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EDITED TRANSCRIPT

MKC - Q4 2016 McCormick & Company Inc Earnings Call

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OVERVIEW:

Co. reported 4Q16 income from unconsolidated operations of \$12m and adjusted EPS of \$1.27. Expects 2017 sales to grow 5-7%, excluding estimated 2% unfavorable impact from currency rates, and adjusted EPS to be \$4.05-4.13. Expects 1Q17 EPS to be comparable to \$0.74 of adjusted EPS in 1Q16.



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PRESENTATION

Joyce Brooks - *McCormick & Company, Inc. - IR*

Good morning. This is Joyce Brooks of McCormick Investor Relations. Thank you for joining today's fourth quarter earnings call. To accompany this call, we've posted a set of slides at ir.mccormick.com. We'll begin with remarks from Lawrence Kurzius, President and CEO; and Mike Smith, Executive Vice President and CFO, and then open the line for questions.

(Operator Instructions)

We also have Casey Jenkins on the call, who moved into the role of Vice President, Investor Relations effective January 1, in advance of my retirement later this year.

During our remarks, we will refer to certain non-GAAP financial measures. These include adjusted operating income and adjusted earnings per share that exclude the impact of special charges, as well as information in constant currency. Reconciliations of these measures to the GAAP results are included in this morning's press release and slides.

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

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



Lawrence Kurzius - *McCormick & Company, Inc. - President & CEO*

Thank you, Joyce. Good morning, everyone. Thanks for joining us. McCormick's fourth quarter results led to a record 2016 performance. On a constant currency basis, we met each of our long-term growth objectives for sales, operating income and earnings per share, and achieved the top end of the range for sales and operating income. We exceeded \$100 million in annual cost savings and delivered our fifth consecutive year of record cash flow and we have great momentum heading into 2017.

These financial results were driven by our growth strategies, our focus on performance and our people. I want to recognize McCormick employees around the world and our leaders for their effort, engagement and success. Together we are effectively executing a balanced approach across the business, balancing between growing sales and improving productivity.

I am going to begin this morning with our fourth quarter results, highlight key accomplishments of 2016, and then share our business plans for 2017. After that, I'll turn it over to Mike, who will go into more depth on the quarter-end results and the details of our 2017 financial guidance.

Starting at the top line for the fourth quarter, we grew sales 4% in constant currency from the year-ago period. Sales from our acquisitions of Gourmet Garden, a leader in chilled herbs, and Cajun Injector, a smaller business purchased later in 2016, added 2 percentage points of the increase.

Across our base business, the strongest rate of constant currency growth this period was in our Consumer segment, led by the Americas and the Asia Pacific regions. In the Americas, we had strong increases in our US sales of McCormick and Lawry's brands of both spices and seasonings and recipe mixes, along with a double digit increase in sales of Simply Asia brand products. In the Asia Pacific region, we grew constant currency sales in China by 9%, with increases in a number of McCormick brand categories, as well as our DaQiao brand of bouillon products. The primary area of weakness for the Consumer segment was in the UK, where a difficult retail environment has persisted throughout 2016.

For our Industrial segment, we grew sales 2% in constant currency. This period, pricing had a greater impact than in prior quarters, pricing that related to higher material costs, as well as the transaction impact of unfavorable currency rates. We had a number of areas of strength during the first quarter that we expect to continue into 2017, including food service sales in the US, seasoning blends in Mexico, and sales from Southeast Asia, where construction will begin this year on a new facility in Thailand to accommodate our growth in that region.

With higher sales and cost savings, led by our Comprehensive Continuous Improvement program, CCI, we grew adjusted operating income 6% in constant currency. Gross profit margin rose 60 basis points.

At the bottom line, adjusted earning per share of \$1.27 was an 8% increase from \$1.18 in the fourth quarter of 2015. This includes the impact of unfavorable currency rates, which was particularly significant this period for income for our joint venture in Mexico. In summary, we overcame some economic challenges, like currency rates, and delivered a solid increase in sales and profit in our largest quarter of the year.

For FY16, we had some excellent performance, starting with our financial results. As I indicated, we delivered growth rates that met our long-term constant currency guidance. We were especially pleased with nearly 6% constant currency sales growth, at the top end of our 4% to 6% long-term range.

With significant improvement in our US Consumer business, we grew Consumer sales in the Americas by 6% in constant currency. Excluding the impact of both currency and acquisitions, Consumer segment sales in the Americas were up 4% in 2016.

Led by our CCI program, our fuel for growth, we reach a record \$109 million of annual cost savings, exceeding \$100 million for the first time, and are well on our way towards reaching our four year \$400 million goal. Importantly, this significant effort is not hampering our sales growth and, in fact, is fueling our investments in brand marketing, product innovation and acquisitions. We increased gross profit margin 110 basis points, to 41.5% from 40.4%, and achieved a 60 basis point increase in adjusted operating income as a percentage of sales.

For the Industrial segment, margins continued on a strong upward trajectory this year. Our combination of innovation, acquisitions and customer intimacy continued to shift our portfolio to more value added products. This progress, along with our cost reduction efforts, lifted adjusted operating income margin for our Industrial segment to 10%, compared to 7% just three years ago.



2016 was the fifth consecutive year of record cash flow, ending the year at \$658 million. Cash flow from operations is up at a 14% compound annual rate for the five-year period.

At year end, the Board announced a 9% increase in the quarterly dividend, our 31st consecutive annual increase. Between the dividend and share repurchases, we returned more than two-thirds of our cash from operations to shareholders this past year. The past five years, we've returned nearly \$2 billion of cash to shareholders.

Beyond our financial performance, we had ambitious growth plans for 2016 and a number of significant achievements. A key driver of sales growth was our brand marketing, which reached a new high of \$252 million. Importantly, 46% of our advertising was in digital marketing. With consumer interest in recipes, cooking tips and how-to videos, our business lends itself particularly well to social media and other digital platforms.

Among food companies, McCormick was an early mover in this area and digital is one of our highest returns on investment. As we shared in our September earnings call, L2 Research named the McCormick brand in the US fifth out of over 100 food other brands in its annual Digital IQ ranking. This was our third consecutive year in the top five.

Innovation is another important driver, and 9% of 2016 sales came from new products launched in the last three years. This rate was particularly strong for our Industrial business and driven in part by our work at the intersection of flavor and health. This year, approximately half of new product briefs for Industrial customers in the US had some type of health and wellness attribute, up from 40% in 2014. Innovation also played a role in recognition from a major industrial customer, with Yum Asia naming McCormick Supplier of the Year.

