THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

MKC - Q1 2014 McCormick & Company, Inc. Earnings Conference Call

EVENT DATE/TIME: MARCH 25, 2014 / 12:00PM GMT

OVERVIEW:

Co. reported 1Q14 EPS of $0.62. Expects 2014 sales to grow 3-5% on currency neutral basis. Expects 2014 EPS to be $3.22-3.29.

THOMSON REUTERS

CORPORATE PARTICIPANTS

Joyce Brooks *McCormick & Company, Incorporated - VP of IR*

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

Gordon Stetz *McCormick & Company, Incorporated - EVP & CFO*

CONFERENCE CALL PARTICIPANTS

Thilo Wrede *Jefferies & Company - Analyst*

Rachel Nabatian *Credit Suisse - Analyst*

David Driscoll *Citigroup - Analyst*

Eric Katzman *Deutsche Bank - Analyst*

Akshay Jagdale *KeyBanc Capital Markets - Analyst*

Chris Growe *Stifel Nicolaus - Analyst*

Ken Goldman *JPMorgan - Analyst*

Andrew Lazar *Barclays Capital - Analyst*

Philip Terpolilli *Longbow Research - Analyst*

PRESENTATION

Joyce Brooks - *McCormick & Company, Incorporated - 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 first-quarter financial results and 2014 outlook. We've posted a set of slides to accompany our call at ir. McCormick.com.

At this time all participants are in a listen only-mode. A question-and-answer session will follow our remarks. (Operator Instructions). As a reminder, the conference is being recorded.

With me this morning are Alan Wilson, Chairman, President and CEO, who will begin with comments on the latest financial performance and the business update, and Gordon Stetz, Executive Vice President and CFO, who will provide a more detailed review of first-quarter results and the latest financial guidance for 2014.

As a reminder, today's presentation contains projections and other forward-looking statements. Actual results could differ materially from those projected. The Company undertakes no obligation to update or revise publicly any forward-looking statements whether as a result of new information, future events or other factors.

As seen on slide 2, our forward-looking statement also provides information on risk factors that could affect our financial results. It is now my pleasure to turn the discussion over to Alan.

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

Thank you, Joyce. Good morning, everyone, thanks for joining us. Our first-quarter results included solid sales growth and a strong cash flow, as well as earnings per share that was ahead of our initial outlook. These results were driven up by progress with our growth strategies and the dedicated efforts of McCormick employees around the world.

We grew sales 8% in local currency, the incremental impact of WAPC, acquired mid-2013, accounted for about half of this increase. Product innovation, distribution expansion, brand marketing support and pricing also drove sales growth in each of our two segments. Gross profit margin rose 70 basis points due in part to a favorable business mix and our comprehensive continuous improvement program, CCI, which is generating cost savings throughout the Company.

Increased sales, higher gross margin and our diligent expense management led to an 11% increase in operating income which included additional brand marketing support. The operating income result was ahead of our expectation for the first quarter and drove a 9% increase in earnings per share even with a higher tax rate.

Clearly we are off to a good start in 2014 and have greater confidence in our ability to achieve our financial objectives for the year. As Gordon will discuss in more detail, we are reaffirming our 2014 outlook for sales growth and earnings per share.

As we look to the rest of 2014 and beyond, we are encouraged by the increasing consumer demand for flavor. Spices, herbs and seasonings are on trend and a healthy way to add taste and not for a lot of cost. Our meals are typically just a fraction of the cost of a meal to deliver most of the flavor.

The outlook by Euromonitor shows growth in prices and herbs and in recipe mixes in both developed and emerging markets. For herb, spice and seasonings, the largest part of our Consumer Business, you can see our category share information on slide 5 along with attractive category growth rates in our top markets.

In the bulk markets the majority of millennials say they love to cook. And the percentage of our consumers that prefer hot or spicy sauces, dips and condiments is up 8 points from the last two years. The exploration of new flavors is evidenced by the popularity of ethnic fare.

In emerging markets an increase in the middle class and in working women are driving a transition from spices in bulk to spices as a branded packaged food product that offers greater quality, safety and convenience.

Demand for flavor is on the rise whether consumers are preparing meals at home, eating out or enjoying a snack. As a flavor leader it is our job to accelerate this growth and build our share. We position our Consumer Business to flavor meals at home. Our growth strategies include brand building, scalable innovation and expanding our geographic footprint.

In the first quarter of 2014 each of these avenues of growth contributed to an overall 9% increase in Consumer Business sales and local currency. The addition of WAPC accounted for 7 percentage points of this increase. I'm pleased to report that this acquisition continues to outpace our forecast for sales and profit growth.

