumer sales in the Asia/Pacific region 7% in constant currency, led by China-based business growth in herbs and spices, ketchup and bouillon.

For the consumer segment in total, we grew adjusted operating income 44% to $131 million. In constant currency, adjusted operating income rose 40% from the year-ago period. The impact of sales growth and cost savings more than offset increases in brand marketing and freight costs. We expanded our consumer adjusted operating margin compared to the second quarter of last year by 280 basis points.

Turning to our flavor solutions segment in Slide 18. Starting with sales growth, we grew constant currency sales 15%. Our acquisition of the Frank's and French's portfolio contributed 12% of the sales growth. The remaining growth was driven by both the base business and new products, offset partially by pricing actions across all regions related to the pass-through certain commodity cost declines in our ingredients business as well as the elimination of some low-margin business.

In the Americas, flavor solutions sales increased 22% in constant currency, including a 17% contribution from Frank's and French's and a 5% increase from the base business and new products. This base of new product increase was led by seasonings and branded foodservice sales as well as double-digit growth in savory flavors. It was partially offset by a decline in ingredient sales, attributable to both pricing and the elimination of some low-margin business as well as the global realignment of a major customer sales from the Americas to EMEA.

We grew flavor solutions sales in EMEA 3% in constant currency with Frank's and French's contributing 1%. The remaining sales growth was driven by volume and product mix, which included a favorable impact from the global realignment of a major customer sales from the Americas to EMEA as previously mentioned. Partially offsetting the volume and product mix growth was a decline due to pricing and the timing of customer promotional activity. In the Asia/Pacific region, flavor solutions sales were down 2% in constant currency, driven by the exit of low-margin business in the region as well as commodity cost declines pass-through in pricing. New product sales to quick service restaurants in China partially offset these declines.

As shown on Slide 22, adjusted operating income for the flavor solutions segment ended the quarter up 67% at $77 million with a 3% favorable impact from currency. The increase was driven by favorable impact of higher sales, a shift to more value-added products and the impact of our CCI program. These impacts more than offset increases in brand marketing and freight costs and led to a 420 basis point expansion of adjusted operating margin compared to last year.

Across both segments, adjusted operating income, which excludes the integration costs related to RB Foods and special charges, rose 51% in the second quarter from the year-ago period and in constant currency by 48%.

This increase includes the impact of increasing our brand marketing in the second quarter. As Lawrence mentioned, our focus on profit realization and the reshaping of our portfolio has driven significant margin expansion.

As seen on Slide 24, in the second quarter, we increased gross profit margin 340 basis points year-on-year. While this expansion includes an accretion impact from the addition of the Frank's and French's portfolio, the core business was also a significant driver of the margin growth. Our portfolio shift to more value-added products and CCI-led cost savings continued to drive across profit expansion across both our segments.

Our selling, general and administrative expense as a percentage of net sales increased by 10 basis points from the second quarter of 2017. Leverage from sales growth as well as CCI-led cost savings were more than offset by significant increases in distribution expense, driven by freight. The net impact of the gross margin expansion and the SG&A increase resulted in an adjusted operating margin expansion of 330 basis points from the second quarter of 2017. Below the operating income line, interest expense increased $29 million in the second quarter from the year-ago period, primarily driven by the debt secured for the RB Foods financing.

Turning to income taxes on Slide 25. Our second quarter adjusted effective tax rate was 22.2% as compared to 23.1% in the year-ago period, which included a favorable impact from a lower U.S. tax rate partially offset by a lower level of favorable discrete items. Our second quarter adjusted rate was lower than anticipated due to discrete tax items. There can be volatility in our rate quarter-to-quarter due to the impact of these discrete items and changes to our forecasted mix of earnings.

Income from unconsolidated operations was $7 million compared to $8 million in the second quarter of 2017, a 12% decrease, mainly due to the elimination of higher earnings associated with minority interest. We continue to expect our 2018 income from unconsolidated operations to be comparable to 2017. At the bottom line, as shown on Slide 27, second quarter 2018 adjusted earnings per share was $1.02, up 24% from $0.82 for the year-ago period, mainly due to higher adjusted operating income, partially offset by higher interest expense and shares outstanding.

