

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
Washington, D.C. 20549

Form 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended August 31, 2020
OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File Number 001-14920

McCORMICK & COMPANY, INCORPORATED
(Exact name of registrant as specified in its charter)

Maryland
(State or other jurisdiction of
incorporation or organization)

52-0408290
(I.R.S. Employer
Identification No.)

24 Schilling Road, Suite 1,
Hunt Valley, MD
(Address of principal executive offices)

21031
(Zip Code)

Registrant's telephone number, including area code **(410) 771-7301**

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock	MKC-V	New York Stock Exchange
Common Stock Non-Voting	MKC	New York Stock Exchange

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See definition of "accelerated filer," "large accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer	<input checked="" type="checkbox"/>	Accelerated Filer	<input type="checkbox"/>
Non-Accelerated Filer	<input type="checkbox"/>	Smaller Reporting Company	<input type="checkbox"/>
		Emerging Growth Company	<input type="checkbox"/>

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

	Shares Outstanding August 31, 2020
Common Stock	<u>9,063,590</u>
Common Stock Non-Voting	124,347,973

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

McCORMICK & COMPANY, INCORPORATED
CONDENSED CONSOLIDATED INCOME STATEMENT (UNAUDITED)
(in millions except per share amounts)

	Three months ended August 31,		Nine months ended August 31,	
	2020	2019	2020	2019
Net sales	\$ 1,430.3	\$ 1,329.2	\$ 4,043.4	\$ 3,862.6
Cost of goods sold	840.0	789.3	2,403.7	2,347.3
Gross profit	590.3	539.9	1,639.7	1,515.3
Selling, general and administrative expense	317.2	278.7	911.1	839.9
Special charges	0.1	7.7	4.0	16.9
Operating income	273.0	253.5	724.6	658.5
Interest expense	33.5	41.3	103.2	126.7
Other income, net	3.9	6.9	12.5	19.3
Income from consolidated operations before income taxes	243.4	219.1	633.9	551.1
Income tax expense	46.9	36.8	117.4	91.0
Net income from consolidated operations	196.5	182.3	516.5	460.1
Income from unconsolidated operations	9.6	9.6	30.2	29.2
Net income	\$ 206.1	\$ 191.9	\$ 546.7	\$ 489.3
Earnings per share – basic	\$ 1.55	\$ 1.45	\$ 4.11	\$ 3.69
Average shares outstanding – basic	133.3	132.8	133.1	132.5
Earnings per share – diluted	\$ 1.53	\$ 1.43	\$ 4.06	\$ 3.65
Average shares outstanding – diluted	134.8	134.2	134.5	134.0
Cash dividends paid per share – voting and non-voting	\$ 0.62	\$ 0.57	\$ 1.86	\$ 1.71
Cash dividends declared per share – voting and non-voting	\$ 0.62	\$ 0.57	\$ 1.24	\$ 1.14

See notes to condensed consolidated financial statements (unaudited).

McCORMICK & COMPANY, INCORPORATED
CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)
(in millions)

	Three months ended August 31,		Nine months ended August 31,	
	2020	2019	2020	2019
Net income	\$ 206.1	\$ 191.9	\$ 546.7	\$ 489.3
Net income attributable to non-controlling interest	1.6	0.3	3.1	1.5
Other comprehensive income (loss):				
Unrealized components of pension and postretirement plans	(2.1)	(0.7)	3.6	(2.8)
Currency translation adjustments	146.7	(44.9)	65.8	(66.8)
Change in derivative financial instruments	(0.7)	(0.1)	0.2	(0.1)
Deferred taxes	3.2	—	(1.6)	0.4
Total other comprehensive income (loss)	147.1	(45.7)	68.0	(69.3)
Comprehensive income	<u>\$ 354.8</u>	<u>\$ 146.5</u>	<u>\$ 617.8</u>	<u>\$ 421.5</u>

See notes to condensed consolidated financial statements (unaudited).

McCORMICK & COMPANY, INCORPORATED
CONDENSED CONSOLIDATED BALANCE SHEET
(in millions)

	August 31, 2020 (unaudited)	August 31, 2019 (unaudited)	November 30, 2019
ASSETS			
Current Assets			
Cash and cash equivalents	\$ 221.0	\$ 162.9	\$ 155.4
Trade accounts receivable, net	496.5	494.6	502.9
Inventories, net			
Finished products	437.5	442.5	413.3
Raw materials and work-in-process	504.6	404.4	387.9
	942.1	846.9	801.2
Prepaid expenses and other current assets	100.0	85.0	90.7
Total current assets	1,759.6	1,589.4	1,550.2
Property, plant and equipment, net	960.9	910.0	952.6
Goodwill	4,574.4	4,496.5	4,505.2
Intangible assets, net	2,843.0	2,850.3	2,847.0
Other long-term assets	722.8	519.8	507.1
Total assets	\$ 10,860.7	\$ 10,366.0	\$ 10,362.1
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current Liabilities			
Short-term borrowings	\$ 167.8	\$ 683.6	\$ 600.7
Current portion of long-term debt	263.7	119.3	97.7
Trade accounts payable	902.8	783.1	846.9
Other accrued liabilities	619.2	444.4	609.1
Total current liabilities	1,953.5	2,030.4	2,154.4
Long-term debt	3,737.5	3,843.1	3,625.8
Deferred taxes	704.4	701.2	697.6
Other long-term liabilities	519.3	310.7	427.6
Total liabilities	6,914.7	6,885.4	6,905.4
Shareholders' Equity			
Common stock	480.5	441.3	447.6
Common stock non-voting	1,491.1	1,435.9	1,441.0
Retained earnings	2,391.0	2,019.8	2,055.8
Accumulated other comprehensive loss	(429.9)	(428.3)	(500.2)
Total McCormick shareholders' equity	3,932.7	3,468.7	3,444.2
Non-controlling interests	13.3	11.9	12.5
Total shareholders' equity	3,946.0	3,480.6	3,456.7
Total liabilities and shareholders' equity	\$ 10,860.7	\$ 10,366.0	\$ 10,362.1

See notes to condensed consolidated financial statements (unaudited).

McCORMICK & COMPANY, INCORPORATED
CONDENSED CONSOLIDATED CASH FLOW STATEMENT (UNAUDITED)
(in millions)

	Nine months ended August 31,	
	2020	2019
Operating activities		
Net income	\$ 546.7	\$ 489.3
Adjustments to reconcile net income to net cash flow provided by operating activities:		
Depreciation and amortization	123.9	118.0
Stock-based compensation	37.8	30.6
Income from unconsolidated operations	(30.2)	(29.2)
Changes in operating assets and liabilities	(74.9)	(139.8)
Dividends from unconsolidated affiliates	23.4	25.7
Net cash flow provided by operating activities	626.7	494.6
Investing activities		
Capital expenditures (including software)	(145.6)	(107.1)
Other investing activities	2.3	2.6
Net cash flow used in investing activities	(143.3)	(104.5)
Financing activities		
Short-term borrowings, net	(432.0)	124.4
Long-term debt borrowings	506.4	—
Payment of debt issuance costs	(1.1)	—
Long-term debt repayments	(256.0)	(214.6)
Proceeds from exercised stock options	54.1	84.6
Taxes withheld and paid on employee stock awards	(10.7)	(10.3)
Common stock acquired by purchase	(46.0)	(76.9)
Dividends paid	(247.4)	(226.4)
Net cash flow used in financing activities	(432.7)	(319.2)
Effect of exchange rate changes on cash and cash equivalents	14.9	(4.6)
Increase in cash and cash equivalents	65.6	66.3
Cash and cash equivalents at beginning of period	155.4	96.6
Cash and cash equivalents at end of period	\$ 221.0	\$ 162.9

See notes to condensed consolidated financial statements (unaudited).

McCORMICK & COMPANY, INCORPORATED
CONDENSED CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY (UNAUDITED)
(in millions)

(millions)	Common Stock Shares	Common Stock Non-Voting Shares	Common Stock Amount	Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Non-controlling Interests	Total Shareholders' Equity
Three months ended August 31, 2020							
Balance, May 31, 2020	9.3	123.9	\$ 1,938.9	\$ 2,288.7	\$ (577.7)	\$ 12.4	\$ 3,662.3
Net income			—	206.1	—	—	206.1
Net income attributable to non-controlling interest			—	—	—	1.6	1.6
Other comprehensive loss, net of tax			—	—	147.8	(0.7)	147.1
Dividends			—	(82.6)	—	—	(82.6)
Stock-based compensation			10.7	—	—	—	10.7
Shares purchased and retired	(0.1)	—	(7.4)	(21.2)	—	—	(28.6)
Shares issued	0.3	—	29.4	—	—	—	29.4
Equal exchange	(0.4)	0.4	—	—	—	—	—
Balance, August 31, 2020	9.1	124.3	\$ 1,971.6	\$ 2,391.0	\$ (429.9)	\$ 13.3	\$ 3,946.0
Nine months ended August 31, 2020							
Balance, November 30, 2019	9.3	123.6	\$ 1,888.6	\$ 2,055.8	\$ (500.2)	\$ 12.5	\$ 3,456.7
Net income			—	546.7	—	—	546.7
Net income attributable to non-controlling interest			—	—	—	3.1	3.1
Other comprehensive loss, net of tax			—	—	70.3	(2.3)	68.0
Dividends			—	(165.0)	—	—	(165.0)
Stock-based compensation			37.8	—	—	—	37.8
Shares purchased and retired	(0.2)	(0.1)	(12.6)	(46.5)	—	—	(59.1)
Shares issued	0.8	—	57.8	—	—	—	57.8
Equal exchange	(0.8)	0.8	—	—	—	—	—
Balance, August 31, 2020	9.1	124.3	\$ 1,971.6	\$ 2,391.0	\$ (429.9)	\$ 13.3	\$ 3,946.0
Three months ended August 31, 2019							
Balance, May 31, 2019	9.5	123.0	\$ 1,835.0	\$ 1,918.6	\$ (382.7)	\$ 11.7	\$ 3,382.6
Net income			—	191.9	—	—	191.9
Net income attributable to non-controlling interest			—	—	—	0.3	0.3
Other comprehensive loss, net of tax			—	—	(45.6)	(0.1)	(45.7)
Dividends			—	(75.6)	—	—	(75.6)
Stock-based compensation			7.8	—	—	—	7.8
Shares purchased and retired	(0.1)	—	(3.2)	(15.1)	—	—	(18.3)
Shares issued	0.5	—	37.6	—	—	—	37.6
Equal exchange	(0.6)	0.6	—	—	—	—	—
Balance, August 31, 2019	9.3	123.6	\$ 1,877.2	\$ 2,019.8	\$ (428.3)	\$ 11.9	\$ 3,480.6

Nine months ended August 31, 2019

Balance, November 30, 2018	9.6	122.5 \$	1,770.6 \$	1,760.2 \$	(359.9) \$	11.3 \$	3,182.2
Net income			—	489.3	—	—	489.3
Net income attributable to non-controlling interest			—	—	—	1.5	1.5
Other comprehensive loss, net of tax			—	—	(68.4)	(0.9)	(69.3)
Dividends			—	(151.1)	—	—	(151.1)
Stock-based compensation			30.6	—	—	—	30.6
Shares purchased and retired	(0.2)	(0.4)	(13.3)	(78.6)	—	—	(91.9)
Shares issued	1.4	—	89.3	—	—	—	89.3
Equal exchange	(1.5)	1.5	—	—	—	—	—
Balance, August 31, 2019	9.3	123.6 \$	1,877.2 \$	2,019.8 \$	(428.3) \$	11.9 \$	3,480.6

See notes to condensed consolidated financial statements (unaudited).

McCORMICK & COMPANY, INCORPORATED
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

1. ACCOUNTING POLICIES

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and do not include all the information and notes required by United States generally accepted accounting principles (U.S. GAAP) for complete financial statements. In our opinion, the accompanying condensed consolidated financial statements contain all adjustments, which are of a normal and recurring nature, necessary to present fairly the financial position and the results of operations for the interim periods presented. The consolidated balance sheet as of August 31, 2019 includes a reclassification of \$59.8 million of capitalized software from property, plant and equipment, net, to other long-term assets to conform to our current presentation.

The results of consolidated operations for the nine-month period ended August 31, 2020 are not necessarily indicative of the results to be expected for the full year. Historically, our net sales, net income and cash flow from operations have been lower in the first half of the fiscal year and higher in the second half. The historical increase in net sales, net income and cash flow from operations in the second half of the year has largely been due to the consumer business cycle in the U.S., where customers typically purchase more products in the fourth quarter due to the Thanksgiving and Christmas holiday seasons.

For further information, refer to the consolidated financial statements and notes included in our Annual Report on Form 10-K for the year ended November 30, 2019.

Impact of COVID-19

On March 11, 2020, the World Health Organization designated a new coronavirus ("COVID-19") as a global pandemic. Governments around the world mandated orders to slow the transmission of the virus that included shelter-in-place orders, quarantines, and significant restrictions on travel, as well as work restrictions that prohibited many employees from going to work. The extent and nature of government actions have varied during the nine months ended August 31, 2020 based upon the then-current extent and severity of the COVID-19 pandemic within their respective countries and localities. Uncertainty with respect to the economic effects of the pandemic has introduced significant volatility in the financial markets.

We are partnering with our customers to react to consumer demand changes associated with COVID-19. The effects of COVID-19 on consumer behavior have, on a net basis, favorably impacted the operating results of our consumer segment and unfavorably impacted the operating results of our flavor solutions segment in the three months and nine months ended August 31, 2020. The impact of COVID-19 on our consumer segment during those periods resulted in a significant increase in at-home consumption and related demand for our products. The unfavorable impact on our flavor solutions segment during the same periods was principally attributable to decreased demand from certain customers that were affected by government mandates related to COVID-19 in many of our markets. Those measures included closures of dine-in restaurants or restrictions on the operations of those restaurants to carry-out or delivery only as well as restrictions on the operations of quick service restaurants to drive-through pick-up or delivery. Those negative demand impacts in our flavor solutions segment were partially offset by increased at-home consumption from certain customers in our flavor solutions segment that use our products to flavor their own brands for at-home consumption.

Accounting Pronouncements Adopted in 2020

As more fully described in note 1 of notes to consolidated financial statements included in our Form 10-K for the year ended November 30, 2019, we were required to adopt the new accounting standard for leases, Accounting Standards Codification Topic 842 *Leases* (ASC 842), as of December 1, 2019 and we elected to do so using a modified retrospective transition method. That modified retrospective transition method allowed us to initially apply the new standard at the adoption date and recognize a cumulative-effect adjustment to retained earnings in the opening balance sheet in the period of adoption without restating prior periods. ASC 842 revised prior practice related to accounting for leases under Accounting Standards Codification Topic 840 *Leases* (ASC 840) for both lessees and lessors and requires lessees to recognize most leases on their balance sheets as lease liabilities with corresponding right-of-use ("ROU") assets. Under ASC 842, the lease liability is equal to the present value of lease payments, and the ROU asset is based on the lease liability, subject to adjustments, such as for deferred rent and initial direct costs. For income statement purposes, ASC 842 retains a dual model similar to ASC 840, requiring leases to be classified as either operating or finance. For lessees, operating leases will result in straight-line expense (similar to prior accounting by

lessees for operating leases under ASC 840) while finance leases will result in a front-loaded expense pattern (similar to prior accounting by lessees for capital leases under ASC 840).

We elected the package of practical expedients permitted under the transition guidance, which, among other things, allows us to carry forward the historical lease classification. In addition, we made accounting policy elections to combine the lease and non-lease components for all asset categories other than real estate. We also made elections to exclude from balance sheet reporting those leases with initial terms of 12 months or less ("short-term leases").

Adoption of the new standard resulted in the recording of operating lease ROU assets and lease liabilities of \$136.5 million and \$140.0 million, respectively, with the difference due to prepaid and deferred rents that were reclassified to the ROU asset value. No cumulative-effect adjustment to opening retained earnings was required as of December 1, 2019. The standard did not materially affect our consolidated net income or cash flows for the three- and nine-month periods ended August 31, 2020. See note 4 for further details.

Recently Issued Accounting Pronouncements — Pending Adoption

In January 2017, the Financial Accounting Standards Board ("FASB") issued ASU No. 2017-04 *Intangibles—Goodwill and Other Topics (Topic 350)—Simplifying the Test for Goodwill Impairment*. This guidance eliminates the requirement to calculate the implied fair value of goodwill of a reporting unit to measure a goodwill impairment charge. Instead, a company will record an impairment charge based on the excess of a reporting unit's carrying amount over its fair value. The new standard will be effective for the first quarter of our fiscal year ending November 30, 2021. Early adoption is permitted for all entities for annual and interim goodwill impairment testing dates after January 1, 2017. We currently do not expect this guidance to have a material impact on our consolidated financial statements.

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, which institutes a new model for recognizing credit losses on financial instruments that are not measured at fair value. The ASU is effective for the first quarter of our fiscal year ending November 30, 2021, and we anticipate that it will primarily impact our credit losses recognized for trade accounts receivable. We currently do not expect this guidance to have a material impact on our consolidated financial statements.