At the operating income line we achieved an 8% increase in the first quarter for our Consumer Business including the impact of a double-digit increase in brand marketing support.

Staying in China, in addition to the benefit of WAPC, we grew consumer sales of our base business 20% this period with increases in both herbs and spices and in condiments.

In Europe, Middle East and Africa, EMEA, we grew sales 4% in local currency led by strong increases in France and in several smaller markets. Across this region we increased brand marketing support by 38% in the quarter with a holiday TV advertising in France, a brand quality message in Poland and support for our Flavour Shots launch in the UK.

In the Americas sales in local currency were about even with the year ago period. The competitive pressure in the USA that we noted in the fourth quarter of 2013 is being addressed with actions to strengthen our brand equity with the consumer and to win at retail.

The first is to increase our investment in marketing. In the first quarter nearly half of the incremental brand marketing was directed toward the US markets to drive sales of core products. These additional funds were applied to an everyday cooking message with an emphasis on healthy eating. And a closer to fresh message with an emphasis on our gourmet line.

During this period we also continued to develop our Digital Marketing programs connected to the consumer in a personalized way. As for insight-based innovation, I will comment in a minute on the new items at retail across our markets.

In the US specifically we have development underway for new product concepts for launch in the second half of 2014. These products align with our consumer insights, addressing demand for convenience, flavor and quality. We are excited about their sales potential and you will hear more about these in our next earnings call in June.

To win at retail we've realigned our sales organization to boost our resources in underdeveloped markets where our category share of our brands is below the national average. Using insight and analytics we are setting a gold standard for addressing the retail spice set, one that better addresses how consumers shop our categories.

This is fostering a more strategic dialogue with our customers as we work with them on category management with a goal to optimize sales and income in this highly profitable section of their store. Our Consumer Business group in the US is energized by the actions underway to drive better results and I share their enthusiasm. We are encouraged by early signs of traction based on consumption of core spices and seasonings and in recipe mixes.

As I wrap up my remarks on our Consumer Business, I want to comment on innovation across our three regions. We have some great new products now in the market. These were developed based on our consumer segmentation research and more in-depth insights and include items designed to appeal to value minded consumers as well as involved cooks seeking more premium products.

Of the items shown on slide 9 I'm particularly excited about the potential for Flavour Shots in the UK, our 13 spice blend in China and in the US Grill Mates Burger mixes for the 2014 grilling season and gluten-free recipe mixes.

Innovation is also a key driver for our industrial business. We supply flavors to the top foodservice restaurant chains and the top food and beverage companies. And these industry leaders look to McCormick as a partner to develop flavors in their next market-leading products.

In the first quarter we are very pleased with our industrial business results. In the Americas region we have won the supply of new products to food and beverage companies and grown sales of branded foodservice products. These gains more than offset continued weak demand from quick service restaurants.

2013 was an excellent year for our industrial business and EMEA and the success continues in 2014 with a 12% local currency sales growth in the first quarter. We are driving sales through expand distribution and new products particularly in this market with quick service restaurants.

The improvement in industrial sales in China continued this quarter with a 20% increase in local currency. This growth rate compares to weak demand from quick service restaurants in the first quarter of 2013 that related to concerns about Avian flu and poultry menu items.

In total for our industrial business we grew first-quarter 2014 sales 6% in local currency largely through higher volume and product mix with minimal pricing impact. This growth rate, together with a more favorable business mix, our CCI cost savings and comparison to weaker results in the first quarter of 2013 led to a 24% increase in operating income and an operating income margin of 8%. We expect further improvement in the upcoming quarters.

To summarize, for the majority of markets across our two segments we achieved good first quarter financial results and have momentum. In the US Consumer Business we have actions underway to improve our market performance and we expect to see a positive financial impact as we progress through the next few quarters.

In a dynamic market we believe there are several factors that create an advantage for our business. Our leading positions in growing markets, our brother products and value priced to premium, flavors for all types of eating occasions, market-leading customers and an expanding geographic presence.

Across the Company we are bringing focus, setting priorities and directing our resources based on McCormick's strategic imperatives. Ready talent fully engaged. Winning share with a global focus and performance. Superior results consistently delivered. Together we believe these imperatives will drive our success and lead to greater value for McCormick shareholders. Gordon.

Gordon Stetz - *McCormick & Company, Incorporated - EVP & CFO*

Thanks, Alan, and good morning, everyone. As Alan has described, we had solid first-quarter financial results that included strong sales growth in many parts of the business, greater than expected earnings per share driven by our growth strategies, CCI program and share repurchase activity and excellent cash flow.

I will begin with a closer look at sales and operating income for each segment. Let's start with the consumer business.