On Slide 28, we summarize highlights for cash flow and the quarter-end balance sheet. Our cash flow provided from operations was $235 million for the second quarter of 2018 compared to $177 million through the second quarter of 2017. This change was driven by the increase in our net income. We continue to see improvements in our cash conversion cycle, finishing the second quarter at 67 days, down 9 days versus our fiscal year-end, primarily driven by our extended terms and inventory programs. We returned $137 million of cash to shareholders through dividends and used $60 million for capital expenditures through the second quarter of 2018.

We expect 2018 to be another year of strong cash flow and our priority is to continue to have a balanced use of cash, making investments to drive growth, returning a significant portion to our shareholders through dividends and to pay down debt. Year-to-date, we have made $100 million of prepayment on our 3-year term loan secured as part of the RB Foods acquisition financing. This brings our total prepayments to $350 million.

Let's now move to our current financial outlook for 2018 on Slide 29. Our sales, adjusted operating margin and adjusted earnings per share targets for the year remain unchanged. At the top line, we reaffirm our guidance to grow sales 13% to 15%, including an 8% incremental impact of the acquisition of Frank's and French's and underlying base business and new product growth of 3% to 5% from higher volume, product mix and pricing as well as a 2 percentage point favorable impact due to currency.

Previously, we expected at least $100 million of CCI. We now expect at least $105 million. With our revised CCI guidance, the momentum of our first half gross margin expansion and our continued strategy of shifting to a more value-added portfolio, we are now projecting our 2018 adjusted gross profit margin to be 175 to 225 basis points higher than 2017. This is an increase from our previous projection, which was a 150 to 200 basis point increase versus 2017. We expect this additional favorability to be offset by incremental freight costs.

As a reminder, for 2018, we are planning to increase brand marketing at a rate above our sales growth. And for the first half of 2018, our brand marketing increase was lower than the rate of our sales growth. We also expect currency favorability to be greater in the first half of the year than in the second half. And we have seen more volatility and uncertainty recently. As such, our adjusted operating income increase remains unchanged. 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.

We reaffirm projected adjusted earnings per share of $4.85 to $4.95, an increase of 14% to 16% versus our $4.26 adjusted earnings per share in 2017. This range of growth includes an estimated 1 percentage point impact from favorable currency rates. For the fiscal year, we expect our higher profit and working capital initiatives to lead to another year of strong cash flow. In summary, we are projecting excellent growth in our 2018 constant currency outlook for sales, adjusted operating profit and adjusted earnings per share, following record double-digit performance across each objective in 2017. We also reaffirm our 2018 GAAP earnings per share range, which is projected to be $6.85 to $6.95.

There are several projected 2018 adjustments, which are expected to drive our GAAP to non-GAAP reconciliation: first, approximately $23 million for integration expenses related to RB Foods, which is in line with our previous estimate; second, approximately $18 million of special charges; and finally, the net impact of 2 nonrecurring items required by the U.S. Tax Act, which is currently expected to be a tax benefit of approximately $298 million in 2018. The total net impact of these adjustments is anticipated to be a $2 favorable impact to our GAAP earnings per share for fiscal 2018.

Finally, before we move to your questions, let me recap the key takeaways from our remarks this morning. Our momentum has continued into the second quarter. And with our excellent first half results, the strength of both of our core business and our Frank's and French's portfolio is evident. We are delivering against our plans for both sales and profit realization and are confident in the effectiveness of our strategies. And finally, we are reaffirming our strong 2018 outlook for underlying sales, adjusted operating income and adjusted earnings per share growth.

Now let's turn to your questions.

QUESTIONS AND ANSWERS

Operator

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

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

I was curious -- Mike, I think you said that brand marketing was slower than sales growth in the first half and then it's going to reaccelerate in the back half. And then your CCI is heading -- is a little bit ahead of expectations. But then you said, I think, that there's more volatility than you expected. And I didn't quite get in what that was. So I guess the question is did you have to reduce some of the advertising in second quarter or shift it to take into account that volatility? And then I guess, the follow-up question is the quarter is so much better than what consensus had, but it sounds it was just in line with what you were planning and the phasing is different than what The Street had forecasted for the year. Is that fair?