2. SPECIAL CHARGES

In our consolidated income statement, we include a separate line item captioned "Special charges" in arriving at our consolidated operating income. Special charges consist of expenses associated with certain actions undertaken by the Company to reduce fixed costs, simplify or improve processes, and improve our competitiveness and are of such significance in terms of both up-front costs and organizational/structural impact to require advance approval by our Management Committee, comprised of our senior management, including our Chairman, President and Chief Executive Officer. Upon presentation of any such proposed action (generally including details with respect to estimated costs, which typically consist principally of employee severance and related benefits, together with ancillary costs associated with the action that may include a non-cash component or a component which relates to inventory adjustments that are included in cost of goods sold; impacted employees or operations; expected timing; and expected savings) to the Management Committee and the Committee's advance approval, expenses associated with the approved action are classified as special charges upon recognition and monitored on an on-going basis through completion.

The following is a summary of special charges recognized in the three and nine months ended August 31, 2020 and 2019 (in millions):

	Three months ended August 31,		Nine months ended August 31,	
	2020	2019	2020	2019
Employee severance and related benefits	\$ —	\$ 1.1	\$ 2.2	\$ 5.1
Other costs	0.1	6.6	1.8	11.8
Total	\$ 0.1	\$ 7.7	\$ 4.0	\$ 16.9

We continue to evaluate changes to our organization structure to enable us to reduce fixed costs, simplify or improve processes, and improve our competitiveness.

In 2017, our Management Committee approved a multi-year initiative during which we expect to execute significant changes to our global processes, capabilities and operating model to provide a scalable platform for future growth. We expect this initiative

to enable us to accelerate our ability to work globally and cross-functionally by aligning and simplifying processes throughout McCormick, in part building upon our current shared services foundation and expanding the end-to-end processes presently under that foundation. We expect this initiative, which we refer to as Global Enablement ("GE"), to enable this scalable platform for future growth while reducing costs, enabling faster decision making, increasing agility and creating capacity within our organization.

We expect the cost of the GE initiative—to be recognized as "Special charges" in our consolidated income statement over its expected multi-year course—to range from approximately \$60 million to \$65 million. Of that \$60 million to \$65 million, we estimate that approximately sixty percent will be attributable to cash payments associated with the related costs of GE implementation and transition, including outside consulting and other costs, and approximately forty percent will be attributable to severance and related benefit payments, all directly related to the initiative. During the nine months ended August 31, 2020, we incurred special charges associated with our GE initiative of \$1.1 million. Prior to this, through November 30, 2019, we have spent a cumulative total of \$38.3 million on this initiative.

During the three months ended August 31, 2020, we recorded \$0.1 million of special charges consisting primarily of streamlining actions in our Europe, Middle East and Africa (EMEA) region.

During the nine months ended August 31, 2020, we recorded \$4.0 million of special charges consisting of \$2.9 million of streamlining actions in EMEA and \$1.1 million related to our GE initiative, including \$0.5 million of third-party expenses, \$0.3 million related to severance and related benefits, and \$0.3 million related to other costs.

During the three months ended August 31, 2019, we recorded \$7.7 million of special charges, consisting primarily of (i) \$6.0 million related to our GE initiative, including \$5.5 million of third-party expenses, \$0.3 million related to employee severance and related benefits, and \$0.2 million related to other costs, and (ii) \$1.3 million related to streamlining actions in our EMEA region.

During the nine months ended August 31, 2019, we recorded \$16.9 million of special charges, consisting primarily of (i) \$12.2 million related to our GE initiative, including \$8.9 million of third-party expenses, \$2.0 million related to employee severance and related benefits, and \$1.3 million related to other costs, (ii) \$2.3 million of employee severance and related benefits associated with streamlining actions in the Americas region, and (iii) \$1.9 million related to streamlining actions in our EMEA region.

As of August 31, 2020, reserves associated with special charges, which are expected to be paid during the remainder of fiscal year 2020, are included in accounts payable and other accrued liabilities in our consolidated balance sheet.

The following is a breakdown by business segments of special charges for the three and nine months ended August 31, 2020 and 2019 (in millions):

	Three months ended August 31,		Nine months ended August 31,	
	2020	2019	2020	2019
Consumer segment	\$ —	\$ 4.6	\$ 3.1	\$ 11.0
Flavor solutions segment	0.1	3.1	0.9	5.9
Total special charges	\$ 0.1	\$ 7.7	\$ 4.0	\$ 16.9

3. FINANCING ARRANGEMENTS AND FINANCIAL INSTRUMENTS

In April 2020, we issued \$500.0 million of 2.50% notes due April 15, 2030, with cash proceeds received of \$495.0 million, net of discounts and underwriters' fees. Interest is payable semiannually in arrears in April and October of each year. The net proceeds from this issuance were used to pay down borrowings and for general corporate purposes.

During the nine months ended August 31, 2020 and 2019, we repaid \$250.0 million and \$106.3 million, respectively, of the five-year term loan due August 17, 2022, which included \$56.3 million of aggregate quarterly principal payments required in each nine-month period. During the nine months ended August 31, 2019, we also repaid \$100.0 million of the three-year term loan due August 17, 2020.

We use derivative financial instruments to enhance our ability to manage risk, including foreign currency, net investment and interest rate exposures, which exist as part of our ongoing business operations. We do not enter into contracts for trading purposes, nor are we a party to any leveraged derivative instrument, and all derivatives are designated as hedges. We are not a party to master netting arrangements, and we do not offset the fair value of derivative contracts with the same counterparty in our financial statement disclosures. The use of derivative financial instruments is monitored through regular communication with senior management and the use of written guidelines.

Foreign currency exchange risk. We are potentially exposed to foreign currency fluctuations affecting net investments in subsidiaries, transactions (both third-party and intercompany) and earnings denominated in foreign currencies. Management assesses foreign currency risk based on transactional cash flows and translational volatility and may enter into forward contract and currency swaps to reduce fluctuations in the long or short currency positions. Forward contracts are generally less than 18 months duration. Currency swap agreements are established in conjunction with the terms of the underlying debt issues.

At August 31, 2020, we had foreign currency exchange contracts to purchase or sell \$363.4 million of foreign currencies as compared to \$489.2 million at November 30, 2019. All of these contracts were designated as hedges of anticipated purchases denominated in a foreign currency or hedges of foreign currency denominated assets or liabilities. All foreign currency exchange contracts outstanding at August 31, 2020 have durations of less than 18 months, including \$107.0 million of notional contracts that have durations of less than seven days and are used to hedge short-term cash flow funding.

Contracts which are designated as hedges of anticipated purchases denominated in a foreign currency (generally purchases of raw materials in U.S. dollars by operating units outside the U.S.) are considered cash flow hedges. The gains and losses on these contracts are deferred in accumulated other comprehensive income until the hedged item is recognized in cost of goods sold, at which time the net amount deferred in accumulated other comprehensive income is also recognized in cost of goods sold. Gains and losses from contracts that are designated as hedges of assets, liabilities or firm commitments are recognized through income, offsetting the change in fair value of the hedged item.

We also enter into fair value foreign currency exchange contracts to manage both exposure to currency fluctuations in certain intercompany loans between subsidiaries as well as currency exposure to third-party non-functional currency assets or liabilities. At August 31, 2020, the notional value of these contracts was \$291.0 million. Any gains or losses recorded based on both the change in fair value of these contracts and the change in the currency component of the underlying loans are recognized in our consolidated income statement as other income, net.

We also utilize cross currency interest rate swap contracts that are considered net investment hedges. As of August 31, 2020, we had cross currency interest rate swap contracts of (i) \$250 million notional value to receive \$250 million at three-month U.S. LIBOR plus 0.685% and pay £194.1 million at three-month GBP LIBOR plus 0.740% and (ii) £194.1 million notional value to receive £194.1 million at three-month GBP LIBOR plus 0.740% and pay €221.8 million at three-month Euro EURIBOR plus 0.808%. These cross currency interest rate swap contracts expire in August 2027. Any gains or losses on net investment hedges are included in foreign currency translation adjustments in accumulated other comprehensive loss.

Interest rate risk. We finance a portion of our operations with both fixed and variable rate debt instruments, principally commercial paper, notes and bank loans. We utilize interest rate swap agreements to minimize worldwide financing costs and to achieve a desired mix of variable and fixed rate debt.

As of August 31, 2020, we have outstanding interest rate swap contracts for a notional amount of \$350 million. Those interest rate swap contracts include a \$100 million notional value of interest rate swap contracts, where we receive interest at 3.25% and pay a variable rate of interest based on three-month LIBOR plus 1.22%, which expire in November 2025, and are designated as fair value hedges of the changes in fair value of \$100 million of the \$250 million 3.25% medium-term notes due 2025. We also have \$250 million notional interest rate swap contracts where we receive interest at 3.40% and pay a variable rate of interest based on three-month LIBOR plus 0.685%, which expire in August 2027, and are designated as fair value hedges of the changes in fair value of \$250 million of the \$750 million 3.40% term notes due 2027. Any realized gain or loss on these swap contracts was offset by a corresponding increase or decrease of the value of the hedged debt.

All derivatives are recognized at fair value in the balance sheet and recorded in either other current assets, other long-term assets, other accrued liabilities or other long-term liabilities, depending upon their nature and maturity. Hedge ineffectiveness was not material.

The following table discloses the notional amount and fair values of derivative instruments on our balance sheet (in millions):

As of August 31, 2020

	Asset Derivatives			Liability Derivatives		
	Balance sheet location	Notional amount	Fair value	Balance sheet location	Notional amount	Fair value
Interest rate contracts	Other current assets / Other long-term assets	\$ 350.0	\$ 45.6	Other accrued liabilities	\$ —	\$ —
Foreign exchange contracts	Other current assets	156.5	18.1	Other accrued liabilities	206.9	21.3
Cross currency contracts	Other current assets / Other long-term assets	—	—	Other long-term liabilities	524.5	19.3
Total			\$ 63.7			\$ 40.6

As of August 31, 2019

	Asset Derivatives			Liability Derivatives		
	Balance sheet location	Notional amount	Fair value	Balance sheet location	Notional amount	Fair value
Interest rate contracts	Other current assets / Other long-term assets	\$ 350.0	\$ 28.2	Other accrued liabilities	\$ —	\$ —
Foreign exchange contracts	Other current assets	104.7	2.2	Other accrued liabilities	350.6	4.6
Cross currency contracts	Other current assets / Other long-term assets	236.4	14.0	Other long-term liabilities	243.9	13.4
Total			\$ 44.4			\$ 18.0

As of November 30, 2019

	Asset Derivatives			Liability Derivatives		
	Balance sheet location	Notional amount	Fair value	Balance sheet location	Notional amount	Fair value
Interest rate contracts	Other current assets / Other long-term assets	\$ 350.0	\$ 20.9	Other accrued liabilities	\$ —	\$ —
Foreign exchange contracts	Other current assets	293.1	3.3	Other accrued liabilities	196.1	3.6
Cross currency contracts	Other current assets / Other long-term assets	495.5	3.2	Other long-term liabilities	—	—
Total			\$ 27.4			\$ 3.6

The following tables disclose the impact of derivative instruments on our other comprehensive income ("OCI"), accumulated other comprehensive income ("AOCI") and our consolidated income statement for the three- and nine-month periods ended August 31, 2020 and 2019 (in millions):

Fair Value Hedges

Derivative	Income statement location	Income (expense)			
		Three months ended August 31, 2020	Three months ended August 31, 2019	Nine months ended August 31, 2020	Nine months ended August 31, 2019
Interest rate contracts	Interest expense	\$ 1.8	\$ —	\$ 3.2	\$ (0.3)

Three months ended August 31,	Income statement location	Gain (loss) recognized in income		Hedged item	Income statement location	Gain (loss) recognized in income	
Derivative		2020	2019			2020	2019
Foreign exchange contracts	Other income, net	\$ (7.6)	\$ (5.3)	Intercompany loans	Other income, net	\$ 7.3	\$ 5.2

Nine months ended August 31,	Income statement location	Gain (loss) recognized in income		Hedged item	Income statement location	Gain (loss) recognized in income	
Derivative		2020	2019			2020	2019
Foreign exchange contracts	Other income, net	\$ (4.1)	\$ (2.6)	Intercompany loans	Other income, net	\$ 3.1	\$ 2.0

The gains (losses) recognized on fair value hedges relating to currency exposure on third-party non-functional currency assets or liabilities were not material during the three- and nine-months ended August 31, 2020 and 2019.

Cash Flow Hedges

Three months ended August 31,

Derivative	Gain (loss) recognized in OCI		Income statement location	Gain (loss) reclassified from AOCI	
	2020	2019		2020	2019
Interest rate contracts	\$ —	\$ —	Interest expense	\$ 0.2	\$ 0.2
Foreign exchange contracts	(0.6)	(0.3)	Cost of goods sold	1.1	0.5
Total	\$ (0.6)	\$ (0.3)		\$ 1.3	\$ 0.7

Nine months ended August 31,

Derivative	Gain (loss) recognized in OCI		Income statement location	Gain (loss) reclassified from AOCI	
	2020	2019		2020	2019
Interest rate contracts	\$ —	\$ —	Interest expense	\$ 0.4	\$ 0.4
Foreign exchange contracts	2.3	0.3	Cost of goods sold	1.2	0.9
Total	\$ 2.3	\$ 0.3		\$ 1.6	\$ 1.3

For all cash flow and settled interest rate fair value hedge derivatives, the net amount of accumulated other comprehensive income (loss) expected to be reclassified in the next 12 months is \$1.3 million as an increase to earnings.

Net Investment Hedges

Three months ended August 31,

Derivative	Gain (loss) recognized in OCI		Income statement location	Gain (loss) excluded from the assessment of hedge effectiveness	
	2020	2019		2020	2019
Cross currency contracts	\$ (17.4)	\$ 3.0	Interest expense	\$ 0.3	\$ 1.7

Nine months ended August 31,

Derivative	Gain (loss) recognized in OCI		Income statement location	Gain (loss) excluded from the assessment of hedge effectiveness	
	2020	2019		2020	2019
Cross currency contracts	\$ (20.7)	\$ 0.3	Interest expense	\$ 2.7	\$ 3.8

For all net investment hedges, no amounts have been reclassified out of accumulated other comprehensive income (loss). The amounts noted in the tables above for OCI do not include any adjustments for the impact of deferred income taxes.

4. LEASES

Our lease portfolio primarily consists of (i) certain real estate, including those related to a number of administrative, distribution and manufacturing locations; (ii) certain machinery and equipment, including forklifts; and (iii) automobiles, delivery trucks and other vehicles, including an airplane. When our real estate lease arrangements include lease and non-lease components (for example, common area maintenance), we account for each component separately, based on their relative standalone prices. For all other asset categories, we combine lease components and non-lease components into a single lease commitment. We determine if an agreement is a lease or contains a lease at inception. Leases with an initial term of 12 months or less (short-term leases) are not recorded on the balance sheet.

ROU assets represent our right to use an underlying asset for the lease term, and lease liabilities represent our obligation to make lease payments arising from the lease. ROU assets and liabilities are based on the estimated present value of lease payments over the lease term and are recognized at the lease commencement date.

As most of our leases do not provide an implicit borrowing rate, we use our estimated incremental borrowing rate in determining the present value of lease payments. The estimated incremental borrowing rate is derived from information available at the lease commencement date.

Our lease terms may include options to extend or terminate the lease when it is reasonably certain that we will exercise that option. A limited number of our lease agreements include rental payments that are adjusted periodically based on a market rate or index. Our lease agreements generally do not contain residual value guarantees or material restrictive covenants.

The following table presents the components of our lease expense (in millions):

	Three months ended August 31, 2020	Nine months ended August 31, 2020
Operating lease cost	\$ 9.7	\$ 30.3
Finance lease cost:		
Amortization of ROU assets	2.2	6.7
Interest on lease liabilities	1.1	3.4
Net lease cost ⁽¹⁾	\$ 13.0	\$ 40.4

(1) Net lease cost does not include short-term leases, variable lease costs or sublease income, all of which are immaterial.

Supplemental balance sheet information related to leases as of August 31, 2020 were as follows (in millions):

Leases	Classification		
Assets			
Operating lease ROU assets	Other long-term assets	\$	121.3
Finance lease ROU assets	Property, plant and equipment, net		124.3
Total leased assets		\$	245.6
Liabilities			
Current			
Operating	Other accrued liabilities	\$	33.6
Finance	Current portion of long-term debt		7.3
Non-current			
Operating	Other long-term liabilities		91.4
Finance	Long-term debt		127.3
Total lease liabilities		\$	259.6

Information regarding our lease terms and discount rates as of August 31, 2020 were as follows:

	Weighted-average remaining lease term (years)	Weighted-average discount rate
Operating leases	5.7	2.1 %
Finance leases	14.3	3.3 %

The future maturity of our lease liabilities as of August 31, 2020 were as follows (in millions):

	Operating leases	Finance leases	Total
2020 (remainder of year)	\$ 9.6	\$ 2.8	\$ 12.4
2021	33.9	11.4	45.3
2022	25.5	11.4	36.9
2023	18.1	11.4	29.5
2024	11.3	11.5	22.8
Thereafter	34.1	125.9	160.0
Total lease payments	132.5	174.4	306.9
Less: Imputed interest	7.5	39.8	47.3
Total lease liabilities	\$ 125.0	\$ 134.6	\$ 259.6

Supplemental cash flow and other information related to leases for the nine months ended August 31, 2020 were as follows (in million):

Cash paid for amounts included in the measurements of lease liabilities:		
Operating cash flows used for operating leases	\$	30.4
Operating cash flows used for finance leases		3.4
Financing cash flows used for finance leases		5.1
ROU assets obtained in exchange for lease liabilities		
Operating leases	\$	8.7

5. FAIR VALUE MEASUREMENTS

Fair value can be measured using valuation techniques, such as the market approach (comparable market prices), the income approach (present value of future income or cash flow), and the cost approach (cost to replace the service capacity of an asset or replacement cost). Accounting standards utilize a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three broad levels. The following is a brief description of those three levels:

- Level 1: Observable inputs such as quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets and quoted prices for identical or similar assets or liabilities in markets that are not active.
- Level 3: Unobservable inputs that reflect the reporting entity's own assumptions.