For our Consumer segment, we were proud to have our new Herb Grinders recognized as Innovation of the Year by the Grocery Manufacturers Association in the US and a New Product of the Year, based on consumer votes, in France.

On the acquisition front, we purchased Gourmet Garden, a fast-growing leader in chilled herbs. We are off to a great start with this business. Retail consumption sales in our largest market, the US, were up 22% in the fourth quarter from a year-ago period. In 2016, we established direct distribution for the brand in Canada and have plans in 2017 to introduce Gourmet Garden in China.

At the end of November, we signed an agreement to acquire Enrico Giotti SpA and completed this deal in December. Giotti is a leading flavor business in Europe, with expertise in high growth health and nutrition products, including a number of beverage applications. The addition of Giotti expands our flavor capability in our Europe, Middle East and Africa region, EMEA, with complementary product and a number of new customers. Giotti supports our global Industrial strategy to migrate our portfolio to flavor globally.

A new production facility in Dubai was completed this year, opening up a direct supply for our Industrial customers as they expand in the Middle East; and we're making great progress in Shanghai with the construction of a new, larger facility that we plan to move into and begin production in mid-2017.

Our McCormick Science Institute celebrated its 10th anniversary and its progress in advancing the health benefits of spices and herbs. Also in 2016, we were pleased that the USDA included spices and herbs in the latest dietary guidelines for Americans and on an AARP My Plate for older adults.

And we're making measurable progress toward our 2019 sustainability goals. Just last week, at the World Economic Forum in Davos, McCormick was recognized by Corporate Knights in their 2017 Global 100 Most Sustainable Corporations Index, ranking number 14 among all publicly traded companies with a market cap above \$2 billion, and number one in the consumer staples industry. Also during 2016, DiversityInc listed McCormick among their Noteworthy 25 and we reached a milestone with our 75th year of Charity Day.

Our progress in 2016 gives us greater confidence in delivering another strong year of growth and performance at McCormick in 2017. We expect to increase sales at a rate ahead of our long-term 4% to 6% constant currency objective, driven by our base business and innovation, including certain pricing actions. In addition, we have nearly a full year of sales from our acquisition of Giotti and an incremental impact from Gourmet Garden in the first part of the year.

At the foundation of our sales growth rate is the rising consumer demand for flavor. Euromonitor's latest research projects that global sales of spices and seasonings will grow at a 5% compound annual rate for the next five years, up 4% in developed markets and 8% in emerging markets. This is our largest category and accounts for about half of our Consumer segment sales.

We lead in this category, as you can see from our latest share information on slide 9. Our growth strategies are designed to build consumer interest and differentiate our brands. We're planning to increase brand marketing at a high single digit rate this year and will continue to develop our digital programs to directly connect with consumers. Our purity message drove increased sales in 2016, particularly among Millennial consumers, and in 2017 will be launched in the EMEA region.

There was a lot of groundwork done in renovating our core products in 2016, with non-GMO labeling on our US everyday spices and seasonings and a move to organic for our premium gourmet line. In 2017 in the US, we're transitioning to clean label for our Zatarain's Rice mixes, removing high fructose corn syrup from Lawry's Marinades, and will be converting our iconic black pepper and Old Bay cans to a BPA-free recyclable package.

And in early December, we published our 2017 Global Flavor Forecast, including predictions and ideas for modern Mediterranean cuisine, plancha grilling, and out-of-the-box breakfast ideas. First launched in 2000, our annual forecast is now eagerly awaited by our retail and industrial customers, along with food editors and bloggers.

Before moving on to our new product pipeline, I want to comment on the recent retail scanner data trends for spices and seasoning in the US. For the fourth quarter, the category growth rate for spices and seasonings remained strong at 5%. McCormick brand spices and seasonings grew 2%; however, this was a growth rate in measured channels. We had very strong fourth quarter sales growth in certain unmeasured channels, including club, e-commerce and Hispanic retail chains. We estimate that these unmeasured channels added another 2 percentage points to McCormick's retail sales growth for spices and seasonings.

The fourth quarter retail scanner data also reported an increase in sales of private label spices and seasonings. More than half of the increase this period related to the transition by a large retailer of their organic line from a competitive brand to a private label line.

Heading into 2017, we continue to build on our category management capabilities and partner with our customers to maximize their sales and profit for the spice and seasoning category and to drive McCormick's share growth. As an example, we recently used our pricing tools to minimize the volume impact of an early 2017 price increase in the US, a price increase that was taken to offset our cost inflation, driven in part by vanilla and garlic, as discussed in our September call.

Turning now to innovation in 2017, our plans include a robust line-up of new products for our Consumer segment. Innovation is an important way to differentiate our brand and to drive growth.

In the Americas, we're rolling out our Kitchen Basics bone broth, organic recipe mixes and Zatarain's rice cups. Also under the Zatarain's brand, our team has developed new rice varieties, biscuit mixes and hot sauce. For grilling, we have new varieties of Grill Mate seasonings and liquid marinades, along with Stubbs dry marinade mixes and larger size barbecue sauces.

In Canada, we have extensions of our La Grille products and plan to penetrate the natural retail channel with unpasteurized Billy Bee honey. In EMEA, we plan to launch gluten-free recipe mixes in the UK, improved Vahine brand packaging and dessert decorations in France, and barbecue marinades in Russia. Also in Russia, we are introducing our Vahine line of dessert items. The dessert category there is currently growing at a double digit rate.

And in Asia Pacific, we're rolling out Recipe Mix varieties in China and expanding our liquid cooking and dipping sauces. In Australia, we're introducing a Gourmet Garden resealable pouch of lightly dried herbs and seasonings.

For our Industrial segment, we have a robust pipeline of customized flavors for both packaged food companies and the restaurant industry. We also plan to further expand our branded product portfolio for broad line food service distributors. We expect our innovation of more value added

products, along with our acquisitions and CCI cost savings, to drive further progress toward a higher profit margin for our Industrial segment. Our business leaders will have more to share on market dynamics and these growth plans at McCormick's April 4 Investor Day.

Beyond our strategies to drive sales growth, we have plans to increase profit and margins. Led by CCI, we expect to achieve approximately \$100 million in 2017 cost savings. With these cost savings and higher sales, we expect to grow adjusted operating income 9% to 11% in constant currency. This is ahead of our long-term objective of 7% to 9%.

We plan to increase adjusted earnings per share right in line with our long-term constant currency objective of 9% to 11%. As indicated, Mike will provide more details on our financial guidance and additional remarks on the financial results for the quarter.

