MCCORMICK & CO INC
Form 10-K
January 25, 2018

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

FORM 10-K

(Mark One)
ý ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended November 30, 2017
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	52-0408290
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)
18 Loveton Circle, Sparks, Maryland	21152
(Address of principal executive offices)	(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	Name of Each Exchange on Which Registered
Common Stock, No Par Value	New York Stock Exchange
Common Stock Non-Voting, No Par Value	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: Not applicable.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ý No ¨
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.
Yes ¨ No ý
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 ý No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ý No ¨
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements

incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ý
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company, or emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company” and "emerging growth company" in Rule 12b-2 of the Exchange Act.
Check one:

Large accelerated filer ý	Accelerated filer ¨
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨
	Emerging growth company ¨

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 ý
State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked prices of such common equity, as of the last business day of the registrant’s most recently completed second fiscal quarter.
The aggregate market value of the Voting Common Stock held by non-affiliates at May 31, 2017: $1,157,886,402
The aggregate market value of the Non-Voting Common Stock held by non-affiliates at May 31, 2017: $11,809,126,501
Indicate the number of shares outstanding of each of the registrant’s classes of common stock, as of the latest practicable date.

Class	Number of Shares Outstanding	Date
Common Stock	10,008,182	December 29, 2017
Common Stock Non-Voting	121,097,928	December 29, 2017

DOCUMENTS INCORPORATED BY REFERENCE

Document	Part of 10-K into Which Incorporated
Proxy Statement for McCormick’s March 28, 2018 Annual Meeting of Stockholders (the “2018 Proxy Statement”)	Part III

PART I.

As used herein, references to “McCormick,” “we,” “us” and “our” are to McCormick & Company, Incorporated and its consolidated subsidiaries or, as the context may require, McCormick & Company, Incorporated only.

ITEM 1. BUSINESS

McCormick is a global leader in flavor. The company manufactures, markets and distributes spices, seasoning mixes, condiments and other flavorful products to the entire food industry–retailers, food manufacturers and foodservice businesses. 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. Our major sales, distribution and production facilities are located in North America, Europe and China. Additional facilities are based in Australia, Mexico, India, Singapore, Central America, Thailand and South Africa. McCormick & Company, Incorporated was formed in 1915 under Maryland law as the successor to a business established in 1889.

On August 17, 2017, we completed the acquisition of Reckitt Benckiser's Food Division ("RB Foods") from Reckitt Benckiser Group plc. The purchase price was approximately $4.21 billion, net of acquired cash of $24.3 million, and included a preliminary working capital adjustment of $11.2 million. In December 2017, we paid an additional $4.2 million in connection with the final working capital adjustment. The acquisition was funded through our issuance of approximately 6.35 million shares of common stock non-voting (see note 13 of the financial statements) and through new borrowings comprised of senior unsecured notes and pre-payable term loans (see note 6 of the financial statements). The acquired market-leading brands of RB Foods include French’s®, Frank’s RedHot® and Cattlemen’s®, which are a natural strategic fit with our robust global branded flavor portfolio. We believe that these additions move us to a leading position in the attractive U.S. Condiments category and provide significant international growth opportunities for our consumer and industrial segments. At the time of the acquisition, annual sales of RB Foods were approximately $570 million. The transaction was accounted for under the acquisition method of accounting and, accordingly, the results of RB Foods’ operations have been included in our financial statements as a component of our consumer and industrial segments from the date of acquisition.

Business Segments

We operate in two business segments, consumer and industrial. Demand for flavor is growing globally, and across both segments we have the customer base and product breadth to participate in all types of eating occasions. Our products deliver flavor when cooking at home, dining out, purchasing a quick service meal or enjoying a snack. We offer our customers and consumers a range of products to meet the increasing demand for certain product attributes such as organic, reduced sodium, gluten-free and non-GMO (genetically modified organisms) and that extend from premium to value-priced.

Consistent with market conditions in each segment, our consumer segment has a higher overall profit margin than our industrial segment. In 2017, the consumer segment contributed approximately 61% of sales and 72% of operating income, and the industrial segment contributed approximately 39% of sales and 28% of operating income.

For financial information about our business segments, please refer to “Management’s Discussion and Analysis–Results of Operations” and note 16 of the financial statements.

For a discussion of our recent acquisition activity, please refer to “Management’s Discussion and Analysis–Acquisitions” and note 2 of the financial statements.

Consumer Segment. From locations around the world, our brands reach consumers in approximately 150 countries and territories. Our leading brands in the Americas include McCormick®, French’s®, Frank’s RedHot®, Lawry’s® and Club House®, as well as niche brands such as Gourmet Garden® and OLD BAY®. We also market authentic regional and ethnic brands such as Zatarain’s®, Stubb's®, Thai Kitchen® and Simply Asia®. In the Europe, Middle East and Africa (EMEA) region, our major brands include the Ducros®, Schwartz®, Kamis® and Drogheria & Alimentari® brands of spices, herbs and seasonings and an extensive line of Vahiné® brand dessert items. In the Asia/Pacific region, we market our products under the following brands. In China, we market our products under the McCormick and DaQiao® brands. In Australia, we market our spices and seasonings under the McCormick brand, our dessert products under the Aeroplane® brand, and packaged chilled herbs under the Gourmet Garden brand. In India, we market our spices and rice products under the Kohinoor® brand.

Our customers span a variety of retailers that include grocery, mass merchandise, warehouse clubs, discount and drug stores, and e-commerce retailers served directly and indirectly through distributors or wholesalers. In addition to marketing our branded products to these customers, we are also a leading supplier of private label items, also known as store brands.

Approximately half of our consumer segment sales are spices, herbs and seasonings. For these products, we are a category leader in our primary markets. There are numerous competitive brands of spices, herbs and seasonings in the U.S. and additional brands in international markets. Some are owned by large food manufacturers, while others are supplied by small privately owned companies. In this competitive environment, we are leading with innovation and brand marketing, and applying our analytical tools to help customers optimize the profitability of their spice and seasoning sales while simultaneously working to increase our sales and profit.

Industrial Segment. In our industrial segment, we provide a wide range of products to multinational food manufacturers and foodservice customers. The foodservice customers are supplied with branded, packaged products both directly and indirectly through distributors. We supply food manufacturers and foodservice customers with customized flavor solutions, and many of these customer relationships have been active for decades. Our range of flavor solutions remains one of the broadest in the industry and includes seasoning blends, spices and herbs, condiments, coating systems and compound flavors. In addition to a broad range of flavor solutions, our long-standing customer relationships are evidence of our effectiveness in building customer intimacy. Our customers benefit from our expertise in many areas, including sensory testing, culinary research, food safety and flavor application.

Our industrial segment has a number of competitors. Some tend to specialize in a particular range of products and have a limited geographic reach. Other competitors include larger publicly held flavor companies that are more global in nature, but which also tend to specialize in a narrower range of flavor solutions than McCormick.

Raw Materials

The most significant raw materials used in our business are pepper, dairy products, garlic, vanilla, capsicums (red peppers and paprika), onion, wheat flour and rice. Pepper and other spices and herbs are generally sourced from countries other than the United States. Other raw materials, like dairy products and onion, are primarily sourced from within the U.S. and locally, for many of our international locations. Because the raw materials are agricultural products, they are subject to fluctuations in market price and availability caused by weather, growing and harvesting conditions, market conditions, and other factors beyond our control.

We respond to this volatility in a number of ways, including strategic raw material purchases, purchases of raw material for future delivery, customer price adjustments and cost savings from our Comprehensive Continuous Improvement (CCI) program.

Customers

Our products are sold directly to customers and also through brokers, wholesalers and distributors. In the consumer segment, products are then sold to consumers under a number of brands through a variety of retail channels, including grocery, mass merchandise, warehouse clubs, discount and drug stores, and e-commerce. In the industrial segment, products are used by food and beverage manufacturers as ingredients for their finished goods and by foodservice customers as ingredients for menu items to enhance the flavor of their foods. Customers for the industrial segment include food manufacturers and the foodservice industry supplied both directly and indirectly through distributors.