At August 31, 2020, August 31, 2019 and November 30, 2019, we had no financial assets or liabilities that were subject to a level 3 fair value measurement. Our population of financial assets and liabilities subject to fair value measurements on a recurring basis are as follows (in millions):

	Fair Value	August 31, 2020	
		Level 1	Level 2
Assets			
Cash and cash equivalents	\$ 221.0	\$ 221.0	\$ —
Insurance contracts	120.8	—	120.8
Bonds and other long-term investments	5.6	5.6	—
Interest rate derivatives	45.6	—	45.6
Foreign currency derivatives	18.1	—	18.1
Total	\$ 411.1	\$ 226.6	\$ 184.5
Liabilities			
Foreign currency derivatives	\$ 21.3	\$ —	\$ 21.3
Cross currency contracts	19.3	—	19.3
Total	\$ 40.6	\$ —	\$ 40.6

	Fair Value	August 31, 2019	
		Level 1	Level 2
Assets			
Cash and cash equivalents	\$ 162.9	\$ 162.9	\$ —
Insurance contracts	117.2	—	117.2
Bonds and other long-term investments	4.3	4.3	—
Interest rate derivatives	28.2	—	28.2
Foreign currency derivatives	2.2	—	2.2
Cross currency contracts	14.0	—	14.0
Total	\$ 328.8	\$ 167.2	\$ 161.6
Liabilities			
Foreign currency derivatives	\$ 4.6	\$ —	\$ 4.6
Cross currency contracts	13.4	—	13.4
Total	\$ 18.0	\$ —	\$ 18.0

	Fair Value	November 30, 2019	
		Level 1	Level 2
Assets			
Cash and cash equivalents	\$ 155.4	\$ 155.4	\$ —
Insurance contracts	121.7	—	121.7
Bonds and other long-term investments	2.7	2.7	—
Interest rate derivatives	20.9	—	20.9
Foreign currency derivatives	3.3	—	3.3
Cross currency contracts	3.2	—	3.2
Total	\$ 307.2	\$ 158.1	\$ 149.1
Liabilities			
Foreign currency derivatives	\$ 3.6	\$ —	\$ 3.6
Total	\$ 3.6	\$ —	\$ 3.6

Because of their short-term nature, the amounts reported in the balance sheet for cash and cash equivalents, receivables, short-term borrowings and trade accounts payable approximate fair value. The fair values of insurance contracts are based upon the underlying values of the securities in which they are invested and are from quoted market prices from various stock and bond exchanges for similar-type assets. The fair values of bonds and other long-term investments are based on quoted market prices from various stock and bond exchanges. The fair values for interest rate derivatives, foreign currency derivatives, and cross currency contracts are based on values for similar instruments using models with market-based inputs.

The following table sets forth the carrying amounts and fair values of our long-term debt including the current portion thereof (in millions):

	August 31, 2020	August 31, 2019	November 30, 2019
Carrying amount	\$ 4,001.2	\$ 3,962.4	\$ 3,723.5
Fair value	4,339.3	4,153.7	3,859.0
Level 1 valuation techniques	\$ 4,162.9	\$ 3,475.0	\$ 3,437.5
Level 2 valuation techniques	176.4	678.7	421.5
Total fair value	\$ 4,339.3	\$ 4,153.7	\$ 3,859.0

The fair value for Level 2 long-term debt is determined by using quoted prices for similar debt instruments.

6. EMPLOYEE BENEFIT AND RETIREMENT PLANS

We sponsor defined benefit pension plans in the U.S. and certain foreign locations. In addition, we sponsor defined contribution plans in the U.S. We also contribute to defined contribution plans in locations outside the U.S., including government-sponsored retirement plans. We also currently provide postretirement medical and life insurance benefits to certain U.S. employees and retirees. As more fully described in the notes to the consolidated financial statements included in our Annual Report on Form 10-K for the year ended November 30, 2019, during fiscal years 2018 and 2017, we made significant changes to our employee benefit and retirement plans that froze the accrual of future benefits under certain defined benefit pension plans in the U.S. and certain foreign locations.

The following table presents the components of our pension expense (income) of the defined benefit plans for the three months ended August 31, 2020 and 2019 (in millions):

	United States		International	
	2020	2019	2020	2019
Defined benefit plans				
Service cost	\$ 0.8	\$ 0.5	\$ 0.2	\$ 0.9
Interest costs	7.3	8.6	1.9	2.3
Expected return on plan assets	(10.2)	(10.6)	(3.7)	(4.0)
Amortization of prior service costs	0.2	0.1	0.1	—
Amortization of net actuarial losses	2.0	0.6	0.5	0.3
Settlement loss	—	—	0.7	—
Total pension expense (income)	\$ 0.1	\$ (0.8)	\$ (0.3)	\$ (0.5)

The following table presents the components of our pension expense (income) of the defined benefit plans for the nine months ended August 31, 2020 and 2019 (in millions):

	United States		International	
	2020	2019	2020	2019
Defined benefit plans				
Service cost	\$ 2.4	\$ 1.5	\$ 0.7	\$ 2.7
Interest costs	22.0	25.8	5.6	7.1
Expected return on plan assets	(30.5)	(31.8)	(11.2)	(12.3)
Amortization of prior service costs	0.4	0.3	0.1	0.1
Amortization of net actuarial losses	5.9	1.8	1.5	0.9
Settlement loss	—	—	1.2	—
Total pension expense (income)	\$ 0.2	\$ (2.4)	\$ (2.1)	\$ (1.5)

During the nine months ended August 31, 2020 and 2019, we contributed \$9.3 million and \$8.9 million, respectively, to our pension plans. Total contributions to our pension plans in fiscal year 2019 were \$11.4 million.

The following table presents the components of our other postretirement benefits expense (income) (in millions):

	Three months ended August 31,		Nine months ended August 31,	
	2020	2019	2020	2019
Other postretirement benefits				
Service cost	\$ 0.5	\$ 0.5	\$ 1.4	\$ 1.5
Interest costs	0.5	0.7	1.5	2.0
Amortization of prior service credits	(1.2)	(2.2)	(3.5)	(6.5)
Amortization of net actuarial gains	—	(0.1)	(0.1)	(0.5)
Total other postretirement benefits (income)	\$ (0.2)	\$ (1.1)	\$ (0.7)	\$ (3.5)

All of the amounts in the tables above for pension expense and other postretirement benefits expense, other than service cost, were included in the income statement caption "Other income, net" within our consolidated income statements. The aggregate amount of pension and other postretirement benefits (income) expenses, excluding service cost components, were \$(1.9) million

and \$(4.3) million for the three months ended August 31, 2020 and 2019, respectively and \$(7.1) million and \$(13.1) million for the nine months ended August 31, 2020 and 2019, respectively.

7. STOCK-BASED COMPENSATION

We have three types of stock-based compensation awards: restricted stock units ("RSUs"), stock options and company stock awarded as part of our long-term performance plan ("LTTP"). The following table sets forth the stock-based compensation expense recorded in selling, general and administrative ("SG&A") expense (in millions):

	Three months ended August 31,		Nine months ended August 31,	
	2020	2019	2020	2019
Stock-based compensation expense	\$ 10.7	\$ 7.8	\$ 37.8	\$ 30.6

Our 2020 annual grant of stock options and RSUs occurred in the second quarter, similar to the 2019 annual grant. The weighted-average grant-date fair value of each stock option granted in 2020 was \$26.53 and in 2019 was \$27.51 as calculated under a lattice pricing model. Substantially all of the stock options and RSUs granted in 2020 vest ratably over a three-year period or, if earlier, upon the retirement eligibility date of the holder. The fair values of stock option grants in the stated periods were computed using the following range of assumptions for our various stock compensation plans:

	2020	2019
Risk-free interest rates	0.0 - 0.6%	2.2 - 2.5%
Dividend yield	1.8%	1.5%
Expected volatility	22.8%	17.4%
Expected lives (in years)	7.9	7.5

The following is a summary of our stock option activity for the nine months ended August 31, 2020 and 2019:

	2020		2019	
(shares in millions)	Number of Shares	Weighted-Average Exercise Price	Number of Shares	Weighted-Average Exercise Price
Outstanding at beginning of period	2.6	\$ 96.18	3.6	\$ 82.60
Granted	0.4	138.62	0.3	147.39
Exercised	(0.7)	81.88	(1.2)	70.78
Outstanding at end of the period	2.3	\$ 106.88	2.7	\$ 95.50
Exercisable at end of the period	1.6	\$ 95.33	2.0	\$ 86.08

As of August 31, 2020, the intrinsic value (the difference between the exercise price and the market price) for all options outstanding was \$225.5 million and for options currently exercisable was \$180.2 million. The total intrinsic value of all options exercised during the nine months ended August 31, 2020 and 2019 was \$65.3 million and \$102.8 million, respectively.

The following is a summary of our RSU activity for the nine months ended August 31, 2020 and 2019:

	2020		2019	
(shares in thousands)	Number of Shares	Weighted-Average Grant-Date Fair Value	Number of Shares	Weighted-Average Grant-Date Fair Value
Outstanding at beginning of period	381	\$ 115.89	423	\$ 103.05
Granted	148	134.06	129	143.15
Vested	(137)	109.97	(134)	96.74
Forfeited	(7)	124.30	(9)	112.10
Outstanding at end of period	385	\$ 124.82	409	\$ 117.51

The following is a summary of our LTTP activity for the nine months ended August 31, 2020 and 2019:

(shares in thousands)	2020		2019	
	Number of Shares	Weighted-Average Grant-Date Fair Value	Number of Shares	Weighted-Average Grant-Date Fair Value
Outstanding at beginning of period	196	\$ 115.96	218	\$ 83.55
Granted	65	172.28	102	150.51
Vested	(44)	89.96	(57)	86.40
Forfeited	(3)	127.46	—	—
Outstanding at end of period	<u>214</u>	<u>\$ 138.26</u>	<u>263</u>	<u>\$ 117.14</u>

8. INCOME TAXES

Income taxes for the three months ended August 31, 2020 included \$13.2 million of discrete tax benefits consisting principally of the following: (i) \$7.3 million of excess tax benefits associated with share-based compensation, (ii) \$2.1 million of tax benefits related to the reversal of unrecognized tax benefits and related interest associated with the expiration of statutes of limitations, (iii) \$2.0 million for an adjustment to a prior year tax accrual based on the final return filed, and (iv) \$1.1 million related to the revaluation of deferred taxes resulting from enacted legislation. Income taxes for the nine months ended August 31, 2020 included \$40.1 million of discrete tax benefits consisting principally of the following: (i) \$13.0 million of excess tax benefits associated with share-based compensation, (ii) \$9.9 million of tax benefits associated with an intra-entity asset transfer that occurred during the first quarter, (iii) \$9.3 million of tax benefits associated with the release of a valuation allowance due to a change in judgment about realizability of deferred tax assets, (iv) \$5.5 million of tax benefits related to the reversal of unrecognized tax benefits and related interest associated with the expiration of statutes of limitations in various jurisdictions, and (v) \$2.0 million for an adjustment to a prior year tax accrual based on the final return filed.

Income taxes for the three months ended August 31, 2019 included \$15.5 million of discrete tax benefits consisting principally of the following: (i) \$8.3 million of excess tax benefits associated with share-based compensation, (ii) \$2.4 million related to the reversal of unrecognized tax benefits and related interest associated with the expiration of statutes of limitations, (iii) \$2.5 million related to the revaluation of deferred tax liabilities resulting from enacted legislation and (iv) \$2.3 million for an adjustment to a prior year tax accrual based on the final return filed, including \$1.5 million associated with the U.S. Tax Act, described below. Income taxes for the nine months ended August 31, 2019 included \$44.4 million of discrete tax benefits consisting principally of the following: (i) \$21.2 million of excess tax benefits associated with share-based compensation, (ii) \$16.2 million of tax benefits associated with an intra-entity asset transfer that occurred during the first quarter, (iii) \$2.6 million related to the reversal of unrecognized tax benefits and related interest associated with the expiration of statutes of limitation in several jurisdictions, (iv) \$2.1 million related to the revaluation of deferred tax liabilities resulting from enacted legislation and (v) \$2.3 million for an adjustment to a prior year tax accrual based on the final return filed, including \$1.5 million associated with the U.S. Tax Act, described below.

In December 2017, President Trump signed into law H.R. 1, “An Act to provide for reconciliation pursuant to titles II and V of the concurrent resolution on the budget for fiscal year 2018” (this legislation was formerly called the “Tax Cuts and Jobs Act” and is referred to herein as the “U.S. Tax Act”). The U.S. Tax Act provided for significant changes in the U.S. Internal Revenue Code of 1986, as amended. During the three and nine months ended August 31, 2019, we recorded a net income tax benefit of \$1.5 million associated with a provision-to-return adjustment related to the U.S Tax Act.

Other than additions for current year tax positions and the reversal of unrecognized tax benefits and related interest noted above, there were no significant changes to unrecognized tax benefits during the nine months ended August 31, 2020.

As of August 31, 2020, we believe the reasonably possible total amount of unrecognized tax benefits that could increase or decrease in the next 12 months as a result of various statute expirations, audit closures, and/or tax settlements would not be material to our consolidated financial statements.

9. EARNINGS PER SHARE AND STOCK ISSUANCE

The following table sets forth the reconciliation of average shares outstanding (in millions):

	Three months ended		Nine months ended	
	August 31, 2020	August 31, 2019	August 31, 2020	August 31, 2019
Average shares outstanding – basic	133.3	132.8	133.1	132.5
Effect of dilutive securities:				
Stock options/RSUs/LTPP	1.5	1.4	1.4	1.5
Average shares outstanding – diluted	134.8	134.2	134.5	134.0

The following table sets forth the stock options and RSUs that were not considered in our earnings per share calculation since they were anti-dilutive (in millions):

	Three months ended		Nine months ended	
	August 31, 2020	August 31, 2019	August 31, 2020	August 31, 2019
Anti-dilutive securities	—	0.2	0.1	0.1

The following table sets forth the common stock activity (in millions):

	Three months ended		Nine months ended	
	August 31, 2020	August 31, 2019	August 31, 2020	August 31, 2019
Shares issued under stock options, RSUs, LTPP and employee stock purchase plans	0.3	0.5	0.8	1.4
Shares repurchased under the stock repurchase program and shares withheld for taxes under stock options, RSUs, LTPP and employee stock purchase programs	0.1	0.1	0.3	0.6

As of August 31, 2020, \$586.0 million remained of the \$600 million share repurchase program authorization approved by our Board of Directors in November 2019.

10. ACCUMULATED OTHER COMPREHENSIVE LOSS

The following table sets forth the components of accumulated other comprehensive income (loss), net of tax, where applicable (in millions):

	August 31, 2020	August 31, 2019	November 30, 2019
Foreign currency translation adjustment ⁽¹⁾	\$ (198.5)	\$ (308.2)	\$ (266.5)
Unrealized gain (loss) on foreign currency exchange contracts	0.3	(0.8)	—
Unamortized value of settled interest rate swaps	—	0.4	0.3
Pension and other postretirement costs	(231.7)	(119.7)	(234.0)
Accumulated other comprehensive loss	\$ (429.9)	\$ (428.3)	\$ (500.2)

- (1) The foreign currency translation adjustment of accumulated other comprehensive loss decreased on a net basis by \$68.0 million during the nine months ended August 31, 2020, including the impact of a \$20.7 million increase associated with net investment hedges as more fully described in note 3.

The following table sets forth the amounts reclassified from accumulated other comprehensive income (loss) and into consolidated net income (in millions):

Accumulated Other Comprehensive Income (Loss) Components	Three months ended		Nine months ended		Affected Line Items in the Condensed Consolidated Income Statement
	August 31, 2020	August 31, 2019	August 31, 2020	August 31, 2019	
(Gains)/losses on cash flow hedges:					
Interest rate derivatives	\$ (0.2)	\$ (0.2)	\$ (0.4)	\$ (0.4)	Interest expense
Foreign exchange contracts	(1.1)	(0.5)	(1.2)	(0.9)	Cost of goods sold
Total before tax	(1.3)	(0.7)	(1.6)	(1.3)	
Tax effect	0.3	0.1	0.4	0.3	Income taxes
Net, after tax	\$ (1.0)	\$ (0.6)	\$ (1.2)	\$ (1.0)	
Amortization of pension and postretirement benefit adjustments:					
Amortization of prior service costs (credit) ⁽¹⁾	\$ (0.9)	\$ (2.1)	\$ (3.0)	\$ (6.1)	Other income, net
Amortization of net actuarial losses ⁽¹⁾	3.2	0.8	8.5	2.2	Other income, net
Total before tax	2.3	(1.3)	5.5	(3.9)	
Tax effect	(0.6)	0.3	(1.3)	0.9	Income taxes
Net, after tax	\$ 1.7	\$ (1.0)	\$ 4.2	\$ (3.0)	

(1) This accumulated other comprehensive income (loss) component, including settlement losses, is included in the computation of total pension expense and other postretirement benefits expense (refer to note 6 for additional details).