Next I'd like to recap some recent announcements about McCormick's Board of Directors. Effective next week, I will assume the role of Chairman from Alan Wilson. Alan will remain a member of our Board. I am honored to have been named Chairman and I thank Alan for his outstanding leadership during his term in this role.

Along with his retirement from McCormick in December, Gordon Stetz retired from our Board. We recognize and appreciate Gordon's 29 years of service to the Company, including his time as CFO.

Just yesterday, we announced the election of Gary Rodkin to our Board. Gary is the former CEO of ConAgra, and many of you know him from this previous role. We believe he will further strengthen the great group of leaders that comprise our Board.

Let me summarize. We made great progress in 2016 with our growth strategies and delivered strong financial performance. McCormick is uniquely positioned as a global leader in flavor, a business that is on trend with today's consumer and healthy eating. We're driving strong momentum with our strategies to grow sales, balanced with our CCI program and other efforts to build fuel for growth and higher margin.

As we kickoff the new year, I look forward to my second year as CEO of this great Company and a new role as Board Chairman. Our leaders and employees are fully engaged and focused on our growth strategies, and I have confidence on our ability to deliver the aggressive but achievable financial objectives we have set for 2017.

Thank you for your attention. And it is now my pleasure to turn it over to Mike. Mike?

Mike Smith - *McCormick & Company, Inc. - EVP & CFO*

Thanks, Lawrence, and good morning, everyone. As Lawrence indicated, our fourth quarter financial results were a strong finish to the year. I will begin with some additional perspective on these results and discuss in more depth our 2017 financial guidance.

On a constant currency basis, we grew sales 4%. Pricing, acquisitions and higher volume and product mix each contributed to the increase, as seen on slide 14. In constant currency, both our Consumer and Industrial segments delivered solid top line growth.

Consumer segment sales in the Americas rose 7% in constant currency versus the fourth quarter of 2015, with 2 percentage points of the increase from our acquisitions. The greatest increase in sales this period was in the US, with broad based growth across several brands, as Lawrence indicated.

EMEA Consumer sales declined 3% in constant currency. As in previous quarters, we grew sales in constant currency in France and Eastern Europe. However, a deflationary retail environment in the UK has continued and our fourth quarter results in that market have been affected. This includes a reduction in the number of Schwartz brand products by a large UK retailer which has been rationalizing its portfolio to gain space for general merchandise.

We grew Consumer sales in the Asia Pacific region 10% in constant currency. Sales from Gourmet Garden added 6 percentage points of this growth. In China, we grew sales 9% in constant currency, led by higher volume and product mix across a broad range of product categories. These increases were offset, in part, by a double digit decline in India resulting from our decision toward the end of 2015 to discontinue certain low margin products.

For the Consumer segment in total, we grew adjusted operating income 8%, to \$183 million. In constant currency, adjusted operating income also rose 8% from the year-ago period. The impact of sales growth and the cost savings more than offset higher material costs.

Turning to our Industrial segment and slide 19, we had solid sales results this quarter. We grew Industrial sales in the Americas 2% in constant currency, led by sales of branded food service products in the US, where we've gained share with a leading customer. And in Latin America, we're growing sales of snack seasonings and other products supplied from our operation in Mexico. In Canada, we took pricing to pass through higher material costs that include the impact of currency, but this was offset by weaker volume for Industrial products in that market.

Year-on-year, EMEA Industrial sales declined 10%, but grew 4% in constant currency. We had solid pricing-led sales growth with packaged food customers and quick service restaurants.

Industrial segment sales in the Asia Pacific region were comparable to the year-ago period in constant currency. Growth in Southeast Asia and Australia was offset by a sales decline in China, which was impacted by a large customer's decision to diversify their supply chain, as we've mentioned in previous quarters.

As we indicated in our September call, we expected our growth in the Industrial segment adjusted operating income to slow from a double digit percentage increase in the third quarter. In the fourth quarter, adjusted operating income declined 2% on a constant currency basis. This compares to a 62% year-on-year increase in the fourth quarter of 2015. Throughout 2016, our Industrial segment profit has fluctuated quarter to quarter, driven largely by sales mix across regions, customers and products.

For the fiscal year, we are very pleased with our Industrial performance, with adjusted operating income up 12% in constant currency and a record 10% margin. This follows a 24% constant currency growth rate for FY15. We believe our growth initiatives, including acquisitions like Brand Aromatics and Giotti, will lead to further margin improvement for our Industrial segment.

Across both segments, adjusted operating income, which excludes special charges, rose 5% in the fourth quarter from the year-ago period. And excluding the impact of unfavorable currency, we grew adjusted operating income by 6%. For the fiscal year, the increase in adjusted operating income in constant currency was 9%.

We increased gross profit margin 60 basis points year-on-year, to 44% in the fourth quarter. As we discussed in our September earnings call, the increase was at a lower rate than the first three quarters of 2016, due to rising material costs, but it was still positive and we ended the year with a 110 basis point increase. Our selling, general and administrative expense as a percentage of net sales was even with the fourth quarter of 2015, including the impact of higher incentive compensation this year.

The tax rate on a US GAAP basis this quarter was 29.7%, similar to the rate in the year-ago period. Looking ahead to 2017, we expect the tax rate to be close to 28%. This includes our estimate of a favorable impact from the adoption of the change in the accounting for taxes related to equity awards.

Income from unconsolidated operations was \$12 million, compared to \$10 million in the fourth quarter of 2015. Both periods had a small impact from special charges attributable to minority interest in our joint ventures. And excluding this impact, the year-to-year performance was comparable.

We were pleased with this result, given the significant currency headwind for our joint venture in Mexico. In 2017, we expect our income from unconsolidated operations to be about even with 2016, due to further continued currency pressure.

At the bottom line, fourth quarter 2016 adjusted earnings per share was \$1.27. This was a \$0.09 increase from the year-ago period, mainly as a result of higher adjusted operating income and lower shares outstanding. As a reminder, this year-to-year comparison includes the unfavorable impact from currency on both consolidated and unconsolidated income.

On slide 28, we've summarized highlights for cash flow and the year-end balance sheet. Cash flow from operations ended the year as \$658 million, up from \$590 million in 2015. Higher net income and working capital improvement were the main factors driving this increase. For the fiscal year,



our cash conversion cycle was better than the year-ago period, and we are putting programs in place, such as the rollout of extended payment terms with our suppliers, to achieve further reductions.