As seen on slide 14, we grew Consumer Business sales 9% in local currency. Group sales on a 7% sales increase in the first quarter of 2013 that was largely volume and product mix driven and it had no impact from acquisitions. In the first quarter of 2014, sales from WAPC accounted for 7 percentage points of the increase and higher pricing contributed 2 percentage points.

In the Americas region sales were about even with the year ago period in local currency. A 2% increase in pricing following a late 2013 pricing action was offset by lower volume and product mix. In comparison consumer sales in this region rose 7% year on year in the first quarter of 2013 from the first quarter of 2012, an increase mainly attributable to higher volumes and product mix.

As Alan described, our US Consumer Business has actions underway to drive performance and we have early indications of improvement. We're also pleased to see that category growth remains healthy for spices and seasonings and recipe mixes based on the latest retail sales.

In Europe, Middle East and Africa, EMEA, we grew consumer sales 4% in local currency. The increase is largely volume and product mix driven, evidence of the growth strategies underway for brand building and scalable innovation. We increased brand marketing support 38% and introduced a number of new items. The sales increase this period was particularly strong in France and in several smaller markets.

In local currency consumer business sales in the Asia-Pacific region rose 73%. The addition of WAPC, which will also have an incremental benefit in the second quarter of 2014, accounted for 64 percentage points of the growth. We grew sales of the base business 9% building upon a 15% year-over-year increase in sales in the first quarter of 2013. China led this base business growth with a 20% sales increase mainly from new products and expanded distribution.

For the Kohinoor brand in India sales rose slightly in local currency with significantly higher pricing offset by lower volume and product mix in the first quarter. Operating income for the Consumer Business rose 8% to $94 million from the first quarter of 2013. This increase was primarily due to higher sales, a favorable business mix and CCI cost savings which more than offset a $6 million increase in brand marketing support.

Turning to our industrial business, we grew first-quarter sales by 6% in local currency led by favorable volume and product mix as seen on slide 19. As Alan noted, we had increases in each of our three regions. In the Americas, industrial sales rose 3% in local currency with strong demand from food manufacturers in the US and in Mexico.

We have won the supply of a number of seasoning and flavor products for snack chips, crackers, breakfast food and yogurt. We also grew sales of branded foodservice products. Demand from quick service restaurants remains weak in this market through the first quarter. We continue to work with our customers to draw restaurant traffic by developing flavors for new menu items.

In EMEA our industrial business achieved another quarter of strong sales growth with a 12% increase in local currency. This followed the strong sales increase in the first quarter of 2013 compared to the first quarter of 2012. The first-quarter increase in 2014 reflects continued success with product innovation and distribution gains largely with quick service restaurants and the impact of higher pricing in response to material cost increases.

In the first quarter of 2014 we grew industrial business sales in the Asia-Pacific region by 10% in local currency. Volume and product mix is improving in China as this market recovers from the sharp year ago decline as Alan described. Based on our current outlook we expect this improvement to continue through the next few quarters.

Operating income for the industrial business rose 24% to $30 million across all three regions. Higher sales together with CCI cost savings and a favorable business makes drove this performance. These first-quarter 2014 results for our industrial business with sales up 4% and profits up 24% are a reversal of declines in the first quarter of 2013 which included a year-over-year operating income decrease of 22%.

Across most parts of this business we are pleased with our progress and strong financial results driven by our growth strategies. For the total Company operating income rose 11% as a result of higher sales, a more favorable business mix and our CCI cost savings. These same factors also improved gross profit margin by 70 basis points. And during the quarter we funded additional brand marketing programs with more investment planned in the upcoming quarters.

As projected, the tax rate this period rose to 31.1% from 28.5% in the year ago period. This increase was due to the discontinuation of the R&D tax credit, a tax law change in France and a mix of income across tax jurisdictions. For the fiscal year we continue to expect the tax rate to exceed 2013 and for 2014 to be in a 30% to 31% range.

Income from unconsolidated operations was down slightly from last year. Cost to relocate our joint venture in Mexico to a more efficient and higher capacity facility began to impact our results towards the end of 2013, continued into the first quarter of 2014 and is expected to extend into the second quarter. Once we get past this in the back half of the year we expect a strong year-over-year increase in the income from unconsolidated operations.

We reported earnings per share of $0.62, this was a 9% increase from $0.57 in the year ago period and driven by a higher operating income and lower shares outstanding which were offset in part by the unfavorable tax rate.

Let's turn next to some highlights for cash flow and quarter end balance sheet as summarized on slide 28. Cash flow from operations was $77 million, up significantly from $32 million in the first quarter of 2013. This improvement was led by lower pension contributions in 2014. During this period we used $57 million of cash to repurchase [0.9] million shares. At quarter end we had $303 million still available on our $400 million authorization.