11. BUSINESS SEGMENTS

We operate in two business segments: consumer and flavor solutions. The consumer and flavor solutions segments manufacture, market and distribute spices, herbs, seasoning mixes, condiments and other flavorful products throughout the world. Our consumer segment sells to retail channels, including grocery, mass merchandise, warehouse clubs, discount and drug stores, and e-commerce under the “McCormick” brand and a variety of brands around the world, including “French’s”, “Frank’s RedHot”, “OLD BAY”, “Lawry’s”, “Zatarain’s”, “Simply Asia”, “Thai Kitchen”, “Ducros”, “Vahine”, “Schwartz”, “Club House”, “Kamis”, “Kohinoor”, “DaQiao”, “La Drogheria”, “Stubb’s”, and “Gourmet Garden”. Our flavor solutions segment sells to food manufacturers and the foodservice industry both directly and indirectly through distributors, with the exception of our businesses in China and India, where foodservice sales are managed by and reported in our consumer segment.

In each of our segments, we produce and sell many individual products which are similar in composition and nature. With their primary attribute being flavor, we regard the products within each of our segments to be fairly homogenous. It is impracticable to segregate and identify sales and profits for each of these individual product lines.

We measure segment performance based on operating income excluding special charges, as this activity is managed separately from the business segments.

Although the segments are managed separately due to their distinct distribution channels and marketing strategies, manufacturing and warehousing are often integrated to maximize cost efficiencies. We do not segregate jointly utilized assets by individual segment for internal reporting, evaluating performance or allocating capital. Because of manufacturing integration for certain products within the segments, products are not sold from one segment to another but rather inventory is transferred at cost. Intersegment sales are not material.

	Consumer	Flavor Solutions	Total
	(in millions)		
<u>Three months ended August 31, 2020</u>			
Net sales	\$ 910.9	\$ 519.4	\$ 1,430.3
Operating income excluding special charges	209.0	64.1	273.1
Income from unconsolidated operations	8.5	1.1	9.6
<u>Three months ended August 31, 2019</u>			
Net sales	\$ 794.2	\$ 535.0	\$ 1,329.2
Operating income excluding special charges	176.5	84.7	261.2
Income from unconsolidated operations	7.3	2.3	9.6
<u>Nine months ended August 31, 2020</u>			
Net sales	\$ 2,573.0	\$ 1,470.4	\$ 4,043.4
Operating income excluding special charges	560.2	168.4	728.6
Income from unconsolidated operations	24.7	5.5	30.2
<u>Nine months ended August 31, 2019</u>			
Net sales	\$ 2,303.2	\$ 1,559.4	\$ 3,862.6
Operating income excluding special charges	449.6	225.8	675.4
Income from unconsolidated operations	22.7	6.5	29.2

A reconciliation of operating income excluding special charges to operating income is as follows (in millions):

	Consumer	Flavor Solutions	Total
<u>Three months ended August 31, 2020</u>			
Operating income excluding special charges	\$ 209.0	\$ 64.1	\$ 273.1
Less: Special charges	—	0.1	0.1
Operating income	<u>\$ 209.0</u>	<u>\$ 64.0</u>	<u>\$ 273.0</u>
<u>Three months ended August 31, 2019</u>			
Operating income excluding special charges	\$ 176.5	\$ 84.7	\$ 261.2
Less: Special charges	4.6	3.1	7.7
Operating income	<u>\$ 171.9</u>	<u>\$ 81.6</u>	<u>\$ 253.5</u>
<u>Nine months ended August 31, 2020</u>			
Operating income excluding special charges	\$ 560.2	\$ 168.4	\$ 728.6
Less: Special charges	3.1	0.9	4.0
Operating income	<u>\$ 557.1</u>	<u>\$ 167.5</u>	<u>\$ 724.6</u>
<u>Nine months ended August 31, 2019</u>			
Operating income excluding special charges	\$ 449.6	\$ 225.8	\$ 675.4
Less: Special charges	11.0	5.9	16.9
Operating income	<u>\$ 438.6</u>	<u>\$ 219.9</u>	<u>\$ 658.5</u>

The following table sets forth our net sales, by geographic area, for the three and nine months ended August 31, 2020 and 2019 (in millions):

	Americas	EMEA	Asia/Pacific	Total
Three months ended August 31, 2020	\$ 1,010.5	\$ 262.7	\$ 157.1	\$ 1,430.3
Three months ended August 31, 2019	931.3	234.5	163.4	1,329.2
Nine months ended August 31, 2020	2,855.5	756.7	431.2	4,043.4
Nine months ended August 31, 2019	2,634.4	726.7	501.5	3,862.6

12 SUBSEQUENT EVENT

On September 28, 2020, our Board of Directors approved a 2-for-1 stock split of the Company's voting and non-voting shares of common stock. On November 30, 2020, one like share will be issued for each share outstanding to shareholders of record as of November 20, 2020. Trading of the Company's common stock will begin on a split-adjusted basis on December 1, 2020. Common stock and per-share data in this Quarterly Report on Form 10-Q have not been adjusted for the impact of the split.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

OVERVIEW

The following Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") is intended to help the reader understand McCormick & Company, Incorporated, our operations, and our present business environment. MD&A is provided as a supplement to, and should be read in conjunction with, our financial statements and the accompanying notes thereto, included in Item 1 of this report. We use certain non-GAAP information – more fully described below under the caption Non-GAAP Financial Measures – that we believe is important for purposes of comparison to prior periods and development of future projections and earnings growth prospects. This information is also used by management to measure the profitability of our ongoing operations and analyze our business performance and trends. Unless otherwise noted, the dollar and share information in the charts and tables in MD&A are in millions, except per share data.

Business profile

McCormick is a global leader in flavor. We manufacture, market and distribute spices, seasoning mixes, condiments and other flavorful products to the entire food industry – retailers, food manufacturers and the foodservice business. In fiscal year 2019, approximately 40% of our sales were outside of the U.S. We also are partners in a number of joint ventures that are involved in the manufacture and sale of flavorful products, the most significant of which is McCormick de Mexico. We manage our business in two business segments, consumer and flavor solutions.

Recent Events

During the three and nine months ended August 31, 2020, the effects of a new coronavirus ("COVID-19") and related actions to attempt to control its spread significantly impacted not only our operating results but also the global economy.

The impact of the global COVID-19 pandemic on our consolidated operating results for the three months ended February 29, 2020 was limited, in all material respects, to our operations in China where the Chinese government mandated numerous measures, including closures of businesses, limitations on movements of individuals and goods, and the imposition of other restrictive measures, in its efforts to mitigate the spread of COVID-19 within the country. In the first quarter of 2020, sales in our Asia/Pacific region declined by \$39.6 million from the corresponding quarter in 2019, driven by the decline in the first quarter of 2020 sales in our China operations, as compared to the corresponding period in 2019, that approximated \$43 million. That \$43 million decline was driven by government-mandated measures, imposed to mitigate the spread of COVID-19, including measures that caused us to institute work-at-home protocols for many of our employees and to close our manufacturing facilities in our China operations during a portion of the first quarter. Our plants in China have since resumed operations, with our plants in Shanghai and Guangzhou resuming operations in mid-February 2020 and our Wuhan plant in mid-March 2020.

The pandemic spread outside of China during our second and third quarters of fiscal year 2020 to impact operations in our Americas and Europe, Middle East and Africa ("EMEA") regions in addition to elsewhere in our Asia/Pacific region. In the U.S., many state and local governments, based on local conditions, either recommended or mandated actions to slow the transmission of COVID-19. These measures ranged from limitations on crowd size, together with closures of bars and dine-in restaurants, to mandatory orders for non-essential citizens to shelter in place. Governments in non-U.S. jurisdictions also implemented shelter-in-place orders, quarantines, significant restrictions on travel, as well as restrictions that prohibited many employees from going to work. Borders between countries have been closed to contain the spread of COVID-19 contagion. The extent and nature of government actions have varied during the nine months ended August 31, 2020 based upon the then-current extent and severity of the COVID-19 pandemic within their respective countries and localities. Uncertainty with respect to the economic effects of the pandemic introduced significant volatility in the financial markets.

We identified three priorities while navigating through the period of volatility and uncertainty associated with various stages of the COVID-19 pandemic:

- First, to ensure the health and safety of our employees and the quality and integrity of our products.
- Second, to keep our brands and our customers' brands in supply and to maintain the financial strength of our business.

- Third, to ensure McCormick emerges strong from this event. The pandemic will come to an end and we believe that we will come out a better company by driving our long-term strategies, responding to changing consumer behavior and capitalizing on opportunities from our relative strength.

We implemented numerous measures to ensure that these priorities were achieved, including: (i) for our manufacturing and distribution employees, who played a critical role in maintaining the supply of our products to our customers and consumers, we instituted pre-shift temperature checks, increased pay and benefits, and provided time to enable social distancing and even greater sanitation procedures during shift changes; (ii) for our other employees, we instituted work-from-home arrangements; (iii) we maintained close communication with customers and suppliers to enable us to react to changing demand; and (iv) throughout the organization, we empowered global, regional and local crisis response teams that enabled us to react quickly to the challenging environment.

We elected to pause activities related to our global enterprise resource planning ("ERP") replacement program in the balance of fiscal 2020. Current travel restrictions and border closures imposed by governments to mitigate COVID-19 contagion would make it impossible to provide on-the-ground support at the times of pilot go-lives previously planned for fiscal 2020, and we do not have a clear line of sight as to when those restrictions will be lifted. For these reasons, we have chosen to refocus our employees on the three previously described priorities while navigating through this period of volatility and uncertainty.

In the nine months ended August 31, 2020, our sales increased by 4.7% over the prior year level. That increase was driven by an 11.7% increase in sales of our consumer segment, partially offset by a 5.7% decline in sales of our flavor solutions segment. Our operating results have and will continue to be impacted by COVID-19, including the related recovery and the shift in consumer demand resulting from the pandemic. We have partnered with our customers to monitor consumer demand changes and address the shift to at-home versus away-from-home consumption. We estimate that away-from-home consumption has historically represented approximately 20% of our consolidated sales. The effects of COVID-19 on consumer behavior have, on a net basis, favorably impacted the operating results of our consumer segment and unfavorably impact the operating results of our flavor solutions segment in the three and nine months ended August 31, 2020. The impact of COVID-19 on our consumer segment during those periods resulted in a significant increase in at-home consumption and related demand for our products. The unfavorable impact on our flavor solutions segment during the same periods was principally attributable to decreased demand from certain customers that were affected by government mandates related to COVID-19 in many of our markets. Those measures required closures of dine-in restaurants or restricted operations of those restaurants to carry-out or delivery only and also restricted operations of quick service restaurants to drive-through pick-up or delivery. Those negative demand impacts in our flavor solutions segment were partially offset by increased at-home consumption from certain customers in our flavor solutions segment that use our products to flavor their own brands for at-home consumption.

The pace and shape of the COVID-19 recovery described above as well as the impact and extent of potential resurgences is not presently known. These and other uncertainties could result in changes to our current expectations in addition to a number of adverse impacts to our business, including but not limited to additional disruption to the economy and consumers' willingness and ability to spend, temporary or permanent closures by businesses that consume our products, such as restaurants, additional work restrictions, and supply chains being interrupted, slowed, or rendered inoperable or, in the case of significant increased demand for our product, incapable of fulfilling that increased demand. As a result, it may be challenging to obtain and process raw materials to support our business needs, and individuals could become ill, quarantined, or otherwise unable to work and/or travel due to health reasons or governmental restrictions. Also, governments may impose other laws, regulations or taxes which could adversely impact our business, financial condition or results of operations. Further, if our customers' businesses are similarly affected, they might delay or reduce purchases from us. The potential effects of COVID-19 also could impact us in a number of other ways including, but not limited to, variations in the level of our profitability, laws and regulations affecting our business, fluctuations in foreign currency markets, the availability of future borrowings, the cost of borrowings, valuation of our pension assets and obligations, credit risks of our customers and counterparties, and potential impairment of the carrying value of goodwill or other indefinite-lived intangible assets.

2020 Outlook

We project another year of strong financial performance in 2020. The operating environment continues to evolve and there remains a degree of uncertainty about the pace and shape of the COVID-19 recovery. The Company's guidance considers its year-to-date fiscal 2020 performance and the expected shift in consumer demand to at-home consumption and from away-from-home consumption that has impacted our consumer and flavor solutions segments.

In 2020, we expect to grow sales at the upper end of a 4% to 5% range, including an estimated 1% unfavorable impact from currency rates, or 5% to 6% on a constant currency basis. That anticipated 2020 sales growth is primarily driven by new products, brand marketing and expanded distribution as well as the impact of the consumer shift in demand as a result of COVID-19 and the consumer's sustained preference for cooking at home. Sales growth is also expected to include the impact of pricing, which in conjunction with cost savings, is expected to offset an anticipated mid-single digit inflationary pressure. Our anticipated sales growth consists entirely of organic growth as we do not anticipate an incremental sales impact from acquisitions in 2020. We expect our gross profit margin to be 75 to 100 basis points higher in 2020 than in 2019, in part driven by our CCI-led cost savings, which we expect to be \$105 million in 2020, and favorable product mix, partially offset by COVID-19 related costs.

In 2020, we expect an increase in operating income of 6% to 7%, which includes an estimated 1% unfavorable impact from currency rates. That increase in operating income reflects the impact of lower special charges, estimated at \$7.0 million in 2020 compared to \$20.8 million in 2019. Excluding special charges, we expect 2020's adjusted operating income to increase 4% to 5%, which includes an estimated 1% unfavorable impact from currency rates, or 5% to 6% on a constant currency basis. In addition to the factors noted in the preceding paragraph, we expect to support our 2020 sales growth with a mid-single digit increase in brand marketing investment as compared to the 2019 level. We also estimate increased incentive compensation as a result of our projected fiscal year 2020 operating performance.

Our underlying effective tax rate is projected to be higher in 2020 than in 2019. Absent the impact of discrete tax items, we estimate our underlying tax rate to be approximately 24% to 25% in 2020. Including the projected impact of discrete tax items, including the favorable impact of discrete items that occurred through August 31, 2020, we estimate that our consolidated effective tax rate will approximate 20% in fiscal 2020. Including the non-recurring benefit of \$1.5 million associated with the U.S. Tax Act and taxes associated with special charges recognized in fiscal 2019, our adjusted effective rate was approximately 19.5% in 2019. We expect our adjusted effective tax rate in 2020 to approximate our effective tax rate under U.S. GAAP of 20%.

Diluted earnings per share was \$5.24 in 2019. Diluted earnings per share for 2020 are projected to range from \$5.60 to \$5.68. Excluding the per share impact of special charges of \$0.12 and the per share impact of the non-recurring benefit from the U.S. Tax Act of \$0.01 in 2019, adjusted diluted earnings per share was \$5.35 in 2019. Adjusted diluted earnings per share excluding an estimated \$0.04 per share impact from special charges are projected to be \$5.64 to \$5.72 in 2020. We expect adjusted diluted earnings per share in 2020 to grow 5% to 7%, which includes a 1% unfavorable impact from currency rates, or to grow 6% to 8% in constant currency over adjusted diluted earnings per share of \$5.35 in 2019.

RESULTS OF OPERATIONS – COMPANY

	Three months ended		Nine months ended	
	August 31, 2020	August 31, 2019	August 31, 2020	August 31, 2019
Net sales	\$ 1,430.3	\$ 1,329.2	\$ 4,043.4	\$ 3,862.6
Percent increase	7.6 %	0.8 %	4.7 %	0.7 %
Components of percent growth in net sales – increase (decrease):				
Volume and product mix	6.8 %	2.1 %	4.1 %	2.7 %
Pricing actions	1.8 %	0.1 %	1.7 %	0.3 %
Foreign exchange	(1.0)%	(1.4)%	(1.1)%	(2.3)%
Gross profit	\$ 590.3	\$ 539.9	\$ 1,639.7	\$ 1,515.3
Gross profit margin	41.3 %	40.6 %	40.6 %	39.2 %

Sales for the third quarter of 2020 increased by 7.6% from the prior year level and by 8.6% on a constant currency basis (that is, excluding the impact of foreign currency exchange as more fully described under the caption, Non-GAAP Financial Measures). That 7.6% sales increase was driven by higher sales in our consumer segment, which increased by 14.7% over the 2019 level, partially offset by lower sales in our flavor solutions segment, which declined by 2.9% from the prior year level. On a consolidated basis, higher volume and favorable product mix increased sales by 6.8% while pricing actions added 1.8% to sales. That net volume increase and favorable mix was driven by sharply higher demand within our consumer segment, as the

continuation of measures imposed to mitigate the spread of COVID-19 and the related change in consumer behavior, resulted in a shift in consumer behavior toward at-home meal preparation that more than offset lower demand within our flavor solutions segment principally associated with our branded food service customers. Sales were also impacted by unfavorable foreign currency rates that reduced net sales 1.0% compared to the year-ago quarter and is excluded from our measure of sales growth of 8.6% on a constant currency basis.