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

Yes, Rob, as you know, we are performing according to our plans. And we really don't give quarterly guidance. So we feel it was a great quarter, as you said. The thing is you've got to realize that some of this is timing. And we talked about A&P. We have underspent net sales growth year-to-date.

But we've always planned for the year, the second half was going to be back-loaded from an A&P perspective. We're launching our first choice advertising late in the third quarter in Europe for our brand relaunch there of our Ducros and Schwartz. We have our French's and Frank's plans and strong grilling across the summer. So the comment about volatility was more around FX. You've seen some of the FX rates jumping around the last month or so. That's it. And our FX has been very favorable year-to-date, about 3.5%. We see that going down for the year about 2%.

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

I see, okay. And then just one follow-up on French's. I think that it sounds like the -- getting the distribution right is being well received by the trade. But it's going to take a while to execute. What's the obstacle to getting it done? Like why not just have it done for this year's grilling season? Is it just kind like you have to convince retailer-by-retailer to do it? Or what is it?

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

Rob, this is Lawrence. Well, first of all, I would say we are getting it done. So the change in the distribution that we talked about in our prepared remarks really reflects a lot of real execution that's already happened at retail, especially on Frank's, where we substantially improved the distribution on -- or the total points of distribution on the Frank's brand. And we've made some good progress on mustard really just by stabilizing it, a story that's pretty positive. We inherited some distribution losses there. And the longer-term trend on distribution had been negative as well. So bringing stability to that is a good step in the right direction. Yes, retailers -- resetting a shelf operationally is a big deal for them. You do, do it customer-by-customer, but it's a disruption to their stores. And so they tend to have specific windows in which they'll do the resets. And so even some of the changes that we have sold to customers that they have accepted haven't unfolded just yet because we're not at the window when they're going to reset that aisle or that section of the store, but...

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

Or the competitor product has to sell through (inaudible)

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

Yes, exactly. But we've made a lot of progress in this area. I mean, I'm really pleased with it. And there's a lot of runway for continued improvement there. We are really in the early innings of the improvement in distribution on French's and Frank's. They were tremendously under-skewed and under-shelved. And the progress that we've made, while it is meaningful and we're going to see in the numbers in the second half, there's a lot more to be had there.

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

Yes, I didn't catch what you said about the competitor. Is the competitor also...

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

Yes, Rob, even if you win, and as Lawrence said, there are windows you have to reset things, the competitor product is on-shelf that has to sell through. It's still in their supply chain so that is a natural delay.

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

But there were a few of them -- or I don't think you've written a note on this, but some of your peers have written notes about noticing some of our competitors disappearing at certain accounts.

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

Well, they're doing a great job, those competitors.

Operator

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

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

I wanted to ask a couple of things. First, just in the store checks that we do when I put my hat on as a food retail analyst, we've seen -- I know you don't want to mention specific customers, but I guess I can. Kroger moving some of spice and seasonings products around the store, and in some cases, putting spices and seasonings in areas of the store where there's no other food. And I'm just wondering, is this something you're seeing on any kind of broad scale? Or are these really -- as far as you know, and maybe you haven't seen this is all, are these sort of one-off changes in your view? I'm just trying to get a sense of whether this is something that we should see as a canary in a coal mine a little bit.

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

So Ken, Kroger is certainly doing that. I would say that, that actually isn't anything new. And it's something that we see is pretty widespread practice, to put spices and seasonings into secondary locations. It's not abandonment of a central section for spices and seasonings. But putting spices and seasonings into the meat area, taco and so forth with the Hispanic product, some presence in the produce area, these are things that not only does Kroger do but other accounts do and is actual performance that we sell to retailers to accelerate sales. And in fact, we've got specific brands that are designed to live in those other parts of the store. Over in the produce section, we have Gourmet Garden brand and our Produce Partners brand. For example, Adolph's very often appears over in the meat section. So this kind of secondary placement is not unusual and really part of the health of the category.

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

Yes, I think I asked that question. I could have asked that in a better way. What I really meant was the primary placement has shifted. But I'll follow up offline with that.

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

Okay. I would say we're not seeing primarily placement really...