Our balance sheet remains sound. We are close to our target debt level and well-positioned to fund investments to drive growth including future acquisitions.

Turning to our 2014 outlook, we continue to expect momentum from increased consumer demand for flavor and the effectiveness of our growth strategies and are reaffirming our projected sales and profit growth for 2014. At the top-line we reaffirmed a 3% to 5% projected increase in sales on a currency neutral basis, with higher volume, the effective increased pricing and in the first half of the year the incremental impact of WAPC.

In addition, we expect currency to reduce sales by approximately 1 percentage point in 2014 based on prevailing exchange rates. We continue to project a 6% to 8% increase in operating income from $591 million of adjusted operating income in 2013. This projection includes the benefit of CCI cost savings that are expected to reach at least $45 million for 2014.

Our earnings per share outlook remains $3.22 to $3.29. This is a year-over-year increase of 3% to 5% from adjusted 2013 EPS of $3.13. As we discussed in January, we expect the impact of higher operating income to be offset in part by an increased tax rate.

As shown on slide 30, our projection for a higher tax rate and $0.01 in special charges are expected to have an unfavorable impact of 5% to 6% on the 2014 EPS growth rate.

In the second quarter of 2014 we are projecting only a slight increase and earnings per share from $0.59 since that we reported in the second quarter of 2013. This outlook is based on our plan for higher brand marketing support and continued weakness in demand from quick service restaurants in the US [and applies] additional cost related to the facility relocation in our Mexican joint venture.

With our first-quarter results we are on our way toward another year of strong cash flow. As many of you know, we adhere to a balanced use of cash and are committed to returning a significant portion to our shareholders in the form of dividends and share repurchases. In 2014 we expect to use nearly $200 million of cash for dividends and through share repurchases to reduce our shares outstanding by 1% to 2% this year.

As I conclude my comments, we are confident in our ability to deliver on our 2014 financial objectives and look forward to reporting on our progress in the upcoming quarters. So now let's turn to your questions after which Alan will provide some closing remarks. Operator, we are ready for the first question.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Ken Goldman, JPMorgan. Thilo Wrede, Jefferies.

Thilo Wrede - *Jefferies & Company - Analyst*

Gordon or Alan, could you provide us with a little bit more insight where -- how this quarter was so much better than what you initially expected? Where was the upside surprise?

Gordon Stetz - *McCormick & Company, Incorporated - EVP & CFO*

I would say it is an a few areas, Thilo. It would be stronger growth in pretty much all of our businesses outside the US and within the gross margin it was a stronger gross margin based on the mix that we experienced within the quarter. So I would say those two factors are the primary ones that out delivered relative to our initial expectations.

Thilo Wrede - *Jefferies & Company - Analyst*

Is the stronger growth outside of the US driven by one-time factors? Because based on what I am hearing about the world outside the US it is not looking necessarily that much better from a macro perspective.

Gordon Stetz - *McCormick & Company, Incorporated - EVP & CFO*

Well, there was nothing one time in nature within the quarter. I mean it was all driven by the brand marketing support, innovation and on the industrial side the strength of our customer relationships. So I can't say that there was an anomaly within it. Certainly we see the world that we operate in and understand it is a difficult environment and that continues to give us caution as well.

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

I would say one thing where we are a little counter to some of the rest of what we are reading is our business in China is continuing to show strong growth. And we are gaining distribution of our core business and then the acquisition of WAPC has outperformed what we expected it to.

Thilo Wrede - *Jefferies & Company - Analyst*

Okay, that is good. And then last question I had for you, on Kohinoor you called out high price increases due to high input costs again and the impact on volumes. But we are hearing from other basmati rice companies in India, they seem to be faring much better with these price increases and might have a different input cost profile than you do. Can you provide a little bit more background there, what the level of input cost increases is and why the impact on volumes is so meaningful?

Gordon Stetz - *McCormick & Company, Incorporated - EVP & CFO*

Yes, we are seeing about a 20%-plus increase in the cost of rice and are passing that through and are dealing with that volume. We may have a bit of a different supply-chain model than some of our competitors there because we are more -- remember our strategy in India is to use access to the supply-chain and the customer base to expand into different areas. So while basmati rice is the business today that is not our long-term intention. So we have a little bit different objective and a different profile than some of our competitors there.

Thilo Wrede - *Jefferies & Company - Analyst*

Okay, that is very helpful. Thank you.

Operator

Robert Moskow, Credit Suisse.

Rachel Nabatian - *Credit Suisse - Analyst*

Hi, this is Rachel Nabatian in for Rob. Good morning. So my question is on the Europe business, which is strong and it sounds like there is a lot of support put behind it. From what we have seen that region can be rather volatile and recently we have only heard negative commentary on grocery there. So what we would like to know is what gives you the confidence that what you are seeing here is sustainable growth?