Sales for the nine months ended August 31, 2020 increased by 4.7% from the prior year level and increased by 5.8% on a constant currency basis. Favorable volume and product mix increased sales by 4.1% while pricing actions added 1.7% to sales. Sales were impacted by unfavorable foreign currency rates that reduced sales by 1.1% as compared to the same period in 2019 and is excluded from our measure of sales growth of 5.8% on a constant currency basis.

Gross profit for the third quarter of 2020 increased by \$50.4 million, or 9.3%, over the comparable period in 2019. Gross profit for the nine months ended August 31, 2020 increased by \$124.4 million, or 8.2% over the comparable period in 2019. Our gross profit margins for the three and nine months ended August 31, 2020 were 41.3% and 40.6%, respectively, an increase of 70 basis points and 140 basis points, respectively, from the same periods in 2019. This improvement was driven by the mix of consumer and flavor solutions sales in both the quarter and year-to-date periods. Also, as a percentage of sales, the gross margin impact of cost savings led by our Comprehensive Continuous Improvement ("CCI") program and favorable pricing actions were offset, in part, by higher conversion costs and increased material costs in both the quarter and year-to-date periods. Higher conversion costs during the three and nine months ended August 31, 2020 reflected certain matters associated with COVID-19, including the impact of temporary arrangements that increased salaries and benefits paid to our manufacturing employees, measures to enable manufacturing and distribution staff to maintain social distancing and permit enhanced cleaning between shifts that reduced productivity, and the impact of lower production volumes of flavor solutions inventories.

	Three months ended		Nine months ended	
	August 31, 2020	August 31, 2019	August 31, 2020	August 31, 2019
Selling, general & administrative expense (SG&A)	\$ 317.2	\$ 278.7	\$ 911.1	\$ 839.9
Percent of net sales	22.2 %	20.9 %	22.6 %	21.7 %

SG&A increased by \$38.5 million in the third quarter of 2020 compared to the 2019 level, driven by (i) higher performance-based employee incentive expense accruals, (ii) higher distribution expenses associated with the higher sales volume, and (iii) a one-time fiscal 2019 expense reduction from the alignment of an employee benefit plan to our global standard did not recur in 2020, all as compared to the corresponding period in 2019. SG&A as a percent of net sales increased by 130 basis points from the prior year level, primarily as a result of the previously mentioned factors, partially offset by the impact of the leverage of fixed and semi-fixed expenses over a higher level of sales during the 2020 quarter.

SG&A increased by \$71.2 million in the nine months ended August 31, 2020 compared to the 2019 level, primarily as a result of (i) higher performance-based employee incentive expense accruals, (ii) higher distribution expenses associated with the higher sales volume, (iii) higher expenses associated with efforts related to implementation of a global ERP platform, and (iv) a one-time fiscal 2019 expense reduction from the alignment of an employee benefit plan to our global standard did not recur in 2020, all as compared to the corresponding period in 2019. SG&A as a percent of net sales for the nine months ended August 31, 2020 increased by 90 basis points from the prior year level, primarily as a result of the previously mentioned factors, partially offset by the impact of the leverage of fixed and semi-fixed expenses over a higher level of sales during the 2020 period.

	Three months ended		Nine months ended	
	August 31, 2020	August 31, 2019	Aug 31, 2020	Aug 31, 2019
Total special charges	\$ 0.1	\$ 7.7	\$ 4.0	\$ 16.9

During the three months ended August 31, 2020, we recorded \$0.1 million of special charges related to streamlining actions in our EMEA region. During the nine months ended August 31, 2020, we recorded \$4.0 million of special charges, consisting of \$2.9 million related to streamlining actions in our EMEA region together with \$1.1 million related to our GE initiative.

During the three months ended August 31, 2019, we recorded \$7.7 million of special charges, consisting primarily of (i) \$6.0 million related to our GE initiative, including \$5.5 million of third-party expenses, \$0.3 million of severance and related benefits, and \$0.2 million of other related costs and (ii) \$1.3 million related to streamlining actions in our EMEA region.

During the nine months ended August 31, 2019, we recorded \$16.9 million of special charges, consisting primarily of (i) \$12.2 million costs related to our GE initiative, including \$8.9 million of third-party expenses, \$2.0 million related to severance and related benefits, and \$1.3 million related to other costs; (ii) \$2.3 million of severance and related benefits associated with streamlining actions in the Americas; and (iii) \$1.9 million related to streamlining actions in our EMEA region.

	Three months ended		Nine months ended	
	August 31, 2020	August 31, 2019	August 31, 2020	August 31, 2019
Interest expense	\$ 33.5	\$ 41.3	\$ 103.2	\$ 126.7
Other income, net	3.9	6.9	12.5	19.3

Interest expense decreased by \$7.8 million in the third quarter of 2020, compared to the same period in 2019, due primarily to a decline in average total borrowings and the lower interest rate environment. Interest expense was \$23.5 million lower for the nine months ended August 31, 2020 than the same period of the prior year. That decline was primarily due to a decrease in average borrowings, a lower interest rate environment and the favorable impact of the cross currency interest rate swap contracts entered into during February 2019. Other income, net for the three and nine months ended August 31, 2020 decreased by \$3.0 million and \$6.8 million, respectively, from the 2019 levels due principally to lower non-service cost income associated with our pension and postretirement benefit plans that declined by \$2.4 million and \$6.0 million from the prior year level in the three and nine months ended August 31, 2020, respectively.

	Three months ended		Nine months ended	
	August 31, 2020	August 31, 2019	August 31, 2020	August 31, 2019
Income from consolidated operations before income taxes	\$ 243.4	\$ 219.1	\$ 633.9	\$ 551.1
Income tax expense	46.9	36.8	117.4	91.0
Effective tax rate	19.3 %	16.8 %	18.5 %	16.5 %

The provision for income taxes is based on the then-current estimate of the annual effective tax rate adjusted to reflect the tax impact of items discrete to the fiscal period. We record tax expense or tax benefits that do not relate to ordinary income in the current fiscal year discretely in the period in which such items occur pursuant to the requirements of GAAP. Examples of such types of discrete items not related to ordinary income of the current fiscal year include, but are not limited to, excess tax benefits related to share-based compensation, changes in estimates of the outcome of tax matters related to prior years (including reversals of reserves upon the lapsing of statutes of limitations), provision-to-return adjustments, the settlement of tax audits, changes in enacted tax rates, changes in the assessment of deferred tax valuation allowances, and the tax effects of intra-entity asset transfers (other than inventory).

Income taxes for the three months ended August 31, 2020 included \$13.2 million of discrete tax benefits consisting principally of the following: (i) \$7.3 million of excess tax benefits associated with share-based compensation, (ii) \$2.1 million of tax benefits related to the reversal of unrecognized tax benefits and related interest associated with the expiration of statutes of limitations, (iii) \$2.0 million for an adjustment to a prior year tax accrual based on the final return filed, and (iv) \$1.1 million related to the revaluation of deferred taxes resulting from enacted legislation. Income taxes for the nine months ended August 31, 2020 included \$40.1 million of discrete tax benefits consisting principally of the following: (i) \$13.0 million of excess tax benefits associated with share-based compensation, (ii) \$9.9 million of tax benefits associated with an intra-entity asset transfer that occurred during the first quarter, (iii) \$9.3 million of tax benefits associated with the release of a valuation allowance due to a change in judgment about realizability of deferred tax assets, (iv) \$5.5 million of tax benefits related to the reversal of unrecognized tax benefits and related interest associated with the expiration of statutes of limitations in various jurisdictions, and (v) \$2.0 million for an adjustment to a prior year tax accrual based on the final return filed.

Income taxes for the three months ended August 31, 2019 included \$15.5 million of discrete tax benefits consisting principally of the following: (i) \$8.3 million of excess tax benefits associated with share-based compensation; (ii) \$2.4 million related to the reversal of unrecognized tax benefits and related interest associated with the expiration of statutes of limitation in several jurisdictions; (iii) \$2.5 million related to the revaluation of deferred tax liabilities resulting from legislation enacted in a non-U.S. jurisdiction; and (iv) \$2.3 million for an adjustment to a prior year tax accrual based on the final return filed, including \$1.5 million associated with the U.S. Tax Act. Income taxes for the nine months ended August 31, 2019 included \$44.4 million of discrete tax benefits consisting principally of the following: (i) \$21.2 million of excess tax benefits associated with share-based compensation; (ii) \$16.2 million of tax benefits associated with an intra-entity asset transfer that occurred during the first quarter under the provisions of ASU No. 2016-16; (iii) \$2.6 million related to the reversal of unrecognized tax benefits and related interest associated with the expiration of statutes of limitation in several jurisdictions; (iv) \$2.1 million related to the revaluation of deferred tax liabilities resulting from legislation enacted in a non-U.S. jurisdiction; and (v) \$2.3 million for an adjustment to a prior year tax accrual based on the final return filed, including \$1.5 million associated with the U.S. Tax Act.

	Three months ended		Nine months ended	
	August 31, 2020	August 31, 2019	August 31, 2020	August 31, 2019
Income from unconsolidated operations	\$ 9.6	\$ 9.6	\$ 30.2	\$ 29.2

Income from unconsolidated operations, which is presented net of the elimination of earnings attributable to non-controlling interests, for the three months ended August 31, 2020 was comparable to the three months ended August 31, 2019. Income from unconsolidated operations increased by \$1.0 million for the nine months ended August 31, 2020, as compared to the year-ago period.

The following table outlines the major components of the change in diluted earnings per share from 2019 to 2020:

	Three months ended August 31,		Nine months ended August 31,	
	\$		\$	
2019 Earnings per share – diluted		1.43		3.65
Increase in operating income		0.07		0.33
Impact of net discrete tax benefit recognized as a result of the U.S. Tax Act		(0.01)		(0.01)
Decrease in special charges, net of taxes		0.04		0.08
Decrease in interest expense		0.05		0.14
Decrease in other income		(0.01)		(0.04)
Increase in unconsolidated income		—		0.01
Impact of change in effective income tax rate, excluding taxes on special charges		(0.03)		(0.08)
Impact of higher shares outstanding		(0.01)		(0.02)
2020 Earnings per share – diluted	\$	1.53	\$	4.06

RESULTS OF OPERATIONS — SEGMENTS

We measure the performance of our business segments based on operating income, excluding special charges. See note 11 of notes to the accompanying financial statements for additional information on our segment measures as well as for a reconciliation by segment of operating income, excluding special charges, to consolidated operating income. In the following discussion, we refer to our previously described measure of segment profit as segment operating income.

CONSUMER SEGMENT

(in millions)	Three months ended		Nine months ended	
	August 31, 2020	August 31, 2019	August 31, 2020	August 31, 2019
Net sales	\$ 910.9	\$ 794.2	\$ 2,573.0	\$ 2,303.2
Percent increase (decrease)	14.7 %	2.8 %	11.7 %	0.8 %
Segment operating income	\$ 209.0	\$ 176.5	\$ 560.2	\$ 449.6
Segment operating income margin	22.9 %	22.2 %	21.8 %	19.5 %

In the third quarter of 2020, sales of our consumer segment increased 14.7% as compared to the third quarter of 2019 and increased by 15.1% on a constant currency basis. That 14.7% sales increase was driven by sharply higher sales of our consumer business in the Americas and in EMEA, with a partial offset from a sales decline in the Asia/Pacific region related to lower sales of away-from-home products included in its consumer portfolio. Favorable volume and product mix increased sales by 13.6% in the third quarter of 2020 as compared to the same period last year as the continuation of measures imposed to mitigate the spread of COVID-19 and the related change in consumer behavior, resulted in a shift in consumer behavior toward at-home meal preparation. Pricing actions increased sales by 1.5% as compared to the prior year period. Sales in the quarter reflected an unfavorable impact from foreign currency rates that decreased consumer segment sales by 0.4% compared to the year-ago quarter and is excluded from our measure of sales growth of 15.1% on a constant currency basis.

In the Americas, consumer sales increased 17.2% in the third quarter of 2020 as compared to the third quarter of 2019 and increased by 17.5% on a constant currency basis. For the third quarter of 2020, favorable volume and product mix increased sales by 15.2%, as compared to the corresponding period in 2019, driven by significant growth across the McCormick branded portfolio. In addition, pricing actions, taken in response to increased costs, increased sales by 2.3% as compared to the prior

year period. The unfavorable impact of foreign currency rates decreased sales by 0.3% in the quarter and is excluded from our measure of sales growth of 17.5% on a constant currency basis.

In the EMEA region, consumer sales increased 23.0% in the third quarter of 2020 as compared to the third quarter of 2019 and increased by 22.6% on a constant currency basis. Sales were impacted by favorable volume and product mix during the quarter that increased sales by 23.0%. The increase was broad based across the region with particular strength in branded spices and seasonings, homemade dessert products in France and branded dry recipe mixes. Pricing actions decreased sales by 0.4%. During the third quarter of 2020, a favorable impact from foreign currency rates increased sales by 0.4% compared to the year-ago period and is excluded from our measure of sales growth of 22.6% on a constant currency basis.

In the Asia/Pacific region, consumer sales decreased 8.7% in the third quarter of 2020 and declined by 6.2% on a constant currency basis. For the third quarter of 2020, unfavorable volume and product mix decreased sales by 6.3%. The decrease was driven by products related to away-from-home consumption in China. Partially offsetting this decline was growth in cooking-at-home products, particularly in China and Australia. An unfavorable impact from foreign currency rates, which decreased sales by 2.5% compared to the third quarter of 2019, is excluded from our measure of sales decline of 6.2% on a constant currency basis.

For the nine months ended August 31, 2020, our consumer segment sales increased 11.7% as compared to the nine months ended August 31, 2019 and increased by 12.6% on a constant currency basis. That 11.7% sales increase was driven by sharply higher sales of our consumer segment in the Americas and in EMEA during the nine months ended August 31, 2020, as government-mandated measures, imposed to mitigate the spread of COVID-19, resulted in a shift in consumer behavior toward at-home meal preparation, partially offset by a sharp decline in sales of our consumer segment in the Asia Pacific region driven by lower sales of products related to away-from-home consumption in China. Improved volume and product mix added 10.9% to sales and pricing actions added 1.7% to consumer segment sales in the first nine months of 2020, both in comparison to the prior year levels. An unfavorable impact from foreign currency rates decreased sales by 0.9% compared to the prior year and is excluded from our measure of sales growth of 12.6% on a constant currency basis.

Segment operating income for our consumer segment increased by \$32.5 million, or 18.4%, in the third quarter of 2020 as compared to the third quarter of 2019. The increase in segment operating income was driven by the higher level of sales, as previously described, and CCI-led cost savings, partially offset by increased conversion costs and higher performance-based employee incentive expense accruals. Higher conversion costs during the three months ended August 31, 2020 reflected certain matters associated with COVID-19, including the impact of temporary arrangements that increased salaries and benefits paid to our manufacturing employees and measures to enable manufacturing and distribution staff to maintain social distancing and permit enhanced cleaning between shifts that reduced productivity. Segment operating margin for our consumer segment increased by 70 basis points from the third quarter of 2019 to 22.9% in the third quarter of 2020. That increase was principally the result of an increase in consumer gross margin, as compared to the third quarter of 2019. On a constant currency basis, segment operating income for our consumer segment increased by 18.7% in the third quarter of 2020 in comparison to the same period in 2019.

We grew segment operating income for our consumer segment by \$110.6 million, or 24.6%, in the nine months ended August 31, 2020 as compared to the same period in 2019. The increase in segment operating income was driven by the impact of higher sales, as previously described, and CCI-led cost savings, partially offset by higher conversion costs, as previously described, increased material costs and higher performance-based employee incentive expense accruals. Segment operating margin for our consumer segment rose by 230 basis points in the first nine months of 2020 to 21.8%, driven by an increase in consumer gross profit margin and a decrease in SG&A as a percentage of net sales as compared to the 2019 period. Segment operating margin for the nine months ended August 31, 2020 benefited from the leverage of fixed and semi-fixed expenses over a higher sales base than compared to the 2019 level. On a constant currency basis, segment operating income for our consumer segment rose by 25.3% in the nine months ended August 31, 2020 in comparison to the same period in 2019.

FLAVOR SOLUTIONS SEGMENT

	Three months ended		Nine months ended	
	August 31, 2020	August 31, 2019	August 31, 2020	August 31, 2019
Net sales	\$ 519.4	\$ 535.0	\$ 1,470.4	\$ 1,559.4
Percent (decrease) increase	(2.9)%	(2.0)%	(5.7)%	0.7 %
Segment operating income	\$ 64.1	\$ 84.7	\$ 168.4	\$ 225.8
Segment operating income margin	12.3 %	15.8 %	11.5 %	14.5 %

In the third quarter of 2020, sales of our flavor solutions segment decreased by 2.9% as compared to the third quarter of 2019 and decreased by 1.1% on a constant currency basis. Driving that 2.9% decrease in sales was lower demand due to the impact of the COVID-19 disruption on our restaurant and branded food service customers, particularly in the Americas and EMEA regions. This decline was partially offset by an increase in segment sales in the Asia/Pacific region. Unfavorable volume and product mix decreased segment sales by 3.2% as compared to the third quarter of 2019, while pricing actions during the period increased sales by 2.1%. The unfavorable impact of foreign currency rates decreased flavor solutions segment sales by 1.8% compared to the year-ago quarter and is excluded from our measure of sales decline of 1.1% on a constant currency basis.