Our capital expenditures were \$154 million, in line with our initial guidance and a step-up from prior years, due to major construction in Shanghai and Dubai. In 2017, we expect to spend \$170 million to \$190 million, with completion of our Shanghai plant and construction in Southeast Asia to support our growth in that market.

We returned 70% of cash flow from operations to our shareholders through dividends and share repurchases. At fiscal year end, \$327 million remained on the current \$600 million share repurchase authorization. And based on our current plans for 2017, we expect to reduce shares outstanding by approximately 2% from FY16. As always, this is subject to change, depending on our acquisition activity.

We expect 2017 to be another year of strong cash flow, providing the funds for continued investment in our growth strategies. Our debt leverage is low and we are well positioned to finance these investments.

In the course of my comments and Lawrence's, we've already shared some remarks on 2017. So let's put this all together and discuss our guidance, on slide 29.

We are well positioned for another strong performance with our on-trend categories, effective growth strategies and progress with CCI. As Lawrence indicated, our financial objectives for 2017 are at or above our long-term goals for sales, operating income, and earnings per share on a constant currency basis.

At the top line, we expect to grow sales 5% to 7%, excluding an estimated 2% unfavorable impact from currency rates. The incremental impact of acquisitions, a partial year for Gourmet Garden, and nearly a full year for Giotti are projected to add approximately 2% of the sales growth. We anticipate a combination of pricing, higher volume and product mix to contribute 3% to 5% of growth.

We expect to increase adjusted operating income 8% to 10%, from \$657 million in 2016. In constant currency, our estimated rate of growth is 9% to 11%. Our cost savings target is approximately \$100 million, and we are planning to increase brand marketing at a high single digit rate. We expect our pricing actions to largely offset a mid-single digit increase in material costs, leading to 2017 gross profit margin as projected to be comparable to 50 basis points higher than 2016.

Our guidance range for adjusted earnings per share is \$4.05 to \$4.13. This compares to \$3.78 of adjusted earnings per share in 2016 and, excluding the impact of currency rates, is an increase of 9% to 11%, right in line with our long-term goal.

For the first quarter of 2017, the Company expects earnings per share to be a comparable to \$0.74 of adjusted earnings per share in the first quarter of 2016, as a result of a planned double digit increase in brand marketing, the higher tax rate, and the timing of our pricing actions. For the fiscal year, we expect our higher profit to lead to another year of strong cash flow.

Before we move to your questions, let me recap the key takeaways from our remarks this morning. With our fourth quarter results, we delivered a year of record sales, profit and cash. We're executing on an effective and balanced strategy to drive both sales and lower costs.

Our CCI program is driving higher margins of profit and generating fuel for growth. And we are confident that this strategy and our people will lead to another year of success and growth in 2017 for McCormick and its shareholders.

Operator, let's take the first question.



QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Andrew Lazar, Barclays.

Andrew Lazar - *Barclays Capital - Analyst*

Good morning, everybody.

Lawrence Kurzius - *McCormick & Company, Inc. - President & CEO*

Good morning, Andrew.

Andrew Lazar - *Barclays Capital - Analyst*

Just two questions for me. First one, you had just mentioned that in the first quarter, one of the headwinds is timing of pricing actions. And I'm just trying to get a sense of, is that expected volume elasticity that comes in the first quarter because of pricing or just the fact the pricing maybe doesn't take full effect until we move through the latter part of the year?

Lawrence Kurzius - *McCormick & Company, Inc. - President & CEO*

Andrew, this is Lawrence here. Good morning. And the pricing impact in the first quarter is because the price increase that we've taken to reflect inflation on some specific raw materials is only in effect for a portion of the first quarter. That price increase has been put in place and is in effect now, but here we are in the middle of the quarter right now. So we only get a partial price impact for that first quarter. We do expect some volume elasticity. We've modeled that in. But the real difference on the impact of the pricing is the effective date of the price increase, which is January.

Andrew Lazar - *Barclays Capital - Analyst*

Got it. Thank you for that. And then, the past couple of quarters, I know you've had a slide typically in the slide deck that compares the McCormick brand in the core spice and seasonings category versus the category. And it showed sequentially the gap in growth, or the market share differential was narrowing pretty significantly as you went through the year in 2016. Can you comment a little bit about how that share gap might have looked in the fourth quarter and maybe some of the pieces that impacted that and your expectation around market share in your core category in 2017, particularly in light of some of the pricing that you're taking?

Lawrence Kurzius - *McCormick & Company, Inc. - President & CEO*

Right. Through the scanner, and everyone has remarked on this, the scanner sales show a widening gap, especially in the fourth quarter, where the category grew at about a 5% rate and McCormick brands through scan channels grew out about 2%. So that nets to about a 100 basis point decline in market share during that time period for our spices and seasonings business.

As I commented in our remarks, we actually had very strong sales in unmeasured channels during the same time. So we believe that the scanner sales understate our performance. We had strong sales in certain club, club and Hispanic targeted customers, and in e-commerce. And so we believe that the measured scan data for the period understates our performance.



I'll also comment, as we said in our third quarter call, that we were putting vanilla on allocation for the holiday season. And so during the holiday season, which is also the peak baking season and peak demand period for vanilla, in advance of the price increase that we were taking on vanilla, we had that product on allocation. So actually, we feel that our underlying business strength is even stronger than not only what is showing through the scan sales, but also in our reported sales. Mike, do you want to comment on that further?

Mike Smith - *McCormick & Company, Inc. - EVP & CFO*

I think the other thing to remember, and we talked about this a lot in the third quarter call, is the transition to the new Gourmet organic items was a negative impact in the third. We had it reset for the holiday period, but there was a small impact in the beginning of the quarter. So a couple factors worked against us, but should provide some tailwind next year also.

Andrew Lazar - *Barclays Capital - Analyst*

Got it. Okay. So for 2017, is your hope that shares are basically more or less in line with the category or is that overly optimistic on my part?

Lawrence Kurzius - *McCormick & Company, Inc. - President & CEO*

I have been hesitant to pin us down on a specific quarter for share gains, because this has been a long road. But we continue to work towards a situation where we are not only matching the category growth, but where we are exceeding it and are gaining share. And certainly, that is our goal for to get there over the course of 2017.

Andrew Lazar - *Barclays Capital - Analyst*

Thank you. See you in April.

Lawrence Kurzius - *McCormick & Company, Inc. - President & CEO*

Thanks.

Operator

Dave Driscoll, Citi.

Dave Driscoll - *Citi Research - Analyst*

Great. Thanks a lot. Good morning, everyone.