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

Okay, good. I appreciate that. And then I wanted to ask, we're looking -- obviously, scanner data is becoming less meaningful for a lot of food manufacturers. It seems to be really less meaningful for you as you shift to some alternative customers. But we are seeing that for a number of your brands, not just (inaudible) season, a number of brands, whether it's Zatarain's, OLD BAY, et cetera, that McCormick is losing distribution points as a company with a major customer. And I don't see a reason really for concern because at the same time that your distribution points are dropping, your velocities are getting a lot better with these brands. But is there anything that you can see in the data or help us understand why your TDP with this particular customer or with any one big customer is rolling over? Or is the data incorrect?

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

Sure. Well, Ken, let me take this in 2 parts. First of all, there's a syndicated Nielsen report that is widely drawn upon, that's kind of a standardized product that they sell in the industry, and we've had a disconnect versus that for a long time. It does not accurately track us. And where it does track? We believe, it's tracking the channels that are losing share, not where we're losing share, but that are actually losing share to other channels. And so we think it understates consumption overall, not just for us but for everybody. That's my opinion. I don't have a quantification on that. But what we call unmeasured channels have been outpacing the growth in measured channels for a long time. The second part of that regarding the distribution point loss on some of the specific items. Yes, there's a statistical artifact in that, when you change your package, the old package shows up in the data and the new package, as if they were 2 separate items. So in OLD BAY, in particular, which is one of the ones that you mentioned, a year ago, we were converting from the metal tins to the -- I guess, it's BPA-free plastic containers that they're in today. And while that transition was taking place, the syndicated data is reporting those items as if they were 2 separate things. So a 3-ounce OLD BAY package was showing up really kind of as a double count, and that has come out of there right now. So noise like that around packaging transitions makes a difference. And it sounds like, that wouldn't be very much on OLD BAY, in particular, that's actually quite a big difference, and we haven't really -- we haven't lost anything in OLD BAY. It's a great-performing product. In others like Zatarain's, rice mix is a category that is a little bit off trend right now due to carb consumption and TDPs for that entire category have declined and Zatarain's has lost some distribution along with that as consumers have gone more towards protein-based foods and away from carbohydrate-based foods. We'll say that Zatarain's has an advantage and that it's more of a dinner mix than a side dish, and so people add meat to when they consume it. But there has been some distribution loss on Zatarain's. But if you step back, the changes in distribution that are coming through in the syndicated data are around OLD BAY and also on some of the spice items in our -- what we call the super deal size, reflect packaging changes. And there were also some limited-edition Grill Mate items that were out there a year ago and they've come out. So if you -- thus for those, we've actually gained distribution. So if you take that noise out, our points of distribution are actually up, not down.

Operator

Our next question comes from the line of Alexia Howard with AllianceBernstein.

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

Okay. So one main question, a quick follow-up. Can you elaborate a little bit on how things are going in China? It looks as though the flavor solutions business is under a little bit of pressure sales-wise, but the consumer business is doing well. Is that e-commerce taking off? Or is that in more of the traditional trade, that would be great? And then just a quick follow-up. Can you quantify the gross margin impact of the RB Foods acquisition? How much of a benefit has that been since that deal was closed?

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

Great. Hey, Alexia, I'll take the first half of that and then I'll pass it over to Mike to talk about gross margin. But our business in China has been really robust on the consumer side. The majority of the growth that you're seeing over there is still being driven by grilling-based business growth. We have continued to expand distribution, household penetration, and we've gained share in every category that we compete in over there on the customer side of the business. So it's a great story. We are having tremendous growth on our new Tmall store, but I will temper that by saying it's still small and these are early days. Yes, we've only just opened it this year. So it -- while, it's a contributor to the growth, that's not what the real growth story is in China just yet. On the flavor solutions business, yes, that business is just a choppy, lumpy business, and we have a fair degree of customer concentration there. And so customer promotional activity can change to quarter-to-quarter numbers, but the trend line for flavor solutions in our business in China has been positive and continues to be and we've got a very good outlook for that. Mike, do you want to comment on gross margin?