In the Americas, flavor solutions sales decreased by 4.7% during the third quarter of 2020 as compared to the prior year level, and decreased by 3.1% on a constant currency basis. Unfavorable volume and product mix decreased flavor solutions sales in the Americas by 5.3% during the third quarter of 2020, driven by lower sales to branded foodservice and quick service restaurant customers, but was partially offset by higher sales to packaged food companies. Pricing actions during the quarter ended August 31, 2020 increased sales by 2.2% as compared to the prior year period. An unfavorable impact from foreign currency rates decreased sales by 1.6% compared to the third quarter of 2019 and is excluded from our measure of sales decline of 3.1% on a constant currency basis.

In the EMEA region, flavor solutions sales in the third quarter of 2020 decreased by 1.0% from the prior year level but increased by 1.2% on a constant currency basis. Unfavorable volume and product mix decreased segment sales by 2.1% as compared to the corresponding period in 2019. The decline was primarily attributable to lower sales to branded foodservice and quick service restaurant customers, partially offset by higher demand from packaged food companies. Pricing actions increased sales by 3.3% in the third quarter of 2020 as compared the prior period level. An unfavorable impact from foreign currency rates decreased sales by 2.2% compared to the third quarter of 2019 and is excluded from our measure of sales growth of 1.2% on a constant currency basis.

In the Asia/Pacific region, flavor solutions sales increased 4.9% in the third quarter of 2020 from the prior year level and increased by 7.0% on a constant currency basis. Favorable volume and product mix increased sales by 7.6%, driven by higher sales to quick service restaurant customers in China and Australia. Pricing actions decreased sales by 0.6% as compared to the prior year period. An unfavorable impact from foreign currency rates decreased sales by 2.1% compared to the third quarter of 2019 and is excluded from our measure of sales growth of 7.0% on a constant currency basis.

For the nine months ended August 31, 2020, our flavor solutions sales declined 5.7% compared to the nine months ended August 31, 2019 and decreased by 4.3% on a constant currency basis. Driving that 5.7% decrease in sales was lower demand during the second and third quarters due to the impact of the COVID-19 disruption on our restaurant and branded food service customers. Volume and product mix contributed 5.9% of the decline and was partially offset by pricing actions which added 1.6% to sales for the first nine months of 2020, both in comparison to the prior year levels. An unfavorable impact from foreign currency rates decreased sales by 1.4% compared to the corresponding 2019 period and is excluded from our measure of sales decline of 4.3% on a constant currency basis.

Segment operating income for our flavor solutions segment decreased by \$20.6 million, or 24.3%, in the third quarter of 2020 as compared to the third quarter of 2019. The decrease in segment operating income was driven by decreased sales, unfavorable product mix, higher conversion costs, increased material costs, and higher performance-based employee incentive expense accruals which were partially offset by CCI-led cost savings. Higher conversion costs during the three and nine months ended August 31, 2020 reflected certain matters associated with COVID-19, including the impact of temporary arrangements that increased salaries and benefits paid to our manufacturing employees, measures to enable manufacturing and distribution staff to maintain social distancing and permit enhanced cleaning between shifts that reduced productivity, and the impact of lower production volumes of flavor solutions inventories. Segment operating margin for our flavor solutions segment decreased by 350 basis points from the prior year level to 12.3% in the third quarter of 2020, due to a decrease in gross margin and increased SG&A as a percentage of net sales. On a constant currency basis, segment operating income for our flavor solutions segment decreased by 21.6% in the third quarter of 2020 as compared to the same period in 2019.

Segment operating income for our flavor solutions segment decreased by \$57.4 million, or 25.4%, in the nine months ended August 31, 2020 as compared to the same period of 2019. The decrease in segment operating income was driven by lower sales, increased conversion costs, including the matters previously described, the impact of lower production volumes, increased material costs and higher performance-based employee incentive expense accruals that were partially offset by CCI-led cost savings. Segment operating margin for our flavor solutions segment decreased by 300 basis points from the prior year level to 11.5% in the first nine months of 2020, driven by lower segment gross margin and an increase in SG&A as a percentage of net sales. Segment operating margin for the nine months ended August 31, 2020 declined due to the deleveraging impact of fixed and semi-fixed expenses over a lower sales base as compared to the 2019 period. On a constant currency basis, segment operating income for our flavor solutions segment declined by 23.6% in the nine months ended August 31, 2020, in comparison to the same period in 2019.

MARKET RISK SENSITIVITY

We are subject to market risk sensitivities, including those related to foreign exchange, interest rates, commodity risks and credit risks. The uncertainty that exists with respect to the economic impact of the global COVID-19 pandemic has introduced significant volatility in the financial markets during 2020.

Foreign Exchange Risk

We are potentially exposed to foreign currency risk affecting net investments in subsidiaries, transactions (both third-party and intercompany) and earnings denominated in foreign currencies. Management assesses foreign currency risk based on transactional cash flows and translational volatility and may enter into forward contract and currency swaps with highly-rated financial institutions to reduce fluctuations in the long or short currency positions. We do not enter into contracts for trading purposes, nor are we a party to any leveraged derivative instruments. All derivatives are designated as hedges.

The following table sets forth the notional values and unrealized net gain (loss) of the portfolio of our forward foreign currency and cross currency swap contracts:

	August 31, 2020	August 31, 2019	November 30, 2019
Forward foreign currency:			
Notional value	\$ 363.4	\$ 455.3	\$ 489.2
Unrealized net loss	(3.2)	(2.4)	(0.3)
Cross currency swaps:			
Notional value	524.5	480.3	495.5
Unrealized net (loss) gain	(19.3)	0.6	3.2

The outstanding notional value is a result of our decisions on foreign currency exposure coverage, based on our foreign currency and foreign currency translation exposures.

Interest Rate Risk

We manage our interest rate exposure by entering into both fixed and variable rate debt arrangements. We also use interest rate swaps to minimize worldwide financing costs and to achieve a desired mix of fixed and variable rate debt. We do not enter into contracts for trading purposes, nor are we a party to any leveraged derivative instruments and all derivatives are designated as hedges.

The following table sets forth the notional values and fair values of our interest rate swap contracts:

	August 31, 2020	August 31, 2019	November 30, 2019
Notional value	\$ 350.0	\$ 350.0	\$ 350.0
Unrealized net gain	45.6	28.2	20.9

The change in fair values of our interest rate swap contracts is due to changes in interest rates on the notional amounts outstanding as of each date as well as the remaining duration of our interest rate derivatives.

Commodity Risk

We purchase certain raw materials which are subject to price volatility caused by weather, market conditions, growing and harvesting conditions, governmental actions and other factors beyond our control. Our most significant raw materials are pepper, dairy products, garlic, vanilla, capsicums (red peppers and paprika), onion, wheat flour and rice. While future

movements of raw material costs are uncertain, we respond to this volatility in a number of ways, including strategic raw material purchases, purchases of raw material for future delivery and customer price adjustments. We generally have not used derivatives to manage the volatility related to this risk. To the extent that we have used derivatives for this purpose, it has not been material to our business.

Credit Risk

The customers of our consumer segment are predominantly food retailers and food wholesalers. Consolidations in these industries have created larger customers. In addition, competition has increased with the growth in alternative channels including mass merchandisers, dollar stores, warehouse clubs, discount chains and e-commerce. This has caused some customers to be less profitable and increased our exposure to credit risk. Some of our customers and counterparties are highly leveraged. We continue to closely monitor the credit worthiness of our customers and counterparties, particularly in light of the evolving financial impact of COVID-19. We believe that our allowance for doubtful accounts properly recognizes trade receivables at realizable value. We consider nonperformance credit risk for other financial instruments to be insignificant.

CONTRACTUAL OBLIGATIONS AND COMMERCIAL COMMITMENTS

As of August 31, 2020, there have been no material changes in our contractual obligations and commercial commitments outside the ordinary course of business since November 30, 2019 other than the following, both of which are more fully described in note 3 of the notes to condensed consolidated financial statements included in Item 1: (i) in April 2020, we issued \$500 million of 2.5% notes due April 15, 2030; and (ii) during the nine months ended August 31, 2020, we fully repaid our five-year term loan due August 17, 2022.

NON-GAAP FINANCIAL MEASURES

The following table includes financial measures of adjusted operating income, adjusted income tax expense, adjusted income tax rate, adjusted net income and adjusted diluted earnings per share. These represent non-GAAP financial measures which are prepared as a complement to our financial results prepared in accordance with United States generally accepted accounting principles. These financial measures exclude the impact, as applicable, of the following:

- Special charges – Special charges consist of expenses associated with certain actions undertaken by the Company to reduce fixed costs, simplify or improve processes, and improve our competitiveness and are of such significance in terms of both up-front costs and organizational/structural impact to require advance approval by our Management Committee. Upon presentation of any such proposed action (including details with respect to estimated costs, which generally consist principally of employee severance and related benefits, together with ancillary costs associated with the action that may include a non-cash component or a component which relates to inventory adjustments that are included in cost of goods sold; impacted employees or operations; expected timing; and expected savings) to the Management Committee and the Committee's advance approval, expenses associated with the approved action are classified as special charges upon recognition and monitored on an on-going basis through completion.
- Income taxes associated with the U.S. Tax Act – We recorded a net income tax benefit of \$1.5 million during the year ended November 30, 2019 associated with a U.S Tax Act related provision to return adjustment.

Details with respect to the composition of special charges set forth below are included in note 2 of notes to the accompanying financial statements and in the financial statements included in our Annual Report on Form 10-K for the year ended November 30, 2019.

We believe that these non-GAAP financial measures are important. The exclusion of the items noted above provides additional information that enables enhanced comparisons to prior periods and, accordingly, facilitates the development of future projections and earnings growth prospects. This information is also used by management to measure the profitability of our ongoing operations and analyze our business performance and trends.

These non-GAAP financial measures may be considered in addition to results prepared in accordance with GAAP, but they should not be considered a substitute for, or superior to, GAAP results. In addition, these non-GAAP financial measures may not be comparable to similarly titled measures of other companies because other companies may not calculate them in the same manner that we do. We intend to continue to provide these non-GAAP financial measures as part of our future earnings

discussions and, therefore, the inclusion of these non-GAAP financial measures will provide consistency in our financial reporting.

A reconciliation of these non-GAAP financial measures to the related GAAP financial measures follows:

	For the year ended November 30, 2019	For the three months ended		For the nine months ended		Estimated for the year ending November 30, 2020
		August 31, 2020	August 31, 2019	August 31, 2020	August 31, 2019	
Operating income	\$ 957.7	\$ 273.0	\$ 253.5	\$ 724.6	\$ 658.5	
Impact of special charges	20.8	0.1	7.7	4.0	16.9	
Adjusted operating income	\$ 978.5	\$ 273.1	\$ 261.2	\$ 728.6	\$ 675.4	
Adjusted operating income margin ⁽¹⁾	18.3 %	19.1 %	19.7 %	18.0 %	17.5 %	
Income tax expense	\$ 157.4	\$ 46.9	\$ 36.8	\$ 117.4	\$ 91.0	
Impact of special charges	4.7	—	1.6	1.2	3.8	
Non-recurring benefit of the U.S. Tax Act	1.5	—	1.5	—	1.5	
Adjusted income tax expense	\$ 163.6	\$ 46.9	\$ 39.9	\$ 118.6	\$ 96.3	
Adjusted income tax rate ⁽²⁾	19.5 %	19.3 %	17.6 %	18.6 %	17.0 %	
Net income	\$ 702.7	\$ 206.1	\$ 191.9	\$ 546.7	\$ 489.3	
Impact of special charges	16.1	0.1	6.1	2.8	13.1	
Non-recurring benefit of the U.S. Tax Act	(1.5)	—	(1.5)	—	(1.5)	
Adjusted net income	\$ 717.3	\$ 206.2	\$ 196.5	\$ 549.5	\$ 500.9	
Earnings per share – diluted	\$ 5.24	\$ 1.53	\$ 1.43	\$ 4.06	\$ 3.65	\$5.60 to \$5.68
Impact of special charges	0.12	—	0.04	0.02	0.10	0.04
Non-recurring benefit of the U.S. Tax Act	(0.01)	—	(0.01)	—	(0.01)	—
Adjusted earnings per share – diluted	\$ 5.35	\$ 1.53	\$ 1.46	\$ 4.08	\$ 3.74	\$5.64 to \$5.72

(1) Adjusted operating income margin is calculated as adjusted operating income as a percentage of net sales for each period presented.

(2) Adjusted income tax rate is calculated as adjusted income tax expense as a percentage of income from consolidated operations before income taxes excluding special charges or \$243.5 million and \$637.9 million for the three and nine months ended August 31, 2020, respectively; \$226.8 million and \$568.0 million for the three and nine months ended August 31, 2019, respectively; and \$840.0 million for the year ended November 30, 2019.

Because we are a multi-national company, we are subject to variability of our reported U.S. dollar results due to changes in foreign currency exchange rates. Those changes have been volatile over the past several years. The exclusion of the effects of foreign currency exchange, or what we refer to as amounts expressed “on a constant currency basis”, is a non-GAAP measure. We believe that this non-GAAP measure provides additional information that enables enhanced comparison to prior periods excluding the translation effects of changes in rates of foreign currency exchange and provides additional insight into the underlying performance of our operations located outside of the U.S. It should be noted that our presentation herein of amounts and percentage changes on a constant currency basis does not exclude the impact of foreign currency transaction gains and losses (that is, the impact of transactions denominated in other than the local currency of any of our subsidiaries in their local currency reported results).

Percentage changes in sales and adjusted operating income expressed on a constant currency basis are presented excluding the impact of foreign currency exchange. To present this information for historical periods, current period results for entities reporting in currencies other than the U.S. dollar are translated into U.S. dollars at the average exchange rates in effect during the corresponding period of the prior fiscal year, rather than at the actual average exchange rates in effect during the current fiscal year. As a result, the foreign currency impact is equal to the current year results in local currencies multiplied by the change in the average foreign currency exchange rate between the current fiscal period and the corresponding period of the prior fiscal year.

Constant currency growth rates follow:

	Three Months Ended August 31, 2020		
	Percentage Change as Reported	Impact of Foreign Currency Exchange	Percentage Change on Constant Currency Basis
Net sales:			
Consumer segment:			
Americas	17.2 %	(0.3) %	17.5 %
EMEA	23.0 %	0.4 %	22.6 %
Asia/Pacific	(8.7) %	(2.5) %	(6.2) %
Total Consumer	14.7 %	(0.4) %	15.1 %
Flavor Solutions segment:			
Americas	(4.7) %	(1.6) %	(3.1) %
EMEA	(1.0) %	(2.2) %	1.2 %
Asia/Pacific	4.9 %	(2.1) %	7.0 %
Total Flavor Solutions	(2.9) %	(1.8) %	(1.1) %
Total net sales	7.6 %	(1.0) %	8.6 %
Adjusted operating income:			
Consumer segment	18.4 %	(0.3) %	18.7 %
Flavor Solutions segment	(24.3) %	(2.7) %	(21.6) %
Total adjusted operating income	4.6 %	(1.1) %	5.7 %

	Nine Months Ended August 31, 2020		
	Percentage Change as Reported	Impact of Foreign Currency Exchange	Percentage Change on Constant Currency Basis
Net sales:			
Consumer segment:			
Americas	17.8 %	(0.2) %	18.0 %
EMEA	14.3 %	(1.8) %	16.1 %
Asia/Pacific	(19.4) %	(2.9) %	(16.5) %
Total Consumer	11.7 %	(0.9) %	12.6 %
Flavor Solutions segment:			
Americas	(5.0) %	(1.0) %	(4.0) %
EMEA	(9.5) %	(2.2) %	(7.3) %
Asia/Pacific	(3.1) %	(2.9) %	(0.2) %
Total Flavor Solutions	(5.7) %	(1.4) %	(4.3) %
Total net sales	4.7 %	(1.1) %	5.8 %
Adjusted operating income:			
Consumer segment	24.6 %	(0.7) %	25.3 %
Flavor Solutions segment	(25.4) %	(1.8) %	(23.6) %
Total adjusted operating income	7.9 %	(1.1) %	9.0 %

To present “constant currency” information for the fiscal year 2020 projection, projected sales and adjusted operating income for entities reporting in currencies other than the U.S. dollar are translated into U.S. dollars at the company’s budgeted exchange rates for 2020 and are compared to the 2019 results, translated into U.S. dollars using the same 2020 budgeted exchange rates, rather than at the average actual exchange rates in effect during fiscal year 2019. To estimate the percentage change in adjusted earnings per share on a constant currency basis, a similar calculation is performed to arrive at adjusted net income divided by historical shares outstanding for fiscal year 2019 or projected shares outstanding for fiscal year 2020, as appropriate.