We have a large number of customers for our products. Sales to one of our consumer segment customers, Wal-Mart Stores, Inc., accounted for 11% of consolidated sales in 2017, 2016 and 2015. Sales to one of our industrial segment customers, PepsiCo, Inc., accounted for 11% of consolidated sales in 2017, 2016 and 2015. In 2017, 2016 and 2015 the top three customers in our industrial segment represented between 50% and 54% of our global industrial sales.

The dollar amount of backlog orders for our business is not material to an understanding of our business, taken as a whole. No material portion of our business is subject to renegotiation of profits or termination of contracts or subcontracts at the election of the U.S. government.

Trademarks, Licenses and Patents

We own a number of trademark registrations. Although in the aggregate these trademarks are material to our business, the loss of any one of those trademarks, with the exception of our “McCormick,” “French’s ,” “Frank’s RedHot,” “Lawry’s,” “Zatarain’s,” “Stubb's,” “Club House,” “Ducros,” “Schwartz,” “Vahiné,” "OLD BAY," "Simply Asia,"

"Thai Kitchen," "Kitchen Basics," “Kamis,” “Drogheria & Alimentari,” "DaQiao," “Kohinoor” and "Gourmet Garden" trademarks, would not have a material adverse effect on our business. The “Mc – McCormick” trademark is extensively used by us in connection with the sale of our food products in the U.S. and certain non-U.S. markets. The terms of the trademark registrations are as prescribed by law, and the registrations will be renewed for as long as we deem them to be useful.

We have entered into a number of license agreements authorizing the use of our trademarks by affiliated and non-affiliated entities. The loss of these license agreements would not have a material adverse effect on our business. The term of the license agreements is generally three to five years or until such time as either party terminates the agreement. Those agreements with specific terms are renewable upon agreement of the parties.

We also own various patents, none of which are individually material to our business.

Seasonality

Due to seasonal factors inherent in our business, our sales, income and cash from operations generally are lower in the first two quarters of the fiscal year, increase in the third quarter and are significantly higher in the fourth quarter due to the holiday season. This seasonality reflects customer and consumer buying patterns, primarily in the consumer segment.

Working Capital

In order to meet increased demand for our consumer products during our fourth quarter, we usually build our inventories during the third quarter of the fiscal year. We generally finance working capital items (inventory and receivables) through short-term borrowings, which include the use of lines of credit and the issuance of commercial paper. For a description of our liquidity and capital resources, see note 6 of the financial statements and the “Liquidity and Financial Condition” section of “Management’s Discussion and Analysis.”

Competition

Each segment operates in markets around the world that are highly competitive. In this competitive environment, our growth strategies include customer intimacy and product innovation based on consumer insights. Additionally, in the consumer segment, we are building brand recognition and loyalty through advertising and promotions.

Research and Development

Many of our products are prepared from confidential formulas developed by our research laboratories and product development teams, and, in some cases, from proprietary customer formulas. Expenditures for research and development were $66.1 million in 2017, $61.0 million in 2016, and $60.8 million in 2015. The amount spent on customer-sponsored research activities is not material.

Governmental Regulation

We are subject to numerous laws and regulations around the world that apply to our global businesses. In the United States, the safety, production, transportation, distribution, advertising, labeling and sale of many of our products and their ingredients are subject to the Federal Food, Drug, and Cosmetic Act; the Food Safety Modernization Act; the Federal Trade Commission Act; state consumer protection laws; competition laws, anti-corruption laws, customs and trade laws; federal, state and local workplace health and safety laws; various federal, state and local environmental protection laws; and various other federal, state and local statutes and regulations. Outside the United States, our business is subject to numerous similar statutes, laws and regulatory requirements.

Environmental Regulations

The cost of compliance with federal, state and local provisions related to protection of the environment has had no material effect on our business. There were no material capital expenditures for environmental control facilities in fiscal year 2017, and there are no material expenditures planned for such purposes in fiscal year 2018.

Employees

We had approximately 11,700 full-time employees worldwide as of November 30, 2017. Our operations have not been affected significantly by work stoppages and, in the opinion of management, employee relations are good. We have approximately 300 employees covered by a collective bargaining contract in the United States. At our foreign subsidiaries, approximately 2,600 employees are covered by collective bargaining agreements or similar arrangements.

Financial Information about Geographic Locations

For information on the net sales and long-lived assets of McCormick by geographic area, see note 16 of the financial statements.

Foreign Operations

We are subject in varying degrees to certain risks typically associated with a global business, such as local economic and market conditions, exchange rate fluctuations, and restrictions on investments, royalties and dividends. In fiscal year 2017, 41% of sales were from non-U.S. operations. For information on how we manage some of these risks, see the “Market Risk Sensitivity” section of “Management’s Discussion and Analysis.”

Forward-Looking Information

Certain statements contained in this report, including statements concerning expected performance such as those relating to net sales, earnings, cost savings, acquisitions, brand marketing support, and income tax expense are “forward-looking statements” within the meaning of Section 21E of the Securities Exchange Act of 1934. 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 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 impact of the U.S tax regulation passed 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: 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; business interruptions due to natural disasters or unexpected events; actions by, and the financial condition of, competitors and customers; the company's inability to achieve expected and/or needed cost savings or margin improvements; negative employee relations; the lack of successful acquisition and integration of new businesses, including the acquisition of RB Foods; difficulties or delays in the successful transition of RB Foods from the information technology systems of the seller to those of McCormick as well as risks associated with the integration and transition of the operations, systems and personnel of RB Foods, within the remaining term of the post-closing transition services agreement between McCormick and the seller in the first half of 2018; 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; global economic and financial conditions generally, including the availability of financing, and interest and inflation rates; 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 react to certain economic and industry conditions and ability to borrow or the cost of any such additional borrowing; the interpretations and assumptions we have made, and guidance that may be issued, regarding the U.S. tax legislation enacted on December 22, 2017; assumptions we have made regarding the investment return on retirement plan assets, and the costs associated with pension obligations; foreign currency fluctuations; 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; fundamental changes in tax laws; volatility in our effective tax rate; climate change; infringement of intellectual property rights, and those of customers; litigation, legal and administrative proceedings; and other risks described herein under Part I, Item 1A "Risk Factors."

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.

Available Information

Our principal corporate internet website address is: www.mccormickcorporation.com. We make available free of charge through our website our Annual Report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (the “Exchange Act”) as soon as reasonably practicable after such documents are electronically filed with, or furnished to, the United States Securities and Exchange Commission (the "SEC"). The SEC maintains an internet website at www.sec.gov that contains reports, proxy and information statements, and other information regarding McCormick. Our website also includes our Corporate Governance Guidelines, Business Ethics Policy and charters of the Audit Committee, Compensation Committee, and Nominating/Corporate Governance Committee of our Board of Directors.

ITEM 1A. RISK FACTORS

The following are certain risk factors 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 contained in this Annual Report on Form 10-K 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 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.

Damage to our reputation or brand name, loss of brand relevance, increase in use of private label or other competitive brands by customers or consumers, or product quality or safety concerns could negatively impact our business, financial condition or results of operations.

We have many iconic brands with long-standing consumer recognition. Our success depends on our ability to maintain our brand image for our existing products, extend our brands to new platforms, and expand our brand image with new product offerings.

We continually make efforts to maintain and improve relationships with our customers and consumers and to increase awareness and relevance of our brands through effective marketing and other measures. From time to time, our customers evaluate their mix of product offerings, and consumers have the option to purchase private label or other competitive products instead of our branded products. If a significant portion of our branded business was switched to private label or competitive products, it could have a material negative impact on our consumer segment.