Lawrence Kurzius - *McCormick & Company, Inc. - President & CEO*

Good morning, Dave.



Dave Driscoll - *Citi Research - Analyst*

I wanted to ask, Andrew was asking a little bit about price volume elasticity on the first quarter, can you broaden this out more towards the year? I think you've got something like 3 points of pricing expected on the year. And then it looks like, I think, 0 to 2 points of volume. Would just like to hear your thoughts a little bigger picture on mid-single digit inflation, the last time we saw it in the price volume elasticity.

And then just a second question to follow up on the unmeasured channel benefit. I think you guys were great about how you explained what happened in the data, but maybe what I'm sure everyone would like to know is, is that benefit from the unmeasured channels, is that something we should expect going forward? It probably sounds reasonable, but I think we need to hear you say that, if that's okay.

Mike Smith - *McCormick & Company, Inc. - EVP & CFO*

David, good morning. This is Mike. Regarding the price increases related to the mid-single digit cost increases. You're right. There's about 3% price increase, pricing impact on the sales. We built in about 0% to 2% on volume mix. What we saw last year, and we have these new category management tools, we put in a pricing last year a little lower, but we were able to really, from an elasticity perspective, didn't really see volume degradation. So we're pretty confident this time, while there are some pretty significant increases on vanilla and garlic, and that's the difference, I think, if you look back in history, with our mid-single digit price increases a couple years ago, that was spread across the line. This is really specific against two of the sub categories. So there will be some impact in there, we think, and downsizing by consumers and things like that, but across the whole line, we don't see a significant -- we don't see a price increase. So we shouldn't see price, or volume elasticity there. So we feel confident with these tools we have and the fact that it's focused, that's a positive for us in 2017.

Lawrence Kurzius - *McCormick & Company, Inc. - President & CEO*

And for the unmeasured channels, the gains that we had in unmeasured channels really reflect real distribution gains that we've achieved. So we would expect them to be sustainable over time.

Dave Driscoll - *Citi Research - Analyst*

Great. Thank you so much.

Operator

Alexia Howard, Bernstein.

Alexia Howard - *Sanford C. Bernstein & Co. - Analyst*

Good morning, everyone.

Lawrence Kurzius - *McCormick & Company, Inc. - President & CEO*

Hi, Alexia.

Alexia Howard - *Sanford C. Bernstein & Co. - Analyst*

Hi. You mentioned the point about the Gourmet line in US Consumer being somewhat challenged in the third quarter, but the sets were realigned by the holiday season. Was that line back to volume on your growth in the fourth quarter and what's the outlook for this year? And then I have a quick follow-up.

Lawrence Kurzius - *McCormick & Company, Inc. - President & CEO*

Alexia, I'm not sure I got all of your question and the last part of it. But the transition on Gourmet was much more difficult than we anticipated, due to the retailers wanting to flush through the old UPC codes before they took on the new ones. I think if we were doing this over again, we would have worked harder to maintain the same codes on the product, because it just made for a complicated execution. The scan data continues to show a decline on our Gourmet business through the fourth quarter. Nielsen is showing a much more radical decline than our custom IRI database is showing, and the Nielsen database is also showing a decline that's out of line with our shipment experience. And we believe that there may be a data issue there where they're not picking up all of the new codes as we make the transition. And so we think that the Nielsen data, in particular, is overstating the softness in Gourmet.

In Gourmet, we picked up real distribution. We gained distribution and share of shelf, substantial share of shelf in 4 out of our top 10 customers. We know that the consumers are buying the new organic Gourmet items at a higher rate than the previous items in the places where the transition was completed and where we are able to measure it. And we're confident that this is going to be a real win for us as we go through the year in 2017, particularly as we lap these periods in the second half of the year where we were in transition.

Alexia Howard - *Sanford C. Bernstein & Co. - Analyst*

Great. And then as a follow-up, obviously we don't know where the new administration policies are going to lead, but as far as the border tax goes, can you give us any indication of what proportion of your COGS are imported and any commentary about how that could affect you, if it were to happen? Thank you and I'll pass it on.

Lawrence Kurzius - *McCormick & Company, Inc. - President & CEO*

I will let Mike answer that question specifically, but I'll say that the tax code changes are really uncertain, at this point. There are a lot of ideas that are being chatted about in the press. There is nothing on the table. And even our new President himself has made contradictory statements about a border tax. So we're a long way from knowing what the final tax proposal is going to be.

I'll say that as a Company, we support a broad based tax reform that makes our business more competitive on a global basis. And to the extent that overall rates go down, it's certainly a good thing for us. A large number of our iconic raw materials are imported products that are grown within a few degrees of the equator; and regardless of what our tax policy is, we're not going to be able to move the equator into the United States, so those are going to continue to be imported products. And so to the extent that there's a border adjustment that includes those items, that's a negative for us. Historically, agricultural commodities that can't be grown in the United States have enjoyed a tax preferential treatment. And so we would hope that would continue forward, but how that policy plays out is still very much unclear. Mike, do you want to comment on Alexia's --

Mike Smith - *McCormick & Company, Inc. - EVP & CFO*

You took every one of my talking points. Just to reiterate, it is very speculative now and we're staying close to it. We do manufacturer in the US. We're one of the good guys, from that perspective. So we would hope any policy change would take that into consideration.

Alexia Howard - *Sanford C. Bernstein & Co. - Analyst*

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



Operator

Ken Goldman, JPMorgan.

Ken Goldman - JPMorgan - Analyst

Hi. Thanks and good morning, everyone. One quick clarification from you, if I can. I think in the press release, you guided for brand marketing to be up mid-single digits, but it's high single digits in the prepared remarks and the slides. Can you just confirm it is high single digits for 2017?

Mike Smith - McCormick & Company, Inc. - EVP & CFO

It is high single digits for 2017.

Lawrence Kurzius - McCormick & Company, Inc. - President & CEO

You may be thinking of first quarter, where we are guiding to double digits.

Ken Goldman - JPMorgan - Analyst

I'll go back and check. I thought I read mid-single digit for the year, but I'll go back and check. And then my real question is, I just wanted to get a sense, and I really appreciate the clarity on the growth in club and e-com adding 2% to retail sales growth and so forth. I also wanted to make sure, as you head into price increases, or as companies head into price increases, sometimes there can be a little bit of a buy-in ahead of time. Was there any of that you experienced the benefit of the fourth quarter, and maybe will be a little bit of a reversal in the first quarter? I'm just trying to get a sense of how close your shipments were to your measured take away, both in Nielsen channels and otherwise, and what we should expect the reverberation to be, if any, in 1Q.