Projections for the Year Ending November 30, 2020	
Percentage change in net sales	4% to 5%
Impact of unfavorable foreign currency exchange rates	1 %
Percentage change in net sales in constant currency	5% to 6%
Percentage change in adjusted operating income	4% to 5%
Impact of unfavorable foreign currency exchange rates	1 %
Percentage change in adjusted operating income in constant currency	5% to 6%
Percentage change in adjusted earnings per share	5% to 7%
Impact of unfavorable foreign currency exchange rates	1 %
Percentage change in adjusted earnings per share in constant currency	6% to 8%

In addition to the preceding non-GAAP financial measures, we use a leverage ratio that is determined using non-GAAP measures. A leverage ratio is a widely-used measure of ability to repay outstanding debt obligations. We believe that our leverage ratio is a meaningful metric to investors in evaluating our financial leverage and may be different than the method used by other companies to calculate such a leverage ratio. We determine our leverage ratio as net debt (which we define as total debt, net of cash in excess of \$75.0 million) to adjusted earnings before interest, income taxes, depreciation and amortization (“Adjusted EBITDA”). We define Adjusted EBITDA as net income plus expenses for interest, income taxes, depreciation and amortization, less interest income and as further adjusted for cash and non-cash acquisition-related expenses (which may include the effect of the fair value adjustment of acquired inventory on cost of goods sold), special charges, stock-based compensation expense, and certain gains or losses (which may include third party fees and expenses and integration costs). Adjusted EBITDA and our leverage ratio are both non-GAAP financial measures. Our determination of the leverage ratio is consistent with the terms of our \$1.0 billion revolving credit facility which requires us to maintain our leverage ratio below certain levels. Under that agreement, the applicable leverage ratio is reduced annually on November 30th. As of August 31, 2020, our capacity under the revolving credit facility is not affected by these covenants. We do not expect that these covenants would limit our access to our revolving credit facility for the foreseeable future; however, the leverage ratio could restrict our ability to utilize this facility. We expect to comply with this financial covenant for the foreseeable future.

The following table reconciles our net income to Adjusted EBITDA for the trailing twelve-month periods ended August 31, 2020, August 31, 2019 and November 30, 2019:

	August 31, 2020	August 31, 2019	November 30, 2019
Net income	\$ 760.1	\$ 703.3	\$ 702.7
Depreciation and amortization	164.7	157.1	158.8
Interest expense	141.7	170.6	165.2
Income tax expense	183.8	146.8	157.4
EBITDA	\$ 1,250.3	\$ 1,177.8	\$ 1,184.1
Adjustments to EBITDA ⁽¹⁾	43.8	44.8	47.9
Adjusted EBITDA	\$ 1,294.1	\$ 1,222.6	\$ 1,232.0
Net debt	\$ 4,023.0	\$ 4,558.1	\$ 4,243.8
Leverage ratio ⁽¹⁾	3.1	3.7	3.4

(1) Adjustments to EBITDA are determined under the leverage ratio covenant in our \$1.0 billion revolving credit facility and includes special charges, share-based compensation expense, and interest income.

LIQUIDITY AND FINANCIAL CONDITION

	Nine months ended	
	August 31, 2020	August 31, 2019
Net cash provided by operating activities	\$ 626.7	\$ 494.6
Net cash used in investing activities	(143.3)	(104.5)
Net cash used in financing activities	(432.7)	(319.2)

In the statement of cash flows, the changes in operating assets and liabilities are presented excluding the translation effects of changes in foreign currency exchange rates as these do not reflect actual cash flows. Accordingly, the amounts in the statement of cash flows do not agree with changes in the operating assets and liabilities that are presented in the balance sheet.

Due to the cyclical nature of a portion of our business, we generate much of our cash flow in the fourth quarter of our fiscal year. Due to the timing of the interest payments on our debt, interest payments are higher in the first and third quarter of our fiscal year.

Operating Cash Flow — Net cash provided by operating activities (“cash flow from operations”) is historically lower in the first and second quarters and then has built in the third and fourth quarters of our fiscal year. For the nine months ended August 31, 2020, cash flow from operations of \$626.7 million increased by \$132.1 million from the same period of 2019. The 2020 increase was primarily driven by an increase of \$57.4 million in net income in the nine months ended August 31, 2020 over the prior year level. In addition, a significantly lower use of cash associated with other assets and liabilities, including the timing of certain employee incentive and customer related payments, was partially offset by the use of cash associated with working capital, driven by the increased level of inventory to meet demand.

Investing Cash Flow — Cash used in investing activities increased by \$38.8 million to \$143.3 million for the nine months ended August 31, 2020, compared to \$104.5 million for the corresponding period in 2019. During the first nine months of 2020, capital expenditures increased by \$38.5 million from the 2019 level to \$145.6 million. We expect 2020 capital expenditures to approximate \$225 million.

Financing Cash Flow — Financing activities used cash of \$432.7 million for the first nine months of 2020, as compared to a use of \$319.2 million for the corresponding period in 2019. The primary drivers behind this change were as follows.

In the first nine months of 2020, our net borrowing activities used cash of \$182.7 million as compared to \$90.2 million in the first nine months of 2019. In the first nine months of 2020, we decreased our short-term borrowings, on a net basis, by \$432.0 million as compared to an increase of \$124.4 million during the comparable 2019 period. In the first nine months of 2020, we issued \$500 million of long-term debt with net proceeds from the issuance of \$495.0 million. We also paid \$1.1 million in costs associated with the debt issuance. In the first nine months of 2020, we also received \$11.4 million of proceeds associated with the issuance of other long-term debt. During the nine months ended August 31, 2020 and 2019, we repaid \$256.0 million and \$214.6 million, respectively, of long-term debt. In the 2020 period, repayments consisted primarily of \$250.0 million on our term loans due August 2022. Repayments during the nine months ended August 31, 2019, principally consisted of \$206.3 million of repayments on term loans issued in August 2017. As of August 31, 2020, we have fully repaid \$1.5 billion in term loans issued in connection with our acquisition of RB Foods in August 2017; the scheduled maturities of those term loans were \$750 million due August 17, 2020 and \$750 million due August 17, 2022.

We increased dividends paid to \$247.4 million in the first nine months of 2020 from \$226.4 million of dividends paid in the same period last year. The timing and amount of any future dividends is determined by our Board of Directors.

During the nine months ended August 31, 2020, we received proceeds of \$54.1 million from exercised stock options as compared to \$84.6 million received in the corresponding 2019 period. We repurchased \$10.7 million and \$10.3 million of common stock during the nine months ended August 31, 2020 and 2019, respectively, in conjunction with employee tax withholding requirements.

The following table outlines the activity in our share repurchase program for the nine months ended August 31, 2020 and 2019 (in millions):

	2020		2019	
Number of shares of common stock repurchased		0.26		0.54
Dollar amount	\$	46.0	\$	76.9

As of August 31, 2020, \$586.0 million remained of the \$600 million share repurchase authorization approved by the Board of Directors in November 2019. The timing and amount of any shares repurchased is determined by our management based on its evaluation of market conditions and other factors.

The following table presents our leverage ratio for the trailing twelve-month periods ended August 31, 2020, August 31, 2019, and November 30, 2019:

	August 31, 2020	August 31, 2019	November 30, 2019
Leverage ratio	3.1	3.7	3.4

Our leverage ratio was 3.1 as of August 31, 2020 as compared to the ratios of 3.4 and 3.7 as of November 30, 2019 and August 31, 2019, respectively. The decrease in the ratio from 3.7 as of August 31, 2019 to 3.1 as of August 31, 2020 is due to an increase in our trailing twelve-month adjusted EBITDA and a lower net debt balance.

Most of our cash is denominated in foreign currencies. We manage our worldwide cash requirements by considering available funds among the many subsidiaries through which we conduct our business and the cost effectiveness with which those funds can be accessed. Prior to the enactment of the U.S. Tax Act on December 22, 2017, the repatriation of cash balances from certain of our subsidiaries could have adverse tax consequences; however, those balances are generally available without legal restrictions to fund ordinary business operations, capital projects and any possible future acquisitions. At August 31, 2020, we temporarily used \$184.6 million of cash from our foreign subsidiaries to pay down short-term debt in the U.S. At August 31, 2019, we temporarily used \$253.5 million of cash from our foreign subsidiaries to pay down short-term debt in the U.S. During a quarter, our short-term borrowings vary, but are lower at the end of a quarter. The average short-term borrowings outstanding for the nine months ended August 31, 2020 and August 31, 2019 were \$567.3 million and \$839.0 million, respectively. Those average short-term borrowings outstanding for the nine months ended August 31, 2020 included average commercial paper outstanding of \$501.2 million. Total average debt outstanding for the nine months ended August 31, 2020 and August 31, 2019 was \$4,378.0 million and \$4,792.0 million, respectively.

The reported values of our assets and liabilities are significantly affected by fluctuations in foreign exchange rates between periods. At August 31, 2020, the exchange rates for the Euro, British pound sterling, Canadian dollar, Australian dollar, Chinese renminbi and Polish zloty were higher than at both August 31, 2019 and November 30, 2019. During 2020, we have seen greater-than-normal fluctuations in foreign exchanges rates as a result of increased market volatility driven by the global COVID-19 pandemic.

Credit and Capital Markets

Cash flows from operating activities are our primary source of liquidity for funding growth, dividends, capital expenditures and share repurchases. We also rely on our revolving credit facility, or borrowings backed by this facility, to fund seasonal working capital needs and other general corporate requirements. In August 2017, we entered into a five-year \$1.0 billion revolving credit facility, which supports our commercial paper program and will expire in August 2022. The pricing for the credit facility, on a fully drawn basis, is LIBOR plus 1.25%. The credit facility restricts subsidiary indebtedness and requires us to maintain certain minimum and maximum financial ratios for interest expense coverage and our leverage ratio. We generally use this facility to support our issuance of commercial paper. If the commercial paper market is not available or viable, we could borrow directly under our revolving credit facility. The facility is made available by syndicates of banks, with various commitments per bank. If any of the banks in these syndicates are unable to perform on their commitments, our liquidity could be impacted.

We engage in regular communication with all banks participating in our revolving credit facility. During these communications, none of the banks have indicated that they may be unable to perform on their commitments. In addition, we periodically review our banking and financing relationships, considering the stability of the institutions, pricing we receive on services, and other aspects of the relationships. Based on these communications and our monitoring activities, we believe the likelihood of one of our banks not performing on its commitment is remote.

We hold investments in equity and debt securities in both our qualified defined benefit pension plans and a rabbi trust for our nonqualified defined benefit pension plan. We estimate total required contributions to our pension plans in 2020 of approximately \$12 million. In 2019, we contributed \$11.4 million to our pension plans. Future increases or decreases in pension liabilities and required cash contributions are highly dependent on changes in interest rates and the actual return on plan assets.

We will continue to have cash requirements to support seasonal working capital needs and capital expenditures, to pay interest, to service debt, and to fund acquisitions. To meet these cash requirements, we intend to use our existing cash, cash equivalents, and internally generated funds, to borrow under our existing credit facilities or under other short-term borrowing facilities, depending on market conditions, to access capital markets, and, depending upon the significance of the cost of a particular acquisition to our then-available sources of funds, to obtain additional short- and long-term financing. We believe that cash provided from these sources will be adequate to meet our cash requirements over the next twelve months.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

New accounting pronouncements are issued periodically that affect our current and future operations. See note 1 of notes to the accompanying financial statements for further details of these impacts.

CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

In preparing the financial statements, we are required to make estimates and assumptions that have an impact on the assets, liabilities, revenue and expenses reported. These estimates can also affect supplemental information disclosed by us, including information about contingencies, risk and financial condition. We believe, given current facts and circumstances, our estimates and assumptions are reasonable, adhere to U.S. GAAP and are consistently applied. Inherent in the nature of an estimate or assumption is the fact that actual results may differ from estimates, and estimates may vary as new facts and circumstances arise. In preparing the financial statements, we make routine estimates and judgments in determining the net realizable value of accounts receivable, inventory, fixed assets and prepaid allowances. Our most critical accounting estimates and assumptions are included in our Annual Report on Form 10-K for the fiscal year ended November 30, 2019.

There have been no changes in our critical accounting estimates and assumptions included in our Annual Report on Form 10-K for the fiscal year ended November 30, 2019.

FORWARD-LOOKING INFORMATION

Certain statements contained in this report, including statements concerning expected performance, such as those relating to net sales, volume and product mix, gross margins, earnings, cost savings, brand marketing support, special charges, acquisitions, income tax expense and the impact of foreign currency rates are "forward-looking statements" within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended. These statements may be identified by the use of words such as "may," "will," "expect," "should," "anticipate," "intend," "believe" and "plan." These statements may relate to: the impact of COVID-19 on our business, suppliers, consumers, customers, and employees; disruptions or inefficiencies in the supply chain, including any impact of COVID-19; the expected results of operations of businesses acquired by the company, including the acquisition of RB Foods; the expected impact of raw material costs and pricing actions on the company's results of operations and gross margins; the expected impact of productivity improvements, including those associated with our Comprehensive Continuous Improvement ("CCI") program and global enablement initiative; expected working capital improvements; expectations regarding growth potential in various geographies and markets, including the impact from customer, channel, category and e-commerce expansion; expected trends in net sales and earnings performance and other financial measures; the expected timing and costs of implementing our business transformation initiative, which includes the implementation of a global enterprise resource planning system; the expected impact of accounting pronouncements; the expected impact of the U.S. Tax Act enacted in December 2017; the expectations of pension and postretirement plan contributions and anticipated charges associated with those plans; the holding period and market risks associated with financial instruments; the impact of foreign exchange fluctuations; the adequacy of internally generated funds and existing sources of liquidity, such as the availability of bank financing; the anticipated sufficiency of future cash flows to enable the payments of interest and repayment of short- and long-term debt as well as quarterly dividends and the ability to issue additional debt or equity securities; and expectations regarding purchasing shares of McCormick's common stock under the existing repurchase authorization.

These and other forward-looking statements are based on management's current views and assumptions and involve risks and uncertainties that could significantly affect expected results. Results may be materially affected by factors such as: the company's ability to drive revenue growth; damage to the company's reputation or brand name; loss of brand relevance; increased private label use; product quality, labeling, or safety concerns; negative publicity about our products; actions by, and the financial condition of, competitors and customers; the longevity of mutually beneficial relationships with our large customers; the ability to identify, interpret and react to changes in consumer preferences and demand; business interruptions due to natural disasters, unexpected events or public health crises, including COVID-19; issues affecting the company's supply chain and raw materials, including fluctuations in the cost and availability of raw and packaging materials; government regulation, and changes in legal and regulatory requirements and enforcement practices; the lack of successful acquisition and integration of new businesses, including the acquisition of RB Foods; global economic and financial conditions generally, including the impact of the exit of the U.K. from the European Union, availability of financing, interest and inflation rates, and the imposition of tariffs, quotas, trade barriers and other similar restrictions; foreign currency fluctuations; the effects of increased level of debt service following the RB Foods acquisition as well as the effects that such increased debt service may have on the company's ability to borrow or the cost of any such additional borrowing, our credit rating, and our ability to react to certain economic and industry conditions; impairments of indefinite-lived intangible assets; assumptions we have made regarding the investment return on retirement plan assets, and the costs associated with pension obligations; the stability of

credit and capital markets; risks associated with the company's information technology systems, including the threat of data breaches and cyber-attacks; the company's inability to successfully implement our business transformation initiative; fundamental changes in tax laws, including interpretations and assumptions we have made, and guidance that may be issued, regarding the U.S. Tax Act enacted on December 22, 2017 and volatility in our effective tax rate; climate change; infringement of intellectual property rights, and those of customers; litigation, legal and administrative proceedings; the company's inability to achieve expected and/or needed cost savings or margin improvements; negative employee relations; and other risks described in the company's filings with the Securities and Exchange Commission.

Actual results could differ materially from those projected in the forward-looking statements. We undertake no obligation to update or revise publicly, any forward-looking statements, whether as a result of new information, future events or otherwise, except as may be required by law.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

For information regarding our exposure to certain market risks, see "Market Risk Sensitivity" in the Management's Discussion and Analysis of Financial Condition and Results of Operations above and Item 7A, Quantitative and Qualitative Disclosures About Market Risk, in our Annual Report on Form 10-K for the year ended November 30, 2019. Except as described in Management's Discussion and Analysis of Financial Condition and Results of Operations above, there have been no significant changes in our financial instrument portfolio or market risk exposures since our November 30, 2019 fiscal year end.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures: The company's management, with the participation of the company's Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the company's disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended, as of the end of the period covered by this report. Based on that evaluation, the company's Chief Executive Officer and Chief Financial Officer concluded that, as of the end of the period covered by this report, the company's disclosure controls and procedures were effective.

Changes in Internal Controls: No change occurred in our "internal control over financial reporting" as defined in Rule 13a-15(f) during our last fiscal quarter which was identified in connection with the evaluation required by Rule 13a-15a as materially affecting or reasonably likely to materially affect, our internal control over financial reporting.

PART II – OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

There are no material pending legal proceedings in which we or our subsidiaries is a party or in which any of our or their property is the subject.

ITEM 1.A RISK FACTORS

The following risk factor is in addition to our risk factors—included in Part 1, Item A to our Annual Report on Form 10-K for the year ended November 30, 2019 (“our 2019 Form 10-K”)—that could affect our business, financial condition and results of operations. These risk factors should be considered in connection with evaluating the forward-looking statements included in this Quarterly Report on Form 10-Q because these factors could cause the actual results and conditions to differ materially from those projected in forward-looking statements. Before you buy our Common Stock or Common Stock Non-Voting, you should know that making such an investment involves risks, including the risks described in our 2019 Form 10-K and as included below. Additional risks and uncertainties that are not presently known to us or are currently deemed to be immaterial also may materially adversely affect our business, financial condition, or results of operations in the future. If any of the risks actually occur, our business, financial condition or results of operations could be negatively affected. In that case, the trading price of our securities could decline, and you may lose part or all of your investment.

Our operations may be adversely impacted as a result of pandemic outbreaks, including COVID-19.