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

Yes. I think the thing -- just to follow up on your point on China, China flavor solutions actually grew, as we said. But in the rest of the zone, we were exiting some low-margin business as part of our focus on profit realization. So -- but the China underlying flavor solutions business did grow. From a gross margin perspective, you asked a question about the share of the gross margin expansion due to RB Foods versus the core business, I'd say approximately on a year-to-date basis, approximately half is from RB and half is focused -- coming from our core business, which really that focus on CCI and moving more toward value-added products.

Operator

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

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

I just had a couple of questions for you, if I could. The first one will just be in relation to the gross margin. It was up at a stronger rate and you just gave a little color around the sources of that growth. Freight costs are up. It seems like inflation is in line with expectations. I just feel -- initially, this quarter, you had a little less pricing coming through as well, so I wonder if you could speak about the pricing overall? And then -- the effect that could had on the gross margin, given inflation is still in place for the business?

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

Chris, I'll take this. This is Mike. From a gross margin perspective and pricing, yes, the pricing that's going through the first half of this year is really related to pricing actions we took in 2017. And we've talked about this in the script that late in the second quarter, we've seen some of the -- the pricing will start coming through late in the second quarter and third and fourth quarter will be fully effective. So you'll see in the third and fourth quarter, a little bit more from a pricing perspective. But as we said from the beginning of the year, commodity, cost inflation is low single digits and we're passing that on low single-digit price increases. From a margin perspective, as I just mentioned about half of the gross margin improvement is from the core business, half from the RB accretion. Yes, we talked about CCI. We put in the $400 million target back in 2016, and we're overdelivering that. We're overdelivering this year. And that's why we called the full year to up that at least $105 million, really great performance there across the company. And this continued move to reshape our portfolio really a lot on the flavor solutions side with moving more to the flavor and seasonings, and you saw this quarter in the Americas zone, for example, savory flavor's up, seasoning's up, so those types of things that really help our core business grow gross margin.

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

Okay. And related to that just there's a comment on a couple of the divisions where you are exiting low-margin businesses in flavor solutions. Can you -- is there at all a quantifiable drag on the top line? And maybe even commensurately, how much of the incremental margin that non-RB Foods margin improvement -- gross margin improvement is coming from that activity, if it's big enough to even cite?

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

No. It's build into our guidance for the year. So we don't quantify that, but it is helping our gross margin improvement.

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

And how much was sales drag is that? Is that a large amount of sale drag? Did you walk away from some of these contracts?

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

We don't really break that out, Chris. But it's not material, but it's within our guidance of the year from a sales perspective.

Operator

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

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

So yes, I guess I have a question that goes back to gross margin as well, but then also as it relates to EPS for the year. So Q1, you had a strong first quarter. It seems like you have a fairly strong second quarter with part of the EPS performance really being driven by better than the market expected on the gross margin side kind of falling through. Though we see you increased your gross margin guidance for the year by, I think, 25 basis points, but then the EPS isn't increasing. So I'm just curious around your comments on FX volatility second half versus first half and the increase in marketing more back-half weighted, can you just provide some color as to like why you would not increase your EPS guidance for the year since the first half has been so strong? I guess, that's one. And then two, it's just if you're running at like 2.5% organic sales for the first half of the year, but the year implied 3% to 5%, that I'm assuming we should still be expecting a decent step-up in the back half to get us to that 3% to 5%?

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

Right. There's a lot in there to unpick, Rob. (inaudible)

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

Sorry, sorry about that.

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

That's all right. No, no and you hit on a couple of points that I mentioned. But one thing -- gross margins are up and part of that was due to our CCI efforts calling that up by $5 million. But on the SG&A line, where we classify freight unlike a lot of our peers, freight is up versus last year. So we didn't get leverage on our SG&A as we have done in the past due to that freight increases and we'll see that continue into the third and fourth quarter. The other thing we mentioned, we're continuing to reinvest in our business and the A&P increase in the second half will be above the rate of sales. So that all plays into our full year guidance. Everything is baked into our range of $485 million to $495 million. But -- and yes, the FX, as you pointed out, and I think, on a note, we were very favorable year-to-date. And then the rest of the year, it will be somewhat neutral, but that's also impacting the second half growth rate.

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

Right. And I'll just add to that our year is progressing as we have planned. We did just increase guidance last quarter, and we still have our 2 biggest quarters ahead of us. And so I think we're comfortable with where everybody's models for the year are settled.