Our reputation for manufacturing high-quality products is widely recognized. In order to safeguard that reputation, we have adopted rigorous quality assurance and quality control procedures which are designed to ensure the safety of our products. A serious breach of our quality assurance or quality control procedures, deterioration of our quality image, impairment of our customer or consumer relationships or failure to adequately protect the relevance of our brands may lead to litigation, customers purchasing from our competitors or consumers purchasing other brands or private label items that may or may not be manufactured by us, any of which could have a material negative impact on our business, financial condition or results of operations.

The food industry generally is subject to risks posed by food spoilage and contamination, product tampering, product recall, import alerts and consumer product liability claims. For instance, we may be required to recall certain of our products should they be mislabeled, contaminated or damaged, and certain of our raw materials could be blocked from entering the country if they were subject to import alerts. We also may become involved in lawsuits and legal proceedings if it is alleged that the consumption of any of our products could cause injury or illness, or that any of our products are mislabeled or fail to meet applicable legal requirements (even if the allegation is untrue). A product recall, import alert or an adverse result in any such litigation, or negative perceptions regarding food products and ingredients, could result in our having to pay fines or damages, incur additional costs or cause customers and consumers in our principal markets to lose confidence in the safety and quality of certain products or ingredients, any of which could have a negative effect on our business or financial results and, depending upon the significance of the affected product, that negative effect could be material to our business or financial results. Negative publicity about these concerns, whether or not valid, may discourage customers and consumers from buying our products or cause disruptions in production or distribution of our products and adversely affect our business, financial condition or results of operations.

The rising popularity of social networking and other consumer-oriented technologies has increased the speed and accessibility of information dissemination (whether or not accurate), and, as a result, negative, inaccurate, or misleading posts or comments on websites may generate adverse publicity that could damage our reputation or brands.

Customer consolidation, and competitive, economic and other pressures facing our customers, may put pressure on our operating margins and profitability.

A number of our customers, such as supermarkets, warehouse clubs and food distributors, have consolidated in recent years and consolidation could continue. Such consolidation could present a challenge to margin growth and profitability in that it has produced large, sophisticated customers with increased buying power who are more capable of operating with reduced inventories; resisting price increases; demanding lower pricing, increased promotional programs and specifically tailored products; and shifting shelf space currently used for our products to private label and other competitive products. The economic and competitive landscape for our customers is constantly changing, such as the emergence of new sales channels like e-commerce, and our customers' responses to those changes could impact our business. Our industrial segment may be impacted if the reputation or perception of the customers of our industrial segment declines. These factors and others could have an adverse impact on our business, financial condition or results of operations.

The inability to maintain mutually beneficial relationships with large customers could adversely affect our business.

We have a number of major customers, including two large customers that, in the aggregate, constituted approximately 22% of our consolidated sales in 2017. The loss of either of these large customers or a material negative change in our relationship with these large customers or other major customers could have an adverse effect on our business.

Disruption of our supply chain and issues regarding procurement of raw materials may negatively impact us.

Our purchases of raw materials are subject to fluctuations in market price and availability caused by weather, growing and harvesting conditions, market conditions, governmental actions and other factors beyond our control. The most significant raw materials used by us in our business are pepper, dairy products, garlic, vanilla, capsicums (red peppers and paprika), onion, wheat flour and rice. While future price movements of raw material costs are uncertain, we seek to mitigate the market price risk in a number of ways, including strategic raw material purchases, purchases of raw material for future delivery, customer price adjustments and cost savings from our CCI program. 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. Any actions we take in response to market price fluctuations may not effectively limit or eliminate our exposure to changes in raw material prices. Therefore, we cannot provide assurance that future raw material price fluctuations will not have a negative impact on our business, financial condition or operating results.

In addition, we may have very little opportunity to mitigate the risk of availability of certain raw materials due to the effect of weather on crop yield, government actions, political unrest in producing countries, action or inaction by suppliers in response to laws and regulations, changes in agricultural programs and other factors beyond our control. Therefore, we cannot provide assurance that future raw material availability will not have a negative impact on our business, financial condition or operating results.

Political, socio-economic and cultural conditions, as well as disruptions caused by terrorist activities or otherwise, could also create additional risks for regulatory compliance. Although we have adopted rigorous quality assurance and quality control procedures which are designed to ensure the safety of our imported products, we cannot provide assurance that such events will not have a negative impact on our business, financial condition or operating results.

Our profitability may suffer as a result of competition in our markets.

The food industry is intensely competitive. Competition in our product categories is based on price, product innovation, product quality, brand recognition and loyalty, effectiveness of marketing and promotional activity, and the ability to identify and satisfy consumer preferences. From time to time, we may need to reduce the prices for some of our products to respond to competitive and customer pressures, which may adversely affect our profitability. Such pressures could reduce our ability to take appropriate remedial action to address commodity and other cost increases.

Laws and regulations could adversely affect our business.

Food products are extensively regulated in most of the countries in which we sell our products. We are subject to numerous laws and regulations relating to the growing, sourcing, manufacturing, storage, labeling, marketing,

advertising and distribution of food products, as well as laws and regulations relating to financial reporting requirements, the environment, competition, anti-corruption, privacy, relations with distributors and retailers, foreign supplier verification, the import and export of products and product ingredients, employment, health and safety, and trade practices. Enforcement of existing laws and regulations, changes in legal requirements, and/or evolving interpretations of existing regulatory requirements may result in increased compliance costs and create other obligations, financial or otherwise, that could adversely affect our business, financial condition or operating results. Increased regulatory scrutiny of, and increased litigation involving, product claims and concerns regarding the attributes of food products and ingredients may increase compliance costs and create other obligations that could adversely affect our business, financial condition or operating results. Governments may also impose requirements and restrictions that impact our business, such as labeling disclosures pertaining to ingredients. For example, "Proposition 65, the Safe Drinking Water and Toxic Enforcement Act of 1986," in California exposes all food companies to the possibility of having to provide warnings on their products in that state. If we were required to add warning labels to any of our products or place warnings in locations where our products are sold in order to comply with Proposition 65, the sales of those products and other products of our company could suffer, not only in those locations but elsewhere. These factors and others could have an adverse impact on our business, financial condition or results of operations.

Our operations may be impaired as a result of disasters, business interruptions or similar events.

We could have an interruption in our business, loss of inventory or data, or be rendered unable to accept and fulfill customer orders as a result of a natural disaster, catastrophic event, epidemic or computer system failure. Natural disasters could include an earthquake, fire, flood, tornado or severe storm. A catastrophic event could include a terrorist attack. An epidemic could affect our operations, major facilities or employees' and consumers' health. In addition, some of our inventory and production facilities are located in areas that are susceptible to harsh weather; a major storm, heavy snowfall or other similar event could prevent us from delivering products in a timely manner. Production of certain of our products is concentrated in a single manufacturing site.

We cannot provide assurance that our disaster recovery plan will address all of the issues we may encounter in the event of a disaster or other unanticipated issue, and our business interruption insurance may not adequately compensate us for losses that may occur from any of the foregoing. In the event that a natural disaster, terrorist attack or other catastrophic event were to destroy any part of our facilities or interrupt our operations for any extended period of time, or if harsh weather or health conditions prevent us from delivering products in a timely manner, our business, financial condition or operating results could be adversely affected.

We may not be able to successfully consummate and manage ongoing acquisition, joint venture and divestiture activities which could have an impact on our results.

From time to time, we may acquire other businesses and, based on an evaluation of our business portfolio, divest existing businesses. These acquisitions, joint ventures and divestitures may present financial, managerial and operational challenges, including diversion of management attention from existing businesses, difficulty with integrating or separating personnel and financial and other systems, increased expenses and raw material costs, assumption of unknown liabilities and indemnities, and potential disputes with the buyers or sellers. In addition, we may be required to incur asset impairment charges (including charges related to goodwill and other intangible assets) in connection with acquired businesses which may reduce our profitability. If we are unable to consummate such transactions, or successfully integrate and grow acquisitions and achieve contemplated revenue synergies and cost savings, our financial results could be adversely affected. Additionally, joint ventures inherently involve a lesser degree of control over business operations, thereby potentially increasing the financial, legal, operational, and/or compliance risks.