Mike Smith - McCormick & Company, Inc. - EVP & CFO

Mike, this is Lawrence here. I'll start. I think we mentioned that the price increases were really concentrated on the items where we were experiencing commodity increases. The biggest increases were on vanilla and garlic items. As we said on our third quarter, and as I remarked a little while ago, the vanilla was on allocation through the fourth quarter in advance of that increase to prevent any kind of forward buy, partly because we were trying to protect our cost position on the product and make sure that we were able to get the pricing to reflect the higher commodity cost. Mike, you want to -- We actively made sure there was no buying in into the fourth quarter.

Ken Goldman - JPMorgan - Analyst

Great. Thank you very much.

Joyce Brooks - McCormick & Company, Inc. - IR

And I'll go back and comment, you're right, the slides and our comments today, prepared remarks, did say high single digit. The press release does say mid-single digit, and it's high single digit that we are guiding to for the brand marketing increase.

Operator

Evan Morris, Bank of America.



Evan Morris - BofA Merrill Lynch - Analyst

Good morning, everyone. First, a quick follow-up on the 1Q outlook. You gave the cadence for earnings for the year -- for the quarter -- can you talk a little bit about sales, what your expectations are there, should they be more or less in line with your full-year outlook or ahead? Can you just help frame that?

Lawrence Kurzius - McCormick & Company, Inc. - President & CEO

Slightly lower, because of the pricing impact, as we talked about, but we're still seeing very healthy growth, both in the Consumer and the Industrial side.

Evan Morris - BofA Merrill Lynch - Analyst

Okay. And then your growth, your sales growth for the year, your underlying sales growth implies an acceleration sequentially. One, should we expect a sequential improvement in both segments? And just trying to understand and break down a little bit what the key driver behind the acceleration. Is it new products? Is it the step-up in demand that you're seeing in certain markets or across certain product, such as clean labeling, GMOs? Just talk about that, and really more of the sustainability of these, as you think about moving forward, of the acceleration.

Mike Smith - McCormick & Company, Inc. - EVP & CFO

This is Mike. From a segment perspective, it's relatively balanced. Both of our segments are implementing pricing. Industrial is a little ahead of Consumer from that perspective, but generally balanced throughout the year. We're really focusing heavily on, acquisitions, as you know, is a big component of our growth algorithm, but also innovation, and we talked about it in the call, where we moved from 8% to 9%, our new products developed in the last three years. So we have an exciting, in line with our long-term growth algorithm, a lot of great new products that will help drive that growth in 2017.

Lawrence Kurzius - McCormick & Company, Inc. - President & CEO

I'll also add that we have a confidence in the underlying momentum of our business in the Americas, where we're coming off of a pretty strong year of good forward visibility on momentum into 2017.

Evan Morris - BofA Merrill Lynch - Analyst

Just from some of the changes that you've made to your line then, again, the labeling, removing certain artificial ingredients, are you seeing a lift and can you quantify the benefit that you're starting to see from these actions?

Lawrence Kurzius - McCormick & Company, Inc. - President & CEO

We're definitely seeing a lift. I don't think we're ready to quantify those specifically just yet. But we absolutely know that the consumers, particularly Millennial consumers, are interested in more transparency around the labeling of their products and understanding what's in the foods that they eat. So things like non-GMO labeling, organic labeling, just making the package transparent so they can see what's inside, are all quality cues to Millennial consumers. We have gained household penetration among Millennials, which has been an important goal of ours. The product changes are part of that, so are the changes in our advertising cA&Paign and the increases that we've made in digital marketing. But I don't think we're ready to comment specifically on the lift from non-GMO labeling, in particular.



On the change in organic, the Gourmet product to organic, in the retailers where we have made the full transition, we are definitely seeing an increase in off take and velocity, though.

Evan Morris - BofA Merrill Lynch - Analyst

So just to ask the question more directly against some of these initiatives, the acceleration in sales in the underlying business, or the guidance really ahead of your long-term growth rate, is this sustainable? Is this, do you think, more the new norm in the outlook, given some of these new product initiatives and the demand pull, or is this just more of a one-year thing because of a lot of the new products that are coming into play?

Lawrence Kurzius - McCormick & Company, Inc. - President & CEO

Well, I'll say our long-term guidance is for 4% to 6% top line growth. Our guidance for this year in constant currency is higher than that. We're not ready to, I don't think we're making a change in our long-term guidance, at this point, but we're definitely calling out that we expect a strong top line growth this year.

Mike Smith - McCormick & Company, Inc. - EVP & CFO

Coming off a year last year, constant currency sales growth was 5.5%. So that's at the high end of our 4% to 6%. So that gives us more bullishness going into 2017, also.

Evan Morris - BofA Merrill Lynch - Analyst

Perfect. Thanks. I'll pass it along.

Operator

Akshay Jagdale, Jefferies.

Akshay Jagdale - Jefferies LLC - Analyst

Good morning.

Lawrence Kurzius - McCormick & Company, Inc. - President & CEO

Good morning, Akshay.

Akshay Jagdale - Jefferies LLC - Analyst

Hi. I just wanted to follow up on the market share question. Thanks for the clarification on the measured versions unmeasured. But your organic sales growth guidance of 3% to 5%, you said is balanced across both segments. So let's say the midpoint is 4%. If the category is growing at 5% and you're growing at 4%, that assumes that you are going to continue to lose a little bit of share, including the unmeasured channel. Am I reading that incorrectly? And then I have a follow-up.



Mike Smith - *McCormick & Company, Inc. - EVP & CFO*

Akshay, it's Mike. You have to be a little careful, because the category, as we talked about it, and that share is really our spices and seasonings business. It's like 50% of our business in the US. So there's a much broader business, with things like dry seasoning mixes, with Zatarain's, Thai Kitchen, Industrial.

Lawrence Kurzius - *McCormick & Company, Inc. - President & CEO*

International.

Mike Smith - *McCormick & Company, Inc. - EVP & CFO*

So you're trying to parse it down to a very -- it's a big part of our business, but it's not more than 50% of our business.

Akshay Jagdale - *Jefferies LLC - Analyst*

What I'm trying to understand is [inter quarter], as we follow your business, one of the things that obviously we look at is market share and there's been somewhat of a disappointing trend, despite all the initiatives you have taken in that regard. So for the US business, how important is it to look at market share and when do you think you'll be able to reverse those measured channel market share trends?