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

Well, I would never say it is not ever not going to be a bit volatile. But what we are doing is driving our new product innovation, supporting it with pretty strong advertising, both in our core spice and seasoning business and the recipe next business that we have in France and we are seeing the response from that. That doesn't say Europe is not a tough place to operate and is not highly competitive, but we are gaining traction from the programs that we have.

Rachel Nabatian - *Credit Suisse - Analyst*

Understood. Okay and then just as a follow-up, on the value side of the plan to turn around the US Consumer Business, according to our scanner data it looks like private label continues to take share and you had mentioned kind of innovation ranging from the value to the premium side. So I guess I wanted to know how you plan to combat the private label competition specifically.

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

Well, we offer a broad range of products across all the price points. And to remind you, we do produce private label so that is a part of what is on our portfolio as well. What we are doing is, one, making sure we have got the right promoted price at the right times of the year when consumers are buying.

The second thing is building the equity behind our brand and then driving product innovation in the category. I think the spice and seasonings business is still going to take some time. We are encouraged by what we're seeing in our core business early -- our core products early on and that is what we are supporting with advertising.

We are also driving the category and gaining share in our recipe mix business. So we have got early signs of traction, we are not calling the turnaround yet, but we are encouraged by what we are seeing.

Rachel Nabatian - *Credit Suisse - Analyst*

Great, thank you.

Operator

David Driscoll, Citi.

David Driscoll - *Citigroup - Analyst*

Wanted to ask about the industrial operating margins. When I look over a multi-quarter period of time really in 2013 every quarter seemed to get sequentially better. Although clearly on a year-over-year basis a number of those quarters in fiscal 2013 were down from fiscal 2012.

The simple question here is, you had nice improvement year on year in the first quarter in industrial margins. Do you expect that to continue? And is the pattern of improvement throughout -- the sequential improvement throughout 2013, is that indicative as to what is happening within the business?

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

David, it is a fair observation and certainly we are building upon the improvement that we saw in the fourth quarter, which is very strong margin for that business and we are pleased with the performance we saw on Q1. We certainly look for better performance out of the industrial business.

The absolute margin is a function of promotional activity and mix of the business within the quarter. So I'm a little cautious about saying that each quarter will get sequentially better. But I would say overall we certainly are looking for an industrial margin improvement and it is a function of, again, the recovery that we're seeing in some of those markets like China, a slightly more benign inflationary environment and good CCI performance. But I am encouraged by the performance but we are still a bit cautious on just predicting it by quarter by quarter.

David Driscoll - *Citigroup - Analyst*

Okay, final question for me. Can you just say what are the factors that are causing that fiscal second quarter to be flattish year on year? It seems like when we just look at the first-quarter results a lot of the things that happened in the first quarter repeat in the second quarter yet you are expecting a worse result versus the growth that we saw in Q1. So what is happening in Q2?

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

Well, we are going to lean into our business against, so the brand marketing support that you saw in Q1, we are repeating that again in Q2 and perhaps even a little more. As we mentioned, the unconsolidated income line will continue to be impacted by some of these relocation costs that we saw in Q1 from our unconsolidated venture in Mexico.

You heard us talk about some of our caution on the QSR side of things in the US. And we are still encouraged by the early signs of the US Consumer Business, but we are up against some strong comparisons in the second quarter of last year where we grew volume price strongly. So that is part of our caution as well.

David Driscoll - *Citigroup - Analyst*

I hear you on all those comments. I would only say that from the outside it looks like those are consistent with the same forces that impacted Q1 so it is not immediately obvious why Q2 would be flat. But I will leave it there. Thank you.

Operator

Eric Katzman, Deutsche Bank.

Eric Katzman - *Deutsche Bank - Analyst*

Maybe just to touch on the global industrial for a second and the strength there. I think Thilo may have tried to ask this question in another way. But with the Heinz 3G Burger King connection, they had made some strides with McDonald's. Did you talk up some McDonald's business and has that been a help to that side of the Company?

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

Well, as you know, that is a significant customer for us and we supply them around the world. So there has been some realignment in the supply chain there and we have been growing our business with that customer in Europe and in China.

Eric Katzman - *Deutsche Bank - Analyst*

Okay. And then --

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

(Technical difficulty) it up from is really tough to say.

Eric Katzman - *Deutsche Bank - Analyst*

Okay, well, thanks for that. And then second question on the US Consumer Business, Alan, I ask you last quarter was the weakness that you had reported in the fourth quarter really just a function of core spice and seasonings or was it broader based into things like Zatarain's and some of the grilling items, etc.?