Our foreign and cross-border operations are subject to additional risks.

We operate our business and market our products internationally. In fiscal year 2017, 41% of our sales were generated in foreign countries. Our foreign operations are subject to additional risks, including fluctuations in currency values, foreign currency exchange controls, discriminatory fiscal policies, compliance with U.S. and foreign laws, enforcement of remedies in foreign jurisdictions and other economic or political uncertainties. Several countries within the European Union continue to experience sovereign debt and credit issues which causes more volatility in the economic environment throughout the European Union and the United Kingdom (U.K.). Additionally, international sales, together with finished goods and raw materials imported into the U.S., are subject to risks related to fundamental changes to tax laws as well as the imposition of tariffs, quotas, trade barriers and other similar restrictions. All of these risks could result in increased costs or decreased revenues, which could adversely affect our profitability.

Fluctuations in foreign currency markets may negatively impact us.

We are exposed to fluctuations in foreign currency in the following main areas: cash flows related to raw material purchases; the translation of foreign currency earnings to U.S. dollars; the effects of foreign currency on loans between subsidiaries and unconsolidated affiliates and on cash flows related to repatriation of earnings of unconsolidated affiliates. Primary exposures include the U.S. dollar versus the Euro, British pound sterling, Canadian dollar, Polish zloty, Australian dollar, Mexican peso, Chinese renminbi, Indian rupee and Thai baht, as well as the Euro versus the British pound sterling, Australian dollar and Swiss franc. We routinely enter into foreign currency exchange contracts to facilitate managing certain of these foreign currency risks. However, these contracts may not effectively limit or eliminate our exposure to a decline in operating results due to foreign currency exchange changes. Therefore, we cannot provide assurance that future exchange rate fluctuations will not have a negative impact on our business, financial position or operating results.

The decision by British voters to exit the European Union may negatively impact our operations.

The June 2016 referendum by British voters to exit the European Union (“Brexit”) adversely impacted global markets and resulted in a sharp decline in the value of the British pound, as compared to the U.S. dollar and other currencies. As the U.K. negotiates its exit from the European Union, volatility in exchange rates and in U.K. interest rates may continue. In the near term, a weaker British pound compared to the U.S. dollar during a reporting period causes local currency results of our U.K. operations to be translated into fewer U.S. dollars; a weaker British pound compared to other currencies increases the cost of goods imported into our U.K. operations and may decrease the profitability of our U.K. operations; and a higher U.K. interest rate may have a dampening effect on the U.K. economy. In the longer term, any impact from Brexit on our U.K. operations will depend, in part, on the outcome of tariff, trade, regulatory and other negotiations.

Increases in interest rates or changes in our credit ratings may negatively impact us.

We had total outstanding short-term borrowings of $258 million at an average interest rate of approximately 2.3% on November 30, 2017. We also had total outstanding variable rate long-term debt, including current maturities, of $1,243 million at an average interest rate of approximately 2.7% on November 30, 2017. The interest rates under our term loans and revolving credit facilities can vary based on our credit ratings. Our policy is to manage our interest rate risk by entering into both fixed and variable rate debt arrangements. We also use interest rate swaps to minimize worldwide financing cost and to achieve a desired mix of fixed and variable rate debt. We utilize derivative financial instruments to enhance our ability to manage risk, including interest rate exposures that 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 instruments. Our use of derivative financial instruments is monitored through regular communication with senior management and the utilization of written guidelines. However, our use of these instruments may not effectively limit or eliminate our exposure to changes in interest rates. Therefore, we cannot provide assurance that future credit rating or interest rate changes will not have a material negative impact on our business, financial position or operating results.

Our credit ratings impact the cost and availability of future borrowings and, accordingly, our cost of capital.

Our credit ratings reflect each rating organization's opinion of our financial strength, operating performance and ability to meet our debt obligations. Our credit ratings were downgraded following our financing of the acquisition of RB Foods in August 2017, and any reduction in our credit ratings may limit our ability to borrow at interest rates consistent with the interest rates that were available to us prior to that acquisition and the related financing transactions. If our credit ratings are further downgraded or put on watch for a potential downgrade, we may not be able to sell additional debt securities or borrow money in the amounts, at the times or interest rates or upon the more favorable terms and conditions that might be available if our current credit ratings were maintained.

We have incurred additional indebtedness to finance the acquisition of RB Foods and may not be able to meet our debt service requirements.

After financing our acquisition of RB Foods, we have a significant amount of indebtedness outstanding. As of November 30, 2017, the indebtedness of McCormick and its subsidiaries is approximately $5.0 billion. This substantial level of indebtedness could have important consequences to our business, including, but not limited to:

- reducing the benefits that we expect to receive from the acquisition of RB Foods;
- increasing our debt service obligations, making it more difficult for us to satisfy our obligations;
- limiting our ability to borrow additional funds and increasing the cost of any such borrowing;
- increasing our exposure to negative fluctuations in interest rates;

- subjecting us to financial and other restrictive covenants, the non-compliance with which could result in an event of default;
- increasing our vulnerability to, and reducing our flexibility to respond to, general adverse economic and industry conditions;
- limiting our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate;
- placing us at a competitive disadvantage as compared to our competitors, to the extent that they are not as highly leveraged; and
- restricting us from pursuing certain business opportunities, including other acquisitions.

The deterioration of credit and capital markets may adversely affect our access to sources of funding.

We rely on our revolving credit facilities, or borrowings backed by these facilities, to fund a portion of our seasonal working capital needs and other general corporate purposes. If any of the banks in the syndicates backing these facilities were unable to perform on its commitments, our liquidity could be impacted, which could adversely affect funding of seasonal working capital requirements. We engage in regular communication with all of the banks participating in our revolving credit facilities. 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.

In addition, global capital markets have experienced volatility in the past that has tightened access to capital markets and other sources of funding, and such volatility and tightened access could reoccur in the future. In the event that we need to access the capital markets or other sources of financing, there can be no assurance that we will be able to obtain financing on acceptable terms or within an acceptable time period. Our inability to obtain financing on acceptable terms or within an acceptable time period could have an adverse impact on our operations, financial condition and liquidity.

We face risks associated with certain pension assets and obligations.

We hold investments in equity and debt securities in our qualified defined benefit pension plans and in a rabbi trust for our U.S. non-qualified pension plan. Deterioration in the value of plan assets resulting from a general financial downturn or otherwise, or an increase in the actuarial valuation of the plans' liability due to a low interest rate environment, could cause (or increase) an underfunded status of our defined benefit pension plans, thereby increasing our obligation to make contributions to the plans. An obligation to make contributions to pension plans could reduce the cash available for working capital and other corporate uses, and may have an adverse impact on our operations, financial condition and liquidity.

Uncertain global economic conditions expose us to credit risks from customers and counterparties.

Consolidations in some of the industries in which our customers operate have created larger customers, some of which are highly leveraged. In addition, competition has increased with the growth in alternative channels through our customer base. These factors have caused some customers to be less profitable and increased our exposure to credit risk. Current credit markets are volatile, and some of our customers and counterparties are highly leveraged. A significant adverse change in the financial and/or credit position of a customer or counterparty could require us to assume greater credit risk relating to that customer or counterparty and could limit our ability to collect receivables. This could have an adverse impact on our financial condition and liquidity.

Our operations and reputation may be impaired if our information technology systems fail to perform adequately or if we are the subject of a data breach or cyber attack.