Lawrence Kurzius - *McCormick & Company, Inc. - President & CEO*

We continue to work towards, again, not just matching the market, but exceeding the market growth rate. I'm reluctant to be pinned down on a specific quarter. But this is a goal that we're working towards and that we expect to get to in 2017.

Akshay Jagdale - *Jefferies LLC - Analyst*

And in terms of what gets you there, obviously you've done a great job increasing, consistently increasing your marketing spend. You're ratcheting that up a little bit again next year. Is new products as a percentage of sales going to be greater than 9%, and are there any other moves on execution that will help you reverse this trend on market share? Thank you.

Lawrence Kurzius - *McCormick & Company, Inc. - President & CEO*

I think there's a series of activities that we, and programs that we have in place, that are driving our business and that we expect to generate market share gains. Part of it is the renovation of our core business, part of it is innovative new products. Again, 9% is the middle of our target range globally for new products. We aim to have 8% to 10% of our sales from new products introduced in the last three years. And we would expect that rate to continue.

We continue to increase our investment in marketing expense expenditures, A&P delivered against the consumer. We continue to shift that to the most effective channels. We said in our remarks that digital is now up to 46%. Actually in the US, it's over 60%. And so we're trying to drive our business with the consumer and, in particular, with the younger consumers entering into the market, the Millennial consumer. We think we got a great tailwind from the Millennial generation, also, where we index well. We're very confident that we're going to get there.

Akshay Jagdale - *Jefferies LLC - Analyst*

Thank you. I'll pass it on.

Operator

Rob Moskow, Credit Suisse.

Rob Moskow - Credit Suisse - Analyst

Thank you. You mentioned a big customer in the US, a mass customer that transitioned its organic line, or an organic competitor of yours, to private label and that caused private label to increase. And then I think you also mentioned in the UK, another customer transitioned away from Schwartz, and I think to lower priced products. Lawrence, have you thought through what the trend there is? Are these just one-offs, or is there a risk that the category gets devalued more in 2017, as private label gets, in these two markets, gets a bigger share of shelf? Thanks.

Lawrence Kurzius - McCormick & Company, Inc. - President & CEO

Hello, Rob. Good morning, by the way.

Rob Moskow - Credit Suisse - Analyst

Good morning to you.

Lawrence Kurzius - McCormick & Company, Inc. - President & CEO

That's really a great question, a great point. The moves that these customers have made toward private label have tended to devalue the category in their stores. And although we didn't comment on it, we did see a couple of retailers put heavier promotional emphasis on some private label products during the holiday season, which also devalued the category for them. And we were able to go back to those customers and show them, particularly with the tools that we have and with the dialogue we have with customers today, precisely what the missed opportunity was for them, and generally that they have missed, that they've lost category profit, and in particular, these customers actually lost category share versus their peers who did not make these moves.

I think that the situation in the US is a bit different than the situation in the UK, though. The big customer in the US who transferred this brand to private label did so as part of a broader effort on organics that went well beyond our product category. And so it really wasn't specific to the urban spice category or targeted against us specifically. It was part of a broader, multi category initiative and I think is really more directed at making them competitive versus the natural food channel rather than trying to do anything specific in the spices category.

In Europe, the big customer in the UK, this is part of a deflationary environment in the UK. The customer has, that particular customer, again, has a particular strategy that goes well beyond spices and herbs, but that did impact us, and it was a drag on our performance in the EMEA. Broadly in EMEA, we're still seeing good growth and good gains in other markets, but UK is a difficult spot right now.

Rob Moskow - Credit Suisse - Analyst

Go ahead. I guess my follow-up, this big customer in the US, when you say it's a broader initiative, are they trying to put their own brand on more organic items in the store? Is that what's happening?

Lawrence Kurzius - McCormick & Company, Inc. - President & CEO

They're trying to put their own private label brand on more organic items in the store. That's correct. And while I don't want to say the customer, you probably know who it is.

Rob Moskow - *Credit Suisse - Analyst*

Voldemort? Okay. Thanks.

Lawrence Kurzius - *McCormick & Company, Inc. - President & CEO*

(Chuckling)

Operator

Jonathan Feeney, Consumer Edge Research.

Jonathan Feeney - *Consumer Edge Research - Analyst*

Thanks very much and good morning. Just two questions. I wanted to, it's been a long time since I did freshman Algebra. Can you give us what percent of your US spices and seasonings sales are going to these unmeasured channels? Roughly speaking. And if you can give detail around what's the club? I know there's only one, or maybe two club stores where we don't have data. So just the blanket one is probably the easiest number to give.

And my second question is, looking to your 2017 guidance, when you consider Giotti, what contribution would you be expecting as you think about that number from acquisitions, considering the lapse in distribution gains and everything else? Thanks very much.

Mike Smith - *McCormick & Company, Inc. - EVP & CFO*

We don't get into data by channel that discretely. It's definitely less than 10% of our sales. We talk about our e-commerce sales for the food category being less than 2%. So you can plug some numbers and make it work that way.

From a Giotti perspective, we bought that business in mid-December. As most of our acquisitions during that first year, we really don't look, because we have to make investments in things like SAP and integration costs, we don't look at that as being accretive to EPS. And frankly, it's a little bit of a drag in the first quarter, as we integrate it. But look for it to be relatively neutral in 2017.

Jonathan Feeney - *Consumer Edge Research - Analyst*

I'm sorry, I'm purely talking about sales. I understand the accretion part. Can you give me a sense of how much it's going to contribute to sales? And not just Giotti, but anything, any leftovers from non-comparable acquisitions you may, and distribution gains, perhaps, our recent acquisitions in 2017?

Mike Smith - *McCormick & Company, Inc. - EVP & CFO*

We talked in the script, about 2%.

Jonathan Feeney - *Consumer Edge Research - Analyst*

2% for full-year 2017. I thought that was just a 2016 number. That's 2017?



Mike Smith - *McCormick & Company, Inc. - EVP & CFO*

Yes.

Jonathan Feeney - *Consumer Edge Research - Analyst*

Thanks so much.

Operator

Brett Hundley, [Vertical] Group.

Brett Hundley - *The Vertical Group - Analyst*

Good morning and thank you for the question.

Lawrence Kurzius - *McCormick & Company, Inc. - President & CEO*

Hi, Brett.

Brett Hundley - *The Vertical Group - Analyst*

Good morning. I just wanted to revisit the market share topic. There's been further consolidation in the US retail spice area recently, and I'm actually wondering your thoughts on whether or not that provides any opportunities or risks as it relates to your pursuit of category growth. And I'm wondering that, as well, just because it seems like brand support spend is a little bit more front end weighted this year versus last year.