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

Okay. Fair enough. And then just one quick question on the pricing. Yes, I'm just curious, I think I heard you mention promotional activity in different parts of the world. So I know the pricing is coming through in certain categories, I assume in the Americas in the back half. So one is, is there -- do you feel like there's potentially a little bit increased promotional activity in the market at this point, one? And then two, was there any volume component that kind of offset some of that pricing this quarter or maybe in Q3?

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

I don't expect -- Rob, Lawrence here. I don't think that -- that wasn't what we were trying to message at all. I think what we're messaging is that first of all, the second half of the year seasonally is the strongest part of the year and so our promotional activity is higher overall, and that our plans for the year always included an acceleration of marketing activity. As we got into the second half the year, I'd say that is particularly true. On the Frank's and French's business, where a year ago, we just acquired the business and really hadn't had a chance to impact the consumer marketing program during that high season. So that's all that we're trying to signal there. I think that on pricing, yes, the message is, is that we got the pricing plans that we -- the pricing that we were intending to take, we got not in only negotiated, but actually in place towards the end of the second quarter, and so we would expect that to be a net benefit in the second half.

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

Yes, the other thing, Rob, the promotional activity, we might have been referring to in the script, really was -- we talked about flavor solutions, the customers have different promotion schedules, so that impacts the timing of sales.

Operator

Our next question comes from the line of Adam Samuelson with Goldman Sachs.

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

Two questions. I guess first, in the flavor solutions business, a helpful -- I mean, the margin expansion here has been quite considerable and just again trying to think about how mix between RB Foods and just some of the conscious to mix changes that you've undertaken in your base business have impacted it? And may be a little more color on the growth that you're seeing between the flavors and branded foodservice versus your ingredients businesses? That would be the first question.

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

Sure, Adam. Adam, this is Mike. Similar to the question that Alexia asked, if -- for the whole company and for the segments, roughly about half of the accretion on gross margins is coming from the base business and half is coming from the RB Foods accretion. So it works out that way. Go ahead.

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

No, I was going to say -- and so is the rest more CCI? Or is it mix -- conscious mix changes in your own legacy business between branded foodservice flavors and some of the lower margin ingredients that you had before?

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

It's really both. I mean, CCI really falls across both segments, but it impacts flavor solutions heavily. But the conscious decisions we're making on the ingredient business also really focusing on flavors and seasonings and branded foodservice, which has also performed very well, both on the core business and then the Frank's and French's business too, so they're all leverage we're pulling to help us.

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

Okay. And then just more broadly and it's hard to parse given the old reporting and how it's not split. But RB Foods kind of in aggregate on its own, what was it's organic growth in the second quarter, if you have that number?

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

I don't think that we're saying that, but the full amount of the sales, of course, is visible because of the sales attributable to acquisition are 100% from RB Foods. I will say that RB is tracking uncannily close to our original acquisition model and...

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

Which Lawrence said in the first quarter too.

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

Yes, I know but it is uncanny how close it is, and so we're very -- which included some pretty aggressive growth as we go through this year. So we're really pleased with it, but we're not quantifying that. And there's a reason for that, and that's because when we get to fourth quarter, it's going to drop into base business. And as we go forward, we're not going to be reporting on it separately. It will fall into the segments. And so -- yes, so it just seems like providing that visibility during this period of time would just be an unnecessary amount of detail, but you can see in the overall sales growth and in margins performance that we're getting good results there.

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

Okay. And just -- and I guess along similar lines, you're not disclosing the actual realized synergies to date on the acquisition?

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

No, but we've said, this year, that we're progressing -- we're getting higher than we originally thought. We're not quantifying it, but we're progressing well. At some point during the year, we will qualify it, but not yet. We're only -- you go back to -- this is kind of a broad question even back to why we aren't calling up our guidance, we're only about 40% through the year from an earnings perspective. Our 2 big quarters are coming up. So yes, it's something, I think, in the third quarter, we'll have more news.