Can you go into a little bit more detail? It sounds like that this core spice and seasonings business was still pretty weak, but is that true with some of the other products as well or did you make improvement there?

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

We are seeing improvement actually in our core spices and our recipe mixes. We are still seeing some weakness in some of those other brands and some of it driven by our promotion plans from last year. We were pretty heavy early in the year, those are going to be more spread this year.

Secondly, a little bit of a later Mardi Gras. And I never want to use weather as an excuse, but we are seeing in Zatarain's for instance the cost of crawfish pretty high right now, we would expect just to be coming into pretty heavy crawfish season, the weather has made that a little later.

But fundamentally what we're doing is driving behind our core business which is our most profitable business and then over time we are addressing the other businesses.

Eric Katzman - *Deutsche Bank - Analyst*

I am going to have to keep better track of my crawfish pricing index.

Gordon Stetz - *McCormick & Company, Incorporated - EVP & CFO*

Right now it is about $5 and in the middle of the season it should be about $3.50. You're wondering why I know that.

Eric Katzman - *Deutsche Bank - Analyst*

And then just a quick follow-up and I will pass it on. I think you mentioned that you had put more money behind the gourmet line. Is that -- and that's -- I guess that is your highest price point among -- in the core spices business.

Did I hear that correctly and is that kind of the response to the -- some of the other spice products being available in other aisles of the store and that is kind of at least initially how you intend to combat the new competitors in various outlets?

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

Well, we segment the consumer in a couple of different ways -- one is by price point the other is by how involved they are in cooking. And gourmet is the involved cook who wants the best product. And so, we are supporting and differentiating our product based on our freshness and unique sourcing of those products.

So there is -- that is one part and one segment that we are going after. The other part of that is the more core and value priced consumer we have some other programs to try to address that. And then later in the year we have a re-launch of our gourmet products that we are expecting to roll out.

Eric Katzman - *Deutsche Bank - Analyst*

Okay, I will pass it on. Thank you.

Operator

Akshay Jagdale, KeyBanc.

Akshay Jagdale - *KeyBanc Capital Markets - Analyst*

I wanted to ask about the comment you made on consumer, US consumer segment. You said you were seeing early signs of some improvement I believe that is what you said. Can you give us some color on that? What it is it exactly that you are saying that makes you feel that way?

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

We are seeing our share gap closing with our core spices, we are seeing growth and actually share gains in our recipe mixes and we are seeing a flattening of share from some of those fragmented competitors that we talked about. Private label continues to gain but the regional and smaller competitors are flattening out a bit.

Akshay Jagdale - *KeyBanc Capital Markets - Analyst*

Okay, and in terms of your decision to continue to spend heavily behind that, I mean can you give us some sense? You already had a pretty dominant share of voice in that segment or category? Can you talk about the returns you are seeing on the incremental dollars you are spending? Are they still pretty high returns and better than the industry average for every incremental dollar that you are spending on advertising?

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

Yes, we are still continuing to see pretty strong ROIs based on the spending that we have. And in fact advertising and our digital programs have much higher ROIs than the promotional spends that we were doing.

We got a little heavy I think over the last year in promotional spend and not all of those were great paybacks and didn't build equity. So we have adjusted our spending (technical difficulty) from promotions. But we have adjusted our spending to more focus on equity building.

Akshay Jagdale - *KeyBanc Capital Markets - Analyst*

Okay, and just one last one, on the Kohinoor acquisition. If you just take a step back and you summarize how that acquisition has performed since you bought it in terms of puts and takes?

And then just give us a sense of where you are really -- are you in the first or second inning of your strategy to introduce new products to that distribution chain so perhaps what may have gone -- what may have happened as far as any expectations so far and where are we now relative to your broader longer-term plan in India? Thank you.

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

I think we are in the early stages in our plan in India. The things that we have done over the last year -- we didn't acquire the full supply chain for that business in India because what we wanted was the retail presence and the ability to drive other products through that chain.

What we have done over the last year has been to beef up our own supply chain to improve our service levels and to get better control of our inventory. We are focused on continuing to build our capabilities there and to start to introduce those new products. We have those products in place now and we are starting to roll those out, we have got our distribution chain in place.

We expect to continue to see it grow. But again, to remind you of our strategy in emerging markets, we have a tendency to pay as we go. So we are not going to get out over the tips of our skis and invest and lose a lot of money in a market until we are sure that we have the infrastructure to support it and then we will pay and expand as we go.

That is exactly what we did in China. That is what we're doing in India. I would say you ask how it is performing, it is performing below our expectations at this point but we feel like we have got the right plans to address it.