Lawrence Kurzius - *McCormick & Company, Inc. - President & CEO*

When you talk about further consolidation, I assume you're talking about the purchase of ACH brands by P&G. ACH was already, they were a pretty good marketer of their brands. Their Webber brand, in particular, is a well advertised, well supported business. So I'm not so sure that we see any particular new threat.

It's hard to know what P&G would do with those brands. But typically they've bought under loved, under marketed businesses, and we would not characterize this as one of those. The Spice Island brand that they also own is one of the gourmet brands that is not organic that's on the shelf right now. And I would say that they've probably lost some distribution as we've gained placements on the shelf.

We do have an acceleration of our brand spend and the marketing spend in the first quarter of the year. I'd also caution you that's our smallest quarter of the year. So a big percentage is not as many dollars as, say, a smaller percentage in the fourth quarter would be.

Mike Smith - *McCormick & Company, Inc. - EVP & CFO*

Just real quick on the A&P spend, we've mentioned the Purity cA&Paign, which has been really successful in North America. So we're spending there in the first quarter. But we've expanded that to Europe. So in the first quarter, some of the increase is also related to the UK and some of those markets, too.

Brett Hundley - *The Vertical Group - Analyst*

I appreciate that, Mike. And then the other thing I wanted to squeeze in real quick was your new spring product lineup. That was announced in April last year, and it comes in January this year, and we've seen some other packaged food companies talking about innovation schedules picking up overall. But I'm wondering if that has meaning this time of year and, as well, the new products that you're bringing this year tend to be more focused on product areas outside the spice rack, it seems. And so I'm curious how that might affect contribution margin potential as we think about your new product lineup.

Mike Smith - *McCormick & Company, Inc. - EVP & CFO*

Generally across our branded categories, gross profit and operating profit's generally within the same range. So whether it's a dry seasoning mix, a spice and herb, a vanilla, so there's really no hit, from that perspective, from these new products. And we've really made a focus the last couple years of making sure new products don't degrade margins. We're really focusing on engineering them up front, making sure they have the right price points right away, and then supporting them with A&P.

Lawrence Kurzius - *McCormick & Company, Inc. - President & CEO*

And obviously, we're quite excited about these new products, or we wouldn't have spoken about them. In the US, coming from Zatarain's originally myself, I love the new Zatarain's items that extend that brand and do so at a very attractive margin. Our Vahine expansion in EMEA is also expanding a great brand, and again, the margins on our Vahine business are comparable to our spices and herbs. And the wet sauces in China that are being launched take advantage of the squeeze pouch format that we developed for our ketchup and Thai chili sauce product in that market. And I'm really quite excited about that. The team over there is quite excited about it. Our rate of innovation in China is pretty low. A lot of the business has been built by continuing to build distribution and household penetration on existing items and a relatively low rate of new products, so this is a big introduction for them, leveraging a very efficient manufacturing facility and a package format that we can scale. So those would be quite attractive margin items for that business, a little bit below our global average, but still quite a good contributor to that region.

Brett Hundley - *The Vertical Group - Analyst*

Thanks for the color, guys.

Operator

Steve Strycula, UBS.

Steve Strycula - *UBS - Analyst*

Hi. Good morning.

Lawrence Kurzius - *McCormick & Company, Inc. - President & CEO*

Good morning, Steve.



Steve Strycula - UBS - Analyst

Two quick questions for you. The first would be a modeling one. Just wanted to get a sense of the gross margin cadence, how the first quarter should trends versus the full year, just given the cadence of price increases. And then I've got a more operational question as a follow-up.

Mike Smith - McCormick & Company, Inc. - EVP & CFO

If you think about, and I can talk about the price increase, the fact that we'll get about a half a quarter impact, will put some negative pressure on the first quarter compared to the remainder of the year.

Steve Strycula - UBS - Analyst

Okay. And then related to the European business, particularly the Consumer business, you spoke about it, I think a little bit on Rob [Maslow's] question, but just want to get a sense as, are you seeing across the big four retailers just decreased display space for spices in general? Is it more of a greater allocation of private label, reduction in weeks of supply at key retailers? And then should we be modeling this to persist for the next three quarters or is it just more contained to a one-time correction in the fourth quarter?

Lawrence Kurzius - McCormick & Company, Inc. - President & CEO

First of all, when you say four retailers, I think you're talking about the UK business rather than our EMEA business. And so in the UK, private label has always been a bigger factor. It's probably the highest market share private label market that we operate in. And so this is kind of a deepening of that trend. This move is by one particular retailer. Other retailers in that same market, of course, they all see what, each of them sees what the other does. So that particular market is a challenging market for us. But again, that's just one country out of the whole continent. We have very good trends in our other markets in that region.

Steve Strycula - UBS - Analyst

Okay. Great. If I could sneak one --

Lawrence Kurzius - McCormick & Company, Inc. - President & CEO

Eastern Europe.

Steve Strycula - UBS - Analyst

Okay. Thanks. Could I fit in one small tax question? I might have missed it when Mike was speaking earlier. But for the full year, I think you said, guided to around 28%, and the first quarter would be higher. Can you just recap or flush that out as to the magnitude of first quarter versus balance of the year?

Mike Smith - McCormick & Company, Inc. - EVP & CFO

Yes. The underlying tax rates that we see generally, and this depends on where you make your money, in the US or overseas, but generally 29% to 30%. And then we have, we talked about this new accounting standard we're adopting this year which is a slight favorable, which gets us down into the 28% range. A lot of times your discrete tax items, they'll be very variable during the year. In the first quarter right now, we don't see a lot of those, so I'd suggest 29% to 30% is probably the right tax rate for the first quarter. But it a lot of factors go into that tax rate. And with this new accounting standard, you're probably going to see some variability across the industry as far as taxes, and it will make it a little more difficult to forecast, quite frankly.



Steve Strycula - UBS - Analyst

All right. Well, thank you.

Operator

Thank you. And I'll now turn the floor over to Lawrence Kurzius for closing remarks.

Lawrence Kurzius - McCormick & Company, Inc. - President & CEO

Thanks, everyone, for your questions and for participating on today's call. We're driving growth at McCormick. Our experienced leaders and engaged employees are executing on a strategy designed to build long-term value for our shareholders, and we look forward to continuing to report to you on our progress.

Joyce Brooks - McCormick & Company, Inc. - IR

Thanks, Lawrence, and thanks to everyone for joining today's call. If you have further questions regarding the information today, you can reach us at 410-771-7244. That concludes this morning's conference.

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