Our information technology systems are critically important to operating our business efficiently. We rely on our information technology systems to manage our business data, communications, supply chain, order entry and fulfillment, and other business processes. The failure of our information technology systems to perform as we anticipate could disrupt our business and could result in transaction errors, processing inefficiencies and the loss of sales and customers, causing our business and results of operations to suffer.

Furthermore, our information technology systems may be vulnerable to security breaches beyond our control, including those involving cyber attacks using viruses, worms or other destructive software, process breakdowns, or other malicious activities, or any combination of the foregoing. Such breaches could result in unauthorized access to information including customer, consumer or other company confidential data. We invest in security technology and design our business processes to mitigate the risk of such breaches. While we believe that these measures are generally effective, there can be no assurance that security breaches will not occur. Moreover, the development and maintenance of these measures requires continuous monitoring as technologies change and efforts to overcome security measures evolve. We have experienced, and expect to continue to experience, cybersecurity threats and incidents, none of which has been material to us to date. However, a successful breach or attack could have a material, negative impact on our operations or business reputation and subject us to consequences such as litigation, regulatory enforcement proceedings and direct costs associated with incident response.

The global nature of our business and the resolution of tax disputes create volatility in our effective tax rate.

As a global business, our tax rate from period to period can be affected by many factors, including changes in tax legislation, our global mix of earnings, the tax characteristics of our income, the timing and recognition of goodwill impairments, acquisitions and dispositions, adjustments to our reserves related to uncertain tax positions, changes in valuation allowances and the portion of the income of foreign subsidiaries that we expect to remit to the U.S. and that will be taxable.

In addition, significant judgment is required in determining our effective tax rate and in evaluating our tax positions. We establish accruals for certain tax contingencies when, despite the belief that our tax return positions are appropriately supported, the positions are uncertain. The tax contingency accruals are adjusted in light of changing facts and circumstances, such as the progress of tax audits, case law and emerging legislation. Our effective tax rate includes the impact of tax contingency accruals and changes to those accruals, including related interest and penalties, as considered appropriate by management. When particular matters arise, a number of years may elapse before such matters are audited and finally resolved. Favorable resolution of such matters could be recognized as a reduction to our effective tax rate in the year of resolution. Unfavorable resolution of any particular issue could increase the effective tax rate and may require the use of cash in the year of resolution.

Climate change may negatively affect our business, financial condition and results of operations.

Unseasonable or unusual weather or long-term climate changes may negatively impact the price or availability of spices, herbs and other raw materials. There is concern that greenhouse gases in the atmosphere may have an adverse impact on global temperatures, weather patterns and the frequency and severity of extreme weather and natural disasters. In the event that such climate change has a negative effect on agricultural productivity or practices, we may be subject to decreased availability or less favorable pricing for certain commodities that are necessary for our products. In addition, such climate change may result in modifications to the eating preferences of the ultimate consumers of certain of our products, which may also unfavorably impact our sales and profitability.

Our intellectual property rights, and those of our customers, could be infringed, challenged or impaired, and reduce the value of our products and brands or our business with customers.

We possess intellectual property rights that are important to our business, and we are provided access by certain customers to particular intellectual property rights belonging to such customers. These intellectual property rights include ingredient formulas, trademarks, copyrights, patents, business processes and other trade secrets which are important to our business and relate to some of our products, our packaging, the processes for their production, and the design and operation of equipment used in our businesses. We protect our intellectual property rights, and those of certain customers, globally through a variety of means, including trademarks, copyrights, patents and trade secrets, third-party assignments and nondisclosure agreements, and monitoring of third-party misuses of intellectual property. If we fail to obtain or adequately protect our intellectual property (and the intellectual property of customers to which we have been given access), the value of our products and brands could be reduced and there could be an adverse impact on our business, financial condition and results of operations.

Litigation, legal or administrative proceedings could have an adverse impact on our business and financial condition or damage our reputation.

We are party to a variety of legal claims and proceedings in the ordinary course of business. Since litigation is inherently uncertain, there is no guarantee that we will be successful in defending ourselves against such claims or proceedings, or that management’s assessment of the materiality or immateriality of these matters, including any reserves taken in connection with such matters, will be consistent with the ultimate outcome of such claims or proceedings. In the event that management's assessment of the materiality or immateriality of current claims and proceedings proves inaccurate, or litigation that is material arises in the future, there may be a material adverse effect on our financial condition. Any adverse publicity resulting from allegations made in litigation claims or legal or administrative proceedings (even if untrue) may also adversely affect our reputation. These factors and others could have an adverse impact on our business and financial condition or damage our reputation.

Streamlining actions to reduce fixed costs, simplify or improve processes, and improve our competitiveness may have a negative effect on employee relations.

We regularly evaluate whether to implement changes to our organization structure to reduce fixed costs, simplify or improve processes, and improve our competitiveness, and we expect to continue to evaluate such actions in the future. From time to time, those changes are of such significance that we may transfer production from one manufacturing facility to another; transfer certain selling and administrative functions from one location to another; eliminate certain manufacturing, selling and administrative positions; and exit certain businesses or lines of business. These actions may result in a deterioration of employee relations at the impacted locations or elsewhere in McCormick.

If we are unable to fully realize the benefits from our CCI program, our financial results could be negatively affected.

Our future success depends in part on our ability to be an efficient producer in a highly competitive industry. Any failure by us to achieve our planned cost savings and efficiencies under our CCI program, or other similar programs, could have an adverse effect on our business, results of operations and financial position.

We have incurred significant transaction and integration expenses in connection with the acquisition of RB Foods that could adversely affect our results of operations.

We have incurred significant transaction expenses in connection with the RB Foods acquisition, including payment of certain fees and expenses incurred in connection with the acquisition and related financing transactions. We have also incurred significant integration expenses, and expect to continue to incur such expenses in 2018. Additional unanticipated expenses may be incurred in the integration process. These could adversely affect our results of operations in the period in which such expenses are recorded or our cash flow in the period in which any related costs are actually paid.

RB Foods may underperform relative to our expectations.

We may not be able to maintain the growth rate, levels of revenue, earnings or operating efficiency that we and RB Foods have achieved prior to the completion of that acquisition or might have achieved separately. The business and financial performance of RB Foods are subject to certain risks and uncertainties. The underperformance of RB Foods relative to our expectations could have a material adverse effect on our financial condition and results of operations.

We may fail to realize all of the anticipated benefits that we envisioned at the time of our acquisition of RB Foods or those benefits may take longer to realize than expected. We may also encounter significant difficulties in integrating RB Foods.

Our ability to realize the anticipated benefits of our acquisition of RB Foods will depend, to a large extent, on our ability to integrate RB Foods into the rest of our business, which is a complex, costly and time-consuming process. The nature of a carve-out acquisition, such as RB Foods, makes it inherently more difficult to assume operations upon closing of the acquisition and to integrate activities, as certain systems, processes and employees may not all be transferred with RB Foods to support such activities. As a result, we will be required to continue to devote significant management attention and resources to integrate the business practices and operations of McCormick and RB Foods.

Future integration efforts may disrupt our business and, if implemented ineffectively, could restrict the realization of the full expected benefits. The failure to meet the challenges involved in the integration process and to realize the anticipated benefits of the RB Foods acquisition could cause an interruption of, or a loss of momentum in, our operations and could adversely affect our business, financial condition and results of operations.

In addition, the further integration of RB Foods may result in material unanticipated problems, expenses, liabilities, competitive responses, loss of customers and other business relationships, and diversion of management's attention. Additional integration challenges include:

- difficulties in achieving anticipated cost savings, synergies, business opportunities and growth prospects from the acquisition of RB Foods;
- difficulties in the integration of operations and systems;
- difficulties in conforming standards, controls, procedures and accounting and other policies, business cultures and compensation structures;
- difficulties in the assimilation of employees;
- managing the potential impact of competing or duplicative products;
- difficulties in managing the expanded operations of a significantly larger and more complex company;
- challenges in obtaining new customers;
- challenges in attracting and retaining key personnel; and
- the impact of potential liabilities we may be inheriting from RB Foods.