Akshay Jagdale - *KeyBanc Capital Markets - Analyst*

Perfect, thanks, I will pass it on.

Operator

Chris Growe, Stifel.

Chris Growe - *Stifel Nicolaus - Analyst*

I Just had two questions for you. The first one if I could ask is a bit of a follow on to Dave Driscoll's question about 2-Q. But I guess I also had been planning on a bit of an Easter shipment to 2Q as well. Is that a occurring? can you talk about how much of the benefit it is -- excuse me if I missed that but I want to get a better sense of how much of that could help 2Q.

Gordon Stetz - *McCormick & Company, Incorporated - EVP & CFO*

Yes, that is a difficult one to predict, Chris, quite honestly. And we haven't talked about that and certainly our internal forecast is guiding us toward the direction we are giving you know is accounted for that. But I couldn't quantify that for sure for you right now.

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

Yes, there is a shift in timing and it could have an impact but our current outlook is exactly what Gordon says.

Chris Growe - *Stifel Nicolaus - Analyst*

Okay, and then could you say how much emerging market growth you had this quarter? Like what sort of dollar sales growth did you see in those markets, was that a significant contributor to the second quarter or to the first quarter?

Gordon Stetz - *McCormick & Company, Incorporated - EVP & CFO*

Well, certainly the Wuhan acquisition is emerging market. So we broke that out for you separately and we talked about China being 20% in also the on the consumer side and double digit on the industrial side. So we are talking double-digit type increases on the emerging market side, so it was a big help and that was one of the other performers on the quarter relative to our expectations.

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

And it drove a lot of consumer growth rate.

Gordon Stetz - *McCormick & Company, Incorporated - EVP & CFO*

Yes.

Chris Growe - *Stifel Nicolaus - Analyst*

Okay. If I could maybe just squeeze in one more which is in relation to the marketing. Did more of the marketing this quarter go towards Europe and it looked like they had a pretty significant increase there and do you think it will spread more towards the US and the second quarter? Just curious how the phasing will go in between divisions.

Gordon Stetz - *McCormick & Company, Incorporated - EVP & CFO*

No, Europe was up about 38% but half the marketing increase spend was in the US.

Chris Growe - *Stifel Nicolaus - Analyst*

Okay. That is very helpful. Thank you.

Operator

Ken Goldman, JPMorgan.

Ken Goldman - *JPMorgan - Analyst*

A couple of questions. First, as you look into the summer and you see much higher meat costs approaching just curious how that affects your marketing plan in any way for grilling?

And second, it looks like Cerberus will be on track to buy Safeway here. If the deal goes through do you expect it will affect your distribution in any way? I am just curious if you are stronger with either of those customers.

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

In terms of meat costs because our grilling portfolio has a wide range of products that are good for a wide range of meat, even if the consumer starts trading from filets to cheaper cuts of meat or even to burgers, a lot of our innovation actually is -- are the burger mixes.

So what we are hoping -- what we think will impact us more is the return to more normal weather. We are really hoping for some better weather as we kind of head into Memorial Day weekend. But our products will span across the broad range whether it is pork or chicken or hamburger. Obviously, our Montreal steak is great on steaks and we hope that consumers are continuing to buy. But we think we are well-positioned no matter what is happening across the broad portfolio.

In terms of the Safeway/Albertson's acquisition merger, we have a good position with both those customers. And so we are not anticipating this to have a significant impact on our business. We do have a strong relationship with both of them. As long as they are driving to win in the marketplace, we believe that is good for us.

Ken Goldman - *JPMorgan - Analyst*

Great, thanks, Alan.

Operator

(Operator Instructions) Andrew Lazar, Barclays.

Andrew Lazar - *Barclays Capital - Analyst*

Alan, I assume you have Tennessee winning the whole thing in your bracket?

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

I do, except Gordon disagrees.

Gordon Stetz - *McCormick & Company, Incorporated - EVP & CFO*

[I'm going to stay] on Michigan. Michigan is in on this too.

Andrew Lazar - *Barclays Capital - Analyst*

That will be an interesting matchup coming up for sure. Two questions from me. The first one, obviously, you talked about seeing some of the early signs. And I guess I was under the impression, and it is probably still the case, that this kind of turnaround in the US consumer is still going to take some time. But I guess things are reacting maybe positively a little more quickly than maybe I had thought. Is it fair to say that the brand equity building part is what's currently driving some of those early signs and the winning at retail piece is going to take more time or is that not the right way to look at it?

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

I think that is kind of the right way to look at it. It is -- and I don't want to get overoptimistic because we know it is going to take some time, but we are doing exactly what we said we were going to do. We are out selling our message with retailers. That is a customer-by-customer and in some cases, region-by-region approach that is going to take some time. And frankly is never done because, when we present something that works for us, the competitor is in there presenting something else as well. So that is going to be a longer slide, but we immediately changed our focus into building consumer equity and we are starting to see some of the benefits of that.