Operator

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

Jonathan Patrick Feeney - *Consumer Edge Research, LLC - Senior Analyst of Food & HPC and Managing Partner*

Wanted to ask about -- I know you're not going to give us the apples-to-apples sales and volume for Frank's and French's, but you did give us some comments earlier in the call about some impressive distribution gains there, and I really wanted to dig into -- first of all, if you could comment as to whether those distribution gains, I think, on a regional basis and national basis are an acceleration from what had previously been going on. I'd imagine the answer to that question is yes, but please correct me if I'm wrong about that. And I wondered what is that you're doing to drive that? Is it -- are there some analytics there that you have that others don't? Or did you approach that in a different way? Like how would you bucket the success you're having with that because I think it applies broadly to what's going on with innovation in your company broadly?

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

Great. Thanks, Jonathan. One of the things that we've got that the previous owner didn't have is that we've got tremendous category management capability. I mean, Reckitt Benckiser is -- that was a (inaudible) company. In their core categories, they've got tremendous capability, but this was not one of their core categories. They regarded this as an off-strategy business and so it didn't get the resources that other brands in that company got. And their category management capabilities were frankly pretty rudimentary. Today's category management exercises requires specialized tools. It requires a lot of data and it requires talent, all of which are expensive and require substantial scale to work. And so yes, their competitor was able to push them around at the shelf pretty, pretty handily for the last 3 years or really -- yes, for the last 3 years before we bought the business. And we've been able to successfully now push back against that. For -- as an example, in many customers, French's mustard has the same shelf presence as, let's say, the other brand that's out there, but as 3 to 4x the velocity. I mean, the competing brand doesn't deserve equal presence. Customers have been very responsive to the fact that, that French's is undershelved and underskewed and that the competitor's brands are over shelf, over skewed and may not even deserve to be there in the first place. And so that's a selling story that it's a customer-by-customer selling story, but they've been very receptive to it. The data totally supports it, and we've been pretty incredible. This is an area that's been historically a strength for McCormick. We've really built a lot of muscle in this capability over the last several years. And so I think we're able to push back pretty effectively. The gain, so far, are really pleasing. We again believe are not at the end of the story. There's a lot more runway still here to do -- improve our shelf presence and share our shelfs.

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

The other thing we bring to it and Lawrence mentioned this, but in the third quarter, we have anew French's advertising campaign. That would be the first time in several years, so that will help further drive growth.

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

Right. So while we've done a great job on the shelf in the first half of the year, I think as we get to the second and through the second half and start introducing the new advertising, we're going to see consumer response be really good. That French's campaign actually just started this week. So it's in the market now.

Operator

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

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

So I wanted to ask about the organic growth, so the acceleration that's expected in the second half, is that primarily pricing? Or does that include some of the distribution gains on the base business that we're not aware of?

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

Hey, Akshay, this is Lawrence. And there are -- it's not just pricing. Pricing is part of it. But we have a much stronger A&P plan in the second half of the year compared to the first. As Mike mentioned, for the first half of the year, our A&P spending, while it's up, is not up equal to our sales growth, but for the full year, we expect the company spending on A&P to be higher than -- A&P growth to be higher than sales growth. So implied in that is pretty strong acceleration of A&P spending in the second half of the year, and that is our highest consumption period. And so I think that real consumer offtake driven by our marketing programs is one of the main factors, that and pricing. And we have distribution gains that we have won that haven't been fully reflected at the shelf in the first half of the year and indeed some of which are still even in the process of being implemented that give us a lot of confidence in the second half of the year, especially going into the fourth quarter. And then in the fourth quarter, remember, that Frank's and French's will be part of that core business, and we're going to be lapping some of the fourth quarter supply chain issues from last year. So we're expecting a very robust fourth quarter from that really good point.

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

Okay. And then just on the category management, obviously it's playing through quite nicely, look likes, in the acquired business. But in the base business, my question on category management was larger customer as you've seen, obviously, some strategic initiatives from them as it relates to private label and control brand conversion, some promotion that I think have not been in line with what you would have suggested. So can you give us an update on that? And how that's shaping up? I mean, should we expect that the new shelf resets a different strategy? And the reason is (inaudible) huge impact from external data. But I'm just wondering if you have enough data on that regard?