Many of these factors will be outside of our control and any one of them could result in increased costs, decreases in the amount of expected revenues and diversion of management's time and energy, which could adversely affect our business, financial condition and results of operations and result in us becoming subject to litigation. In addition, even if RB Foods is integrated successfully, the full anticipated benefits of its acquisition may not be realized, including the synergies, cost savings or sales or growth opportunities that are anticipated. These benefits may not be achieved within the anticipated time frame, or at all. Further, additional unanticipated costs may be incurred in the integration process. Each of these factors could cause reductions in our earnings per share, decrease or delay the expected accretive effect of the acquisition and negatively impact the price of shares of our common stock. As a result, it cannot be assured that the acquisition of RB Foods will result in the realization of the full anticipated benefits.

We expect that, for a period of time following our acquisition of RB Foods on August 17, 2017, we will have significantly less cash on hand than prior to that date.

We expect to have, for a period of time following the August 17, 2017 acquisition of RB Foods, significantly less cash and cash equivalents on hand than the cash and cash equivalents that we had on hand prior to that date. Although we believe that we will have access to cash sufficient to meet our business objectives and capital needs, the lessened availability of cash and cash equivalents for a period of time following the acquisition of RB Foods could constrain our ability to grow our business. Our more leveraged financial position following the acquisition of RB Foods could also make us vulnerable to general economic downturns and industry conditions, and place us at a competitive disadvantage relative to our competitors that have more cash at their disposal. In the event that we do not have adequate capital to maintain or develop our business, additional capital may not be available to us on a timely basis, on favorable terms, or at all.

The acquisition of RB Foods has significantly increased our goodwill and other intangible assets.

We have a significant amount of goodwill and other intangible assets on our consolidated financial statements that are subject to impairment based upon future adverse changes in our business or prospects. The impairment of any goodwill and other intangible assets may have a negative impact on our consolidated results of operations.

Curtailment of our share repurchase program may not enhance shareholder value.

We have curtailed the repurchases of our shares under our share repurchase program. Upon the acquisition of RB Foods, we announced our intention to reduce our leverage ratio by curtailing our share repurchase program, but there can be no assurance that curtailment of the program will result in the reduction of our leverage ratio. Our board of directors reserves the right to expand or terminate the share repurchase program at any time. Curtailment of the share repurchase program may not have the intended effects and may have a negative impact on our stock price.

The declaration, payment and amount of dividends is made at the discretion of our board of directors and depends on a number of factors.

The declaration, payment and amount of any dividends is made pursuant to our dividend policy and is subject to final determination each quarter by our board of directors in its discretion based on a number of factors that it deems relevant, including our financial position, results of operations, available cash resources, cash requirements and alternative uses of cash that our board of directors may conclude would be in the best interest of the company and our shareholders. Our dividend payments are subject to solvency conditions established by the Maryland General Corporation Law. Accordingly, there can be no assurance that any future dividends will be equal or similar in amount to any dividends previously paid or that our board of directors will not decide to reduce, suspend or discontinue the payment of dividends at any time in the future.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Our principal executive offices and primary research facilities are owned and are located in suburban Baltimore, Maryland.

The following is a list of our principal manufacturing properties, all of which are owned except for the facilities in Commerce, California; Lakewood, New Jersey; Melbourne, Australia; Florence, Italy and a portion of the facility in Littleborough, England, which are leased. The manufacturing facilities that we own in Guangzhou, Shanghai and Wuhan, China are each located on land subject to long-term leases:

United States:
Hunt Valley, Maryland–consumer and industrial
(3 principal plants)
Gretna, Louisiana–consumer and industrial
South Bend, Indiana–industrial and consumer
Atlanta, Georgia–industrial
Commerce, California–consumer
Irving, Texas–industrial
Lakewood, New Jersey–industrial
Springfield, Missouri–consumer and industrial
Canada:
London, Ontario–consumer and industrial
Mexico:
Cuautitlan de Romero Rubio–industrial
United Kingdom:
Haddenham, England–industrial and consumer
Littleborough, England–industrial
France:
Carpentras–consumer and industrial
Monteux–consumer and industrial
Poland:
Stefanowo–consumer
Italy:
Florence–consumer and industrial (3 principal plants)
China:
Guangzhou–consumer and industrial
Shanghai–consumer and industrial
Wuhan–consumer
Australia:
Melbourne–consumer and industrial
Palmwoods–consumer (2 principal plants)

India:

New Delhi–consumer

El Salvador:
San Salvador–consumer

Thailand:
Chonburi–consumer and industrial (under construction)

In addition to distribution facilities and warehouse space available at our manufacturing facilities, we lease regional distribution facilities as follows (i) in the U.S.: Belcamp and Aberdeen, Maryland; Salinas, California; Byhalia, Mississippi; Irving, Texas; Springfield, Missouri; (ii) in Canada: Mississauga and London, Ontario; (iii) in Heywood, United Kingdom and (iv) in Genvilliers, France. We also own distribution facilities in Belcamp, Maryland and Monteux, France. In addition, we own, lease or contract other properties used for manufacturing consumer and industrial products and for sales, warehousing, distribution and administrative functions.

We believe our plants are well maintained and suitable for their intended use. We further believe that these plants generally have adequate capacity or the ability to expand, and can accommodate seasonal demands, changing product mixes and additional growth.

ITEM 3. LEGAL PROCEEDINGS

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

ITEM 4. MINE SAFETY DISCLOSURES

Not Applicable.

PART II.

ITEM 5. MARKET FOR REGISTRANT’S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

We have disclosed in note 18 of the financial statements the information relating to the market price and dividends declared and paid on our classes of common stock. The market price of our common stock at the close of business on December 29, 2017 was $100.50 per share for the Common Stock and $101.91 per share for the Common Stock Non-Voting.

Our Common Stock and Common Stock Non-Voting are listed and traded on the New York Stock Exchange (“NYSE”).

The approximate number of holders of our common stock based on record ownership as of December 29, 2017 was as follows:

Title of class	Approximate number of record holders
Common Stock, no par value	2,000
Common Stock Non-Voting, no par value	9,600

The following table summarizes our purchases of Common Stock (CS) and Common Stock Non-Voting (CSNV) during the fourth quarter of 2017:

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
September 1, 2017 to September 30, 2017	CS-0 CSNV-0	- -	- -	$191 million
October 1, 2017 to October 31, 2017	CS-20,175 (1) CSNV-0	$99.33 -	20,175 -	$189 million
November 1, 2017 to November 30, 2017	CS-0 CSNV-0	- -	- -	$189 million
Total	CS-20,175 CSNV-0	$99.33 -	20,175 -	$189 million

(1) On October 2, 2017 and October 27, 2017, we purchased 9,797 shares and 10,378 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 $99.80 and $98.88, respectively, represented the closing price of the CS on October 2, 2017 and October 27, 2017, respectively.

As of November 30, 2017, approximately $189 million remained of a $600 million share repurchase authorization approved by the Board of Directors in March 2015. The timing and amount of any shares repurchased is determined by our management based on its evaluation of market conditions and other factors. In connection with our August 2017 acquisition of RB Foods, we announced our intention to reduce our leverage ratio by curtailing the repurchases of shares under our share repurchase program.

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. 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 fiscal 2017, we issued 1,776,381 shares of CSNV in exchange for shares of CS and issued 94,527 shares of CS in exchange for shares of CSNV.