Andrew Lazar - *Barclays Capital - Analyst*

In terms of the winning at retail piece, even though it is very early, are there any anecdotal thoughts you can share with maybe how some of those conversations have gone? Are you seeing traction where you have had some conversations in sort of communicating to retailers where this kind of makes sense and where some of their actions maybe don't make as much sense for them?

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

Yes, we are seeing certainly varying degrees of acceptance and action in the store from that. But what we are really showing them is the best way to grow their sales and profits in this category and we are benefiting from the fact that the best way for them to grow their sales and profits is the same thing that works for us, which is to sell more higher-turning McCormick SKUs as opposed to lower-turning cheaper alternative products.

Andrew Lazar - *Barclays Capital - Analyst*

Okay. And then last quarter on the call, we talked a little bit about how you were looking at potentially some different options in order to address the consumer trends both at the value end and the premium end and potentially could include thinking about let's say a different line for sort of a value end, let's say. Maybe it is under the McCormick name, maybe it is under sort of a different name or somehow related. But I didn't know if there were any conclusions you came to with respect to how to address that and if there were going to be some other new items there maybe along those lines that we just haven't seen yet?

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

Yes, we are working on some premium solutions, as well as some more value solutions. We already have a number of offerings in the value range. And our strategy with those is to meet a customer need, but not necessarily -- because those don't necessarily drive traffic and they don't necessarily drive profitability for the retailer or for us, but they are there to meet a customer need. We have a number of those offerings and we are continuing to evaluate what the right value offerings are. But premium, we have got some very concrete plans.

Andrew Lazar - *Barclays Capital - Analyst*

Thanks very much.

Operator

Philip Terpolilli, Longbow Research.

Philip Terpolilli - *Longbow Research - Analyst*

Just two quick questions and maybe one last one on China here and we can put it to rest. But the quarter was quite strong. Do you feel like you are starting to get more of a mass there now in terms of maybe distribution wins getting a little bit easier than 12 months earlier? And then just maybe building on that, are there more M&A opportunities that could further accelerate things there?

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

Yes we certainly feel good that we are building scale in our Consumer Business in China. Our core business has continued to grow pretty strongly and then Wuhan, WAPC, is an accelerator to that because it gets us access to a much bigger sales force in a different part of the country than where we have been. So that is why we made the acquisition.

We do see -- we see other opportunities for acquisition not just in that market but in a number of the markets that we've targeted. So we have a pretty good outlook and a pretty good pipeline for those kinds of acquisitions.

Philip Terpolilli - *Longbow Research - Analyst*

Okay. I mean is the pipeline pretty similar to what you have seen the last 12 or 18 months or kind of getting better, worse?

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

I would say the pipeline itself is pretty similar. And whether it comes to closure is another question, but the pipeline is pretty similar to what we have seen.

Philip Terpolilli - *Longbow Research - Analyst*

Sure, that is helpful. And then just one quick question if I could. On the input cost front, any update on what you're seeing? I saw that low-single-digit guide in the slide deck, but I know your bucket is a little bit different than some of the other CPG (inaudible) can be a little bit more volatile at times. So any additional color on things to maybe watch out for this year that you are seeing right now?

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

The things that we see that are starting to move up, as you probably have seen, corn and wheat and soybeans and dairy are starting to move up a bit. So those impact us more on the industrial side of our business. I wouldn't say that we have any significant changes on the consumer side.

Philip Terpolilli - *Longbow Research - Analyst*

Okay, that is helpful. Thank you.

Operator

There are no questions at this time. I would like to turn the conference back to Alan Wilson for any closing remarks.

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

I would like to thank you for your questions and for participating today. McCormick's 2014 fiscal year is off to a good start. Our strategic imperatives around people, growth and performance are driving sales, delivering CCI cost savings, which is our fuel for growth, and generating higher profits and strong cash flow.

At McCormick we bring the joy of flavor to every day. Our 125 year heritage of innovation, collaboration and commitment to this business is at the foundation of our global leadership in flavor and has us well-positioned for the future. Thank you.

Joyce Brooks - *McCormick & Company, Incorporated - VP of IR*

Thanks, Alan. I would also like to thank those on this morning's call. Through April 1 a replay of the call can be accessed by dialing 855-859-2056. The ID number is 22127582. You can also listen to the replay on our website later today. And if anyone has additional questions regarding today's information you can reach us at 410-771-7244. This concludes this morning's conference.

Operator

This concludes today's conference call, you may now disconnect.