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

Well, I think, that the -- our category management efforts are reinforcing on a competitive dynamic that we see in the market right now where the leading brand is gaining and private label is gaining. And if you're thinking of herbs, spices and seasonings in particular, this is a category where we make both. And so our category management efforts have been around accelerating the growth of those 2 and that's put pressure on everything that's in the middle. The numbers there are distorted by a new low by one large customer that we've talked about at some length. I'm not going to repeat all that stuff. But if you look at the total grocery trends, our IRI scanner shows that we are pretty close to keeping pace with the category, and I think our category management efforts there have been pretty successful.

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

And just one last one on the acquired business again, hard for us to really track the unmeasured data. But from your comment, it looks like everything is right on track despite the late start to the grilling season. So can you help me marry those 2 because I'm assuming you didn't foresee a late grilling season, but it sounds like if it weren't for a late grilling season, the numbers would have been even better and it's just a timing issue. Is that a fair way to think about it?

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

Well, I won't say that it's just a timing issue. But certainly, if we hadn't had a later start to the grilling season, I mean, March and April were cold and wet and across the East and the South, and that's where a lot of our consumption is. That consumption has gone. So that's not going to repeat. But yes, if it weren't for that, I think we would have been even stronger. I don't think that, that really manifest itself so much on the French's and Frank's portfolio as much as it does on our core grilling product. For French's in particular, this is -- well, actually for French's and Frank's, this is the strongest start to the grilling season that they've had since the competitive product was introduced. This is the first time, they've -- that those brands have gained volume during that period.

Operator

Our final question comes from the line of -- I'm sorry, our final question comes from the line of Steven Strycula with UBS.

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

So I have a strategic question, Lawrence, for you, I wanted to understand for the United States and for France. What if some of the retail learnings been as they've maybe rotated and done a few this labeling change over to private-label. Has category value suffered at all from these decisions? And how do you kind of interpret the recent trend line in that direction? And then I have a quick follow-up.

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

Okay. Well, that's an interesting question. For us, the category -- the change that happened for our brand, it was already an entry price point item. And so the transition from that entry price point economy brand to a private label really wasn't a category devaluing event. It wasn't a margin devaluing event for us either. The thing that has been category devaluing really within that customer has been some intense promotional activity that they have put against that item that occurred most intensely during the -- say, end of -- through fourth quarter and first quarter of last year. And as we lap that, I think we'll see some improvement there. But that's the case for us. I really don't know what the answer to that is more broadly.

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

Okay. That's helpful. And then in the U.K., last year, we saw some retailer action to just take net distribution out of the category for general merchandise. Has there been any thought process on to that coming back your way or to the category's way by any means? And then to wrap it up, just wanted to understand, if you guys do a little bit of private-label manufacturing for herbs and spices, is that to say that part of the commercial strategy in condiments might be to do the same for select retailers?

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

Okay. So there are 2 questions. Well, first of all, in the U.K., we're coming up on the lap of that distribution change. And so certainly, that won't be the negative impact that it has been. But on the other hand, I don't want to speculate in advance about what the change in distribution we might get with them going forward. As far as the condiment private label, I think that's something we would have to think long and hard about. That is not a business that we're in right now. We have provided private label in our urban spice category because it's a very complicated category to manage and we've tried to offer the customer a full category solution for the category. It's got hundreds of SKUs and it's very challenging to manage. Condiment is a little bit different than that. So I think we got to think long and hard about that. That's not a business we're in right now.

Operator

Thank you. We have reached the end of our question-and-answer session. I would like to turn the call back over to Mr. Kurzius for any closing remarks.

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

Thanks, everyone. I'd like to thank everyone for your questions and I'd like to apologize for those who are still in the queue. We have gone 15 minutes over, and we do still have questions in the queue. So my apologies to those that we didn't get to, and I'd like to thank everyone who participated on today's call.

McCormick is a global leader in flavor, and we're differentiated with a broad 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 pleased with the strong results for the first half of the year, and I'm confident in our continuing momentum for growth in 2018. I look forward to reporting you -- to you on the shareholder value we'll continue to create. For those of you who are in the U.S., have a great Fourth of July and wherever you are, go out and grill something with lots of seasonings and top it off with French's and Frank's. Thank you.

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

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