ITEM 6. SELECTED FINANCIAL DATA

HISTORICAL FINANCIAL SUMMARY

(millions except per share and percentage data)	2017	2016	2015	2014	2013
For the Year					
Net sales	$4,834.1	$4,411.5	$4,296.3	$4,243.2	$4,123.4
Percent increase	9.6 %	2.7 %	1.3 %	2.9 %	2.7 %
Operating income	702.4	641.0	548.4	603.0	550.5
Income from unconsolidated operations	33.9	36.1	36.7	29.4	23.2
Net income	477.4	472.3	401.6	437.9	389.0
Per Common Share					
Earnings per share–basic	$3.77	$3.73	$3.14	$3.37	$2.94
Earnings per share–diluted	3.72	3.69	3.11	3.34	2.91
Common dividends declared	1.93	1.76	1.63	1.51	1.39
Closing price, non-voting shares–end of year	102.18	91.20	85.92	74.33	69.00
Book value per share	19.62	13.07	13.25	14.10	14.85
At Year-End					
Total assets (1)	$10,385.8	$4,635.9	$4,472.6	$4,382.3	$4,416.0
Current debt	583.2	393.2	343.0	270.8	214.1
Long-term debt (1)	4,443.9	1,054.0	1,051.4	1,013.1	1,017.8
Shareholders' equity	2,570.9	1,638.1	1,686.9	1,809.4	1,947.7
Other Financial Measures					
Percentage of net sales					
Gross profit	41.6 %	41.5 %	40.4 %	40.8 %	40.4 %
Operating income	14.5 %	14.5 %	12.8 %	14.2 %	13.4 %
Capital expenditures	$182.4	$153.8	$128.4	$132.7	$99.9
Depreciation and amortization	125.2	108.7	105.9	102.7	106.0
Common share repurchases	137.8	242.7	145.8	244.3	177.4
Dividends paid	237.6	217.8	204.9	192.4	179.9
Average shares outstanding					
Basic	126.8	126.6	128.0	129.9	132.1
Diluted	128.4	128.0	129.2	131.0	133.6

(1) Total assets and Long-term debt for fiscal year ended 2015, 2014 and 2013 reflect the provisions of Accounting Standards Updates 2015-03, related to the presentation of debt issuance costs, and 2015-17, related to the classification of deferred tax assets and liabilities, both of which we adopted as of November 30, 2016.

The historical financial summary includes the impact of certain items that affect the comparability of financial results year to year. In 2017, we recorded transaction and integration expenses related to our acquisition of RB Foods. In 2017, 2016, 2015, 2014 and 2013, we recorded special charges related to the completion of organization and streamlining actions. In addition, for 2016 and 2015, we recorded special charges related to the discontinuance of bulk-packaged and broken basmati rice product lines for our business in India. Lastly, in 2013, we recognized a loss on a voluntary pension settlement in the U.S. The net impact of these items is reflected in the following table:

(millions except per share data)	2017	2016	2015	2014	2013
Operating income	$(83.9)	$(16.0)	$(65.5)	$(5.2)	$(40.3)
Net income	(69.3)	(11.1)	(47.9)	(3.7)	(29.2)
Earnings per share–diluted	(0.54)	(0.09)	(0.37)	(0.03)	(0.22)

ITEM 7. 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 contained in Item 8 of this report. We use certain non-GAAP information 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. The dollar and share information in the charts and tables in the MD&A are in millions, except per share data.

McCormick is a global leader in flavor. The company manufactures, markets and distributes spices, seasoning mixes, condiments and other flavorful products to the entire food industry–retailers, food manufacturers and foodservice businesses. We manage our business in two operating segments, consumer and industrial, as described in Item 1 of this report.

Our long-term annual growth objectives in constant currency are to increase sales 4% to 6%, increase adjusted operating income 7% to 9% and increase adjusted earnings per share 9% to 11%.

Sales growth: Over time, we expect to grow sales with similar contributions from: 1) our base business-driven by brand marketing support, customer intimacy, expanded distribution and category growth; 2) new products; and 3) acquisitions.

Base business–In 2017, we increased our investment in brand marketing by 39% over the 2012 level and we plan a further increase in 2018. We measure the return on our brand marketing investment and have identified digital marketing as one of our highest return investments in brand marketing support. Through digital marketing, we are connecting with consumers in a personalized way to deliver recipes, provide cooking advice and discover new products.

New Products–For our consumer segment, we believe that scalable and differentiated innovation continues to be one of the best ways to distinguish our brands from our competition, including private label. We are introducing products for every type of cooking occasion, from gourmet, premium items to convenient and value-priced flavors.

For industrial customers, we are developing seasonings for snacks and other food products, as well as flavors for new menu items. We have a solid pipeline of flavor solutions aligned with our customers’ new product launch plans, many of which include “better-for-you” innovation. With over 20 product innovation centers around the world, we are supporting the growth of our brands and those of our industrial customers with products that appeal to local consumers.

Acquisitions–Acquisitions are expected to approximate one-third of our sales growth. Since the beginning of 2015, we have completed seven acquisitions, which are driving sales in both our consumer and industrial segments. We focus on acquisition opportunities that meet the growing demand for flavor and health. Geographically, our focus is on acquisitions that build scale where we currently have presence in both developed and emerging markets. In addition to bolt-on opportunities, we were seeking larger acquisitions.

On August 17, 2017, we completed the acquisition of Reckitt Benckiser's Food Division ("RB Foods") from Reckitt Benckiser Group plc. The purchase price was approximately $4.2 billion, net of acquired cash. The acquisition was funded through our issuance of approximately 6.35 million shares of common stock non-voting (see note 13 of the financial statements) and through new borrowings comprised of senior unsecured notes and pre-payable term loans (see note 6 of the financial statements). The acquired market-leading brands of RB Foods include French’s®, Frank’s RedHot® and Cattlemen’s®, which are a natural strategic fit with our robust global branded flavor portfolio. We believe that these additions move us to a leading position in the attractive U.S. condiments category and provide significant international growth opportunities for our consumer and industrial segments.

The RB Foods acquisition resulted in acquisitions contributing more than one-third of our sales growth in 2017 and is expected to result in acquisitions contributing more than one-third of our sales growth in 2018.

Cost savings: We are fueling our investment in growth with cost savings from our CCI program, an ongoing initiative to improve productivity and reduce costs throughout the organization, as well as savings from the organization and streamlining actions described in note 3 of the financial statements. In addition to funding brand marketing support, product innovation and other growth initiatives, our CCI program helps offset higher material costs and is contributing to higher operating income and earnings per share.

Cash flow: We continue to generate strong cash flow. Net cash provided by operating activities reached $815.3 million in 2017, an increase from $658.1 million in 2016. In 2017, we continued to have a balanced use of cash for debt repayment, capital expenditures and the return of cash to shareholders through dividends and share repurchases. We are using our cash to fund shareholder dividends, with annual increases in each of the past 32 years, and to fund capital expenditures, acquisitions and share repurchases. In 2017, the return of cash to our shareholders through dividends and share repurchase was $375.4 million. Due to our increased level of indebtedness because of the RB Foods acquisition, we expect to curtail our acquisition and share repurchase activity for a period of time in order to enable a return to our pre-acquisition credit profile.

On a long-term basis, we expect a combination of acquisitions and share repurchases to add about 2% to earnings per share growth.

In 2017, we achieved further growth of our business although sales and earnings reported in U.S. dollars were unfavorably impacted by the strength of the U.S. dollar and the resultant unfavorable effects of foreign currency exchange, as compared to 2016. Net sales rose 9.6% over the 2016 level, because of the following factors:

- We grew volume and product mix, with increases in both our consumer and industrial segments. This added 1.7% of sales growth. The increases were driven by product innovation, brand marketing and expanded distribution including new retail channels.
- Pricing actions to offset a mid-single digit increase in material cost inflation contributed 2.1% of the increase in net sales.
- The incremental impact of acquisitions completed in 2017 and 2016 contributed 6.5% of the increase in net sales.
- These increases were partially offset by unfavorable currency rates. This impact reduced the net sales growth rate by 0.7%. Excluding this impact, we grew sales 10.3% on a constant currency basis.