In December 2019, a strain of novel coronavirus, or COVID-19, was first reported in Wuhan, China, resulting in thousands of confirmed cases of the disease in China. By January, the Chinese government implemented a quarantine protocol for Wuhan and implemented other restrictions for other major Chinese cities, including mandatory business closures, social distancing measures, and various travel restrictions. On March 11, 2020, as COVID-19 spread outside of China, the World Health Organization designated the outbreak as a global pandemic. The effects of COVID-19 and related actions to attempt to control its spread significantly impacted not only our operating results but also the global economy. COVID-19 continues to impact our customers, our operations, consumers and the global economy as discussed below; however, given the evolving health, economic, social, and governmental environments, the breadth and duration of such impact remains uncertain.

The COVID-19 pandemic has affected, and may continue to affect, our operations, major facilities, and the health of our employees and consumers. The production of certain of our products in the U.S. and Europe are concentrated in a single manufacturing site in each location. To mitigate the spread of COVID-19, many governments implemented quarantines and significant restrictions on travel as well as work restrictions that prohibited many employees from going to work. As a result, we temporarily closed certain manufacturing and other facilities over the past several months. Our results have been and we expect will continue to be adversely impacted by these closures and other actions taken to contain or treat the impact of COVID-19, and the extent of such impact will depend upon future developments, which are highly uncertain and cannot be predicted. COVID-19 continues to interfere with general commercial activity related to our supply chain and customer base, which could have a material adverse effect on our business, financial condition, or results of operations. Beginning late in the second quarter of 2020, we saw some loosening of government-mandated COVID-19 restrictions in certain locales; however, to the extent that COVID-19 continues or worsens, governments may maintain restrictions or impose additional restrictions. The result of COVID-19 and those restrictions could result in additional businesses being shut down, additional work restrictions and supply chains being interrupted, slowed, or rendered inoperable. As a result, it may be even more challenging to obtain and process raw materials to support our business needs, and more individuals could become ill, quarantined or otherwise unable to work and/or travel due to health reasons or governmental restrictions. Also, governments may impose other laws, regulations or taxes which could adversely impact our business, financial condition or results of operations. Further, as some of our customers’ businesses are similarly affected, they might delay or reduce purchases from us, which could adversely affect our results of our business, financial condition or results of operations. While we expect the impacts of COVID-19 to continue to have an effect on our business, financial condition and results of operations, we are unable to predict the extent or nature of these impacts at this time.

The potential effects of COVID-19 also could impact many of our risk factors, included in Part 1, Item A of our 2019 Form 10-K, including, but not limited to our profitability, laws and regulations affecting our business, fluctuations in foreign currency markets, the availability of future borrowings, the costs of current and future borrowings, valuation of our pension assets and obligations, credit risks of our customers and counterparties, our business transformation initiative and an impairment of the carrying value of goodwill or other indefinite-lived intangible assets. However, given the evolving health, economic, social, and governmental environments, the potential impact that COVID-19 could have on our risk factors that are further described in our 2019 Form 10-K remain uncertain.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

The following table summarizes our purchases of our Common Stock (CS) and Common Stock Non-Voting (CSNV) during the third quarter of 2020.

ISSUER PURCHASES OF EQUITY SECURITIES

Period	Total Number of Shares Purchased	Average Price Paid per share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs
June 1, 2020 to June 30, 2020	CS – 0	\$ —	—	\$611 million
	CSNV – 0	\$ —	—	
July 1, 2020 to July 31, 2020	CS – 123,439 ⁽¹⁾	\$ 189.18	123,439	\$588 million
	CSNV – 0	\$ —	—	
August 1, 2020 to August 31, 2020	CS – 9,000	\$ 202.39	9,000	\$586 million
	CSNV – 0	\$ —	—	
Total	CS – 132,439	\$ 190.08	132,439	\$586 million
	CSNV – 0	\$ —	—	

- (1) On July 1, 2020 and July 13, 2020, we purchased 9,613 shares and 7,826 shares, respectively, of our CS from our U.S. defined contribution retirement plan to manage shares, based upon participant activity, in the plan's company stock fund. The prices paid per share of \$179.84 and \$183.50 represented the closing price of the common shares on July 1, 2020 and July 13, 2020, respectively. On July 16, 2020, we purchased 106,000 shares of our CS from our domestic pension plan to facilitate the plan's rebalancing of its asset allocation. The price paid per share of \$190.45 represented the closing price of the common shares on July 16, 2020.

As of August 31, 2020, \$586.0 million remained of the \$600 million share repurchase authorization approved by the Board of Directors in November 2019. The timing and amount of any shares repurchased is determined by our management based on its evaluation of market conditions and other factors.

In certain circumstances, we issue shares of CS in exchange for shares of CSNV, or issue shares of CSNV in exchange for shares of CS, in either case pursuant to the exemption from registration provided by Section 3(a)(9) of the Securities Act of 1933, as amended. Typically, these exchanges are made in connection with the administration of our employee benefit plans, executive compensation programs and dividend reinvestment/direct purchase plans or at the request of holders of common stock. The number of shares issued in an exchange is generally equal to the number of shares received in the exchange, although the number may differ slightly to the extent necessary to comply with the requirements of the Employee Retirement Income Security Act of 1974. During the third quarter of 2020, we issued 878,328 shares of CSNV in exchange for shares of CS and issued 4,390 shares of CS in exchange for shares of CSNV.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not Applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

The following exhibits are attached or incorporated herein by reference:

	Exhibit Number	Description
(i)	Articles of Incorporation and By-Laws Restatement of Charter of McCormick & Company, Incorporated dated April 16, 1990	Incorporated by reference from Exhibit 4 of Registration Form S-8, Registration No. 33-39582 as filed with the Securities and Exchange Commission on March 25, 1991.
	Articles of Amendment to Charter of McCormick & Company, Incorporated dated April 1, 1992	Incorporated by reference from Exhibit 4 of Registration Form S-8, Registration Statement No. 33-59842 as filed with the Securities and Exchange Commission on March 19, 1993.
	Articles of Amendment to Charter of McCormick & Company, Incorporated dated March 27, 2003	Incorporated by reference from Exhibit 4 of Registration Form S-8, Registration Statement No. 333-104084 as filed with the Securities and Exchange Commission on March 28, 2003.
(ii)	By-Laws By-Laws of McCormick & Company, Incorporated Amended and Restated on November 26, 2019	Incorporated by reference from Exhibit 99.1 of McCormick's Form 8-K dated November 26, 2019, File No. 1-14920, as filed with the Securities and Exchange Commission on November 26, 2019.
(4)	Instruments defining the rights of security holders, including indentures	
(i)	See Exhibit 3 (Restatement of Charter and By-Laws)	
(ii)		Summary of Certain Exchange Rights, incorporated by reference from Exhibit 4.1 of McCormick's Form 10-Q for the quarter ended August 31, 2001, File No. 0-748, as filed with the Securities and Exchange Commission on October 12, 2001.
(iii)		Indenture dated July 8, 2011 between McCormick and U.S. Bank National Association, incorporated by reference from Exhibit 4.1 of McCormick's Form 8-K dated July 5, 2011, File No. 1-14920, as filed with the Securities and Exchange Commission on July 8, 2011.
(iv)		Form of 3.90% Notes due 2021, incorporated by reference from Exhibit 4.2 of McCormick's Form 8-K dated July 5, 2011, File No. 1-14920, as filed with the Securities and Exchange Commission on July 8, 2011.
(v)		Form of 2.70% Notes due 2022, incorporated by reference from Exhibit 4.2 of McCormick's Form 8-K dated August 7, 2017, File No. 1-14920, as filed with the Securities and Exchange Commission on August 11, 2017.
(vi)		Form of 3.50% Notes due 2023, incorporated by reference from Exhibit 4.2 of McCormick's Form 8-K dated August 14, 2013, File No. 1-14920, as filed with the Securities and Exchange Commission on August 19, 2013.
(vii)		Form of 3.15% Notes due 2024, incorporated by reference from Exhibit 4.3 of McCormick's Form 8-K dated August 7, 2017, File No. 1-14920, as filed with the Securities and Exchange Commission on August 11, 2017.
(viii)		Form of 3.25% Notes due 2025, incorporated by reference from Exhibit 4.2 of McCormick's Form 8-K dated November 3, 2015, File No. 1-14920, as filed with the Securities and Exchange Commission on November 6, 2015.

- (ix) [Form of 3.40% Notes due 2027, incorporated by reference from Exhibit 4.4 of McCormick's Form 8-K dated August 7, 2017, File No. 1-14920, as filed with the Securities and Exchange Commission on August 11, 2017.](#)
 - (x) [Form of 4.20% Notes due 2047, incorporated by reference from Exhibit 4.5 of McCormick's Form 8-K dated August 7, 2017, File No. 1-14920, as filed with the Securities and Exchange Commission on August 11, 2017.](#)
 - (xi) [Form of 2.50% Notes due 2030, incorporated by reference from Exhibit 4.2 of McCormick's Form 8-K dated April 13, 2020, File No. 1-14920, as filed with the Securities and Exchange Commission on April 16, 2020.](#)
 - (xii) [Description of Securities of McCormick & Company, Incorporated, incorporated by reference from Exhibit 4\(xi\) of McCormick's Form 10-K for the fiscal year ended November 30, 2019, File No. 1-14920, as filed with the Securities and Exchange Commission on January 28, 2020.](#)
- (10) Material Contracts
- (i) [Directors' Share Ownership Program, provided to members of McCormick's Board of Directors who are not also employees of McCormick, is set forth on page 28 of McCormick's definitive Proxy Statement dated February 17, 2004, File No. 1-14920, as filed with the Securities and Exchange Commission on February 17, 2004, and incorporated by reference herein.*](#)
 - (ii) [Deferred Compensation Plan, as restated on January 1, 2000, and amended on August 29, 2000, September 5, 2000 and May 16, 2003, in which directors, officers and certain other management employees participate, a copy of which Plan document and amendments was attached as Exhibit 10\(viii\) of McCormick's Form 10-Q for the quarter ended August 31, 2003, File No. 1-14920, as filed with the Securities and Exchange Commission on October 14, 2003, and incorporated by reference herein.*](#)
 - (iii) [Non-Qualified Retirement Savings Plan, with an effective date of February 1, 2017, in which directors, officers and certain other management employees participate, a copy of which Plan document was attached as Exhibit 10\(v\) of McCormick's Form 10-Q for the quarter ended February 28, 2017, File No. 1-14920, as filed with the Securities and Exchange Commission on March 28, 2017, and incorporated by reference herein.*](#)
 - (iv) [The 2007 Omnibus Incentive Plan, in which directors, officers and certain other management employees participate, is set forth in Exhibit A of McCormick's definitive Proxy Statement dated February 20, 2008, File No. 1-14920, as filed with the Securities and Exchange Commission on February 20, 2008, and incorporated by reference herein, as amended by Amendment No. 1 thereto, which Amendment is incorporated by reference from Exhibit 10\(xi\) of McCormick's 10-K for the fiscal year ended November 30, 2008, File No. 1-14920, as filed with the Securities and Exchange Commission on January 28, 2009.*](#)
 - (v) [The Amended and Restated 2013 Omnibus Incentive Plan, in which directors, officers and certain other management employees participate, is incorporated by reference from Exhibit A of McCormick's definitive Proxy Statement dated February 14, 2019, File No. 1-14920, as filed with the Securities and Exchange Commission on February 14, 2019.*](#)
 - (vi) [Form of Long-Term Performance Plan Agreement, incorporated by reference from Exhibit 10\(vi\) of McCormick's Form 10-K for the fiscal year ended November 30, 2019, File No. 1-14920, as filed with the Securities and Exchange Commission on January 28, 2020.](#)
 - (vii) [Form of Restricted Stock Units Agreement, incorporated by reference from Exhibit 10\(vii\) of McCormick's Form 10-K for the fiscal year ended November 30, 2019, File No. 1-14920, as filed with the Securities and Exchange Commission on January 28, 2020.](#)

- (viii) [Form of Restricted Stock Units Agreement for Directors, incorporated by reference from Exhibit 10\(viii\) of McCormick's Form 10-K for the fiscal year ended November 30, 2019, File No. 1-14920, as filed with the Securities and Exchange Commission on January 28, 2020.](#)
 - (ix) [Form of Non-Qualified Stock Option Agreement, incorporated by reference from Exhibit 10\(ix\) of McCormick's Form 10-K for the fiscal year ended November 30, 2019, File No. 1-14920, as filed with the Securities and Exchange Commission on January 28, 2020.](#)
 - (x) [Form of Non-Qualified Stock Option Agreement for Directors, incorporated by reference from Exhibit 10\(x\) of McCormick's Form 10-K for the fiscal year ended November 30, 2019, File No. 1-14920, as filed with the Securities and Exchange Commission on January 28, 2020.](#)
 - (xi) [Form of Indemnification Agreement, incorporated by reference from Exhibit 10\(xv\) of McCormick's Form 10-Q for the quarter ended February 28, 2014, File No. 1-14920, as filed with the Securities and Exchange Commission on March 26, 2014.](#)
 - (xii) [Employment Agreement between McCormick \(UK\) Limited and Malcolm Swift, incorporated by reference from Exhibit 10.1 of McCormick's Form 8-K, File No. 1-14920, as filed with the Securities and Exchange Commission on January 29, 2015.*](#)
 - (xiii) [Severance Plan for Executives, incorporated by reference from Exhibit 10\(xix\) of McCormick's Form 10-Q for the quarter ended February 28, 2015, File No. 1-14920, as filed with the Securities and Exchange Commission on March 31, 2015.*](#)
- (31) Rule 13a-14(a)/15d-14(a) Certifications Filed herewith
- (i) [Certification of Lawrence E. Kurzius, Chairman, President and Chief Executive Officer, pursuant to Rule 13a-14\(a\) or Rule 15d-14\(a\) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.](#)
 - (ii) [Certification of Michael R. Smith, Executive Vice President and Chief Financial Officer, pursuant to Rule 13a-14\(a\) or Rule 15d-14\(a\) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.](#)
- (32) Section 1350 Certifications Filed herewith
- (i) [Certification of Lawrence E. Kurzius, Chairman, President and Chief Executive Officer, pursuant to Rule 13a-14\(b\) or Rule 15d-14\(b\) under the Securities Exchange Act of 1934 and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.](#)
 - (ii) [Certification of Michael R. Smith, Executive Vice President and Chief Financial Officer, pursuant to Rule 13a-14\(b\) or Rule 15d-14\(b\) under the Securities Exchange Act of 1934 and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.](#)

(101) The following financial information from the Quarterly Report on Form 10-Q of McCormick for the quarter ended August 31, 2020, filed electronically herewith, and formatted in Inline XBRL (Extensible Business Reporting Language): (i) Condensed Consolidated Balance Sheet; (ii) Condensed Consolidated Income Statement; (iii) Condensed Consolidated Statement of Comprehensive Income; (iv) Condensed Consolidated Cash Flow Statement; (v) Condensed Consolidated Statement of Stockholders' Equity; and (vi) Notes to the Condensed Consolidated Financial Statements.

(104) Inline XBRL for the cover page from the Quarterly Report on Form 10-Q of McCormick for the quarter ended August 31, 2020, files electronically herewith, included in the Exhibit 101 inline XBRL Document Set.

* Management contract or compensatory plan or arrangement.

McCormick hereby undertakes to furnish to the Securities and Exchange Commission, upon its request, copies of additional instruments of McCormick with respect to long-term debt that involve an amount of securities that do not exceed 10 percent of the total assets of McCormick and its subsidiaries on a consolidated basis, pursuant to Regulation S-K, Item 601(b)(4)(iii)(A).

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

McCORMICK & COMPANY, INCORPORATED

September 29, 2020

By: /s/ Michael R. Smith

Michael R. Smith

Executive Vice President & Chief Financial Officer

September 29, 2020

By: /s/ Christina M. McMullen

Christina M. McMullen

Vice President & Controller

EXHIBIT 31.1

CERTIFICATION PURSUANT TO RULE 13a-14(a)/15d-14(a)

I, Lawrence E. Kurzius, certify that:

1. I have reviewed this report on Form 10-Q of McCormick & Company, Incorporated (the “registrant”);
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and
5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: September 29, 2020

/s/ Lawrence E. Kurzius

Lawrence E. Kurzius

Chairman, President & Chief Executive Officer

EXHIBIT 31.2

CERTIFICATION PURSUANT TO RULE 13a-14(a)/15d-14(a)

I, Michael R. Smith certify that:

1. I have reviewed this report on Form 10-Q of McCormick & Company, Incorporated (the “registrant”);
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and
5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: September 29, 2020

/s/ Michael R. Smith

Michael R. Smith

Executive Vice President & Chief Financial Officer

EXHIBIT 32.1
CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of McCormick & Company, Incorporated (the "Company") on Form 10-Q for the period ending August 31, 2020, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Lawrence E. Kurzius, Chairman, President & Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: September 29, 2020

/s/ Lawrence E. Kurzius

Lawrence E. Kurzius

Chairman, President & Chief Executive Officer

EXHIBIT 32.2
CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of McCormick & Company, Incorporated (the "Company") on Form 10-Q for the period ending August 31, 2020, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Michael R. Smith, Executive Vice President & Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: September 29, 2020

/s/ Michael R. Smith

Michael R. Smith

Executive Vice President & Chief Financial Officer