Operating income was $702.4 million in 2017 and $641.0 million in 2016. We recorded $22.2 million and $16.0 million of special charges in 2017 and 2016, respectively, related to organization and streamlining actions. In 2017, we also recorded $61.7 million of transaction and integration expenses relating to our acquisition of RB Foods that reduced operating income. In 2017 compared to the year-ago period, the favorable impact of higher sales, including the effects of acquisitions, and $117.0 million of cost savings from our CCI program and organization and streamlining actions more than offset higher special charges, transaction and integration expenses, material costs and a $24.1 million increase in brand marketing. Excluding special charges and, in 2017, transaction and integration expenses related to our acquisition of RB Foods, adjusted operating income was $786.3 million, an increase of 19.7% compared to $657.0 million in the year-ago period. In constant currency, adjusted operating income rose 20.5%. For further details and a reconciliation of non-GAAP to reported amounts, see Non-GAAP Financial Measures.

Diluted earnings per share was $3.72 in 2017 and $3.69 in 2016. The year-on-year increase in earnings per share was driven mainly by higher operating income, as described above, which was nearly offset by higher interest expense and higher shares outstanding. Special charges lowered earnings per share by $0.12 and $0.09 in 2017 and 2016, respectively. Transaction and integration expenses, including $15.4 million reflected as other debt costs, lowered earnings per share by $0.42 in 2017. Excluding the effect of those special charges and transaction and integration expenses, adjusted diluted earnings per share was $4.26 in 2017 and $3.78 in 2016, or an increase of 12.7%.

2018 Outlook

We project another year of strong financial performance in 2018 and, including the results of RB Foods from its acquisition date of August 17, 2017, we expect our constant currency growth rate in sales, operating income and adjusted earnings per share to exceed our long-term financial growth objectives.

In 2018, we expect to grow sales 12% to 14%, including an estimated 1% favorable impact from currency rates, or 11% to 13% on a constant currency basis. The incremental impact of the RB Foods acquisition is projected to contribute approximately 8% of that sales growth. We expect further increases in volume and product mix in our base business to drive the remaining sales growth anticipated in 2018 as, with material cost inflation projected in the low single digits, we do not expect significant pricing impact in 2018 other than the incremental impact of actions taken in 2017.

In 2018, we expect gross profit margin to be approximately 150 to 200 basis points higher than 2017, due to a projected low single digit increase in material costs that is more than offset by the effects of favorable business mix, CCI-led cost savings and the lack of $20.9 million of transaction and integration expenses reflected in cost of goods sold in 2017 related to the RB Foods acquisition.

Led by CCI, we expect to reach cost savings of approximately $100 million in 2018, with a large portion impacting our cost of goods sold. Material cost inflation is expected to be in the mid-single digit range and we expect to offset most of this incremental impact with our 2017 pricing actions.

In 2018, we expect a significant increase in operating income, in part, due to the effects of the RB Foods acquisition including the lower amount of transaction and integration expenses. We expect 2018's adjusted operating income to increase 23% to 25%, which includes the incremental impact of the RB Foods acquisition and a 1% favorable impact from currency rates. For 2018, we plan to increase brand marketing at a rate above our sales growth.

On December 22, 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 provides for significant changes in the U.S. Internal Revenue Code of 1986, as amended. The U.S. Tax Act contains provisions with separate effective dates but is generally effective for taxable years beginning after December 31, 2017. Certain provisions of the U.S. Tax Act will be effective during our fiscal year ending November 30, 2018 with all provisions of the U.S. Tax Act effective as of the beginning of our fiscal year ending November 30, 2019.

We expect that U.S. Tax Act will have the following effects on our income tax expense for the fiscal year ending November 30, 2018:

- The U.S. Tax Act imposes a tax on post-1986 earnings of non-U.S. affiliates that have not been repatriated for purposes of US federal income tax, with those earnings taxed at rates of 15.5% for earnings reflected by cash and cash equivalent items and 8% for other assets. We estimate this tax to be in the range of $70 million to $90 million, which we will recognize as a component of income tax expense in our first quarter of fiscal 2018. The cash tax effects of this deemed repatriation can be remitted in installments over an eight-year period as follows: (i) for each of the initial five years, 8% of the net tax liability is required to be remitted on an annual basis; (ii) in the sixth year, 15% of the net tax liability is required to be remitted; (iii) in the seventh year, 20% of the net tax liability is required to be remitted; and (iv) in the eighth year, the remaining 25% of the net tax liability is required to be remitted. We anticipate that we will pay this tax in installments over the eight-year period and anticipate cash payments of the deemed repatriation tax to approximate $6 million to $7 million in each of the next five years.
- Under Financial Accounting Standards Board Accounting Standards Codification (ASC) Topic 740, Income Taxes ("ASC 740"), we are required to revalue any deferred tax assets or liabilities in the period of enactment of change in tax rates. The U.S. Tax Act lowers the corporate income tax rate from 35% to 21%. We estimate that the revaluation of our U.S. deferred tax assets and liabilities will reduce our net U.S. deferred income tax liability by approximately $400 million and will be reflected as a reduction in our income tax expense in our results for the quarter ending February 28, 2018.
- The U.S. Tax Act is generally effective for tax years beginning after December 31, 2017. As such, the reduction in the corporate income tax rate from 35% to 21% will be effective for the final eleven months of our fiscal year ending November 30, 2018, with our U.S. earnings for the month of December 2017 taxed at a 35% rate. We estimate that

our consolidated effective tax rate in fiscal year 2018, excluding the effects of the repatriation tax and the revaluation of our deferred tax assets and liabilities as described above and other discrete items, will approximate 24%.

- We estimate that our effective tax rate for fiscal 2018 will be negative because of the combined impact of the repatriation tax, the revaluation of our U.S. deferred tax assets and liabilities, and the lower U.S. corporate tax rate.

As previously noted, the U.S. Tax Act will fully affect us in fiscal year 2019 as certain other of its provisions related to the taxation of non-U.S. activity on a current basis will impact our results, particularly the "global intangible low-taxed income" tax that imposes a tax on earnings that are not subject to tax by non-U.S. jurisdictions above a certain minimum rate. Consequently, we estimate that our consolidated effective tax rate, excluding the effects of discrete tax items, will approximate 25% to 26% in fiscal 2019.

The Securities and Exchange Commission issued Staff Accounting Bulletin No. 118 ("SAB 118") on December 23, 2017. SAB 118 provides a one-year measurement period from a registrant's reporting period that includes the U.S. Tax Act's enactment date to allow the registrant sufficient time to obtain, prepare and analyze information to complete the accounting required under ASC 740.

The ultimate impact of the U.S. Tax Act on our reported results in fiscal 2018 and beyond may differ from the estimates provided herein, possibly materially, due to, among other things, changes in interpretations and assumptions we have made, guidance that may be issued, and other actions we may take as a result of the U.S. Tax Act different from that presently contemplated.

Diluted earnings per share was $3.72 in 2017. Diluted earnings per share for 2018 are projected to range from $6.89 to $7.14. Excluding the per share impact of special charges of $0.12 and transaction and integration expenses related to the RB Foods acquisition (including the effect of the amortization of the acquisition-date fair value adjustments of inventories included in cost of goods sold, the bridge commitment fee included in other debt costs, and other transaction and integration expenses) of $0.42 in 2017, adjusted diluted earnings per share was $4.26 in 2017.

Adjusted diluted earnings per share (excluding an estimated $2.33 to $2.48 per share non-recurring benefit from U.S. Tax Act changes, an estimated $0.11 per share impact from special charges and an estimated $0.13 per share impact from integration expenses related to the RB Foods acquisition) are projected to be $4.80 to $4.90 in 2018. We expect adjusted diluted earnings per share in 2018 to grow 13% to 15%, which includes a 1% favorable impact from currency rates, over adjusted diluted earnings per share of $4.26 in 2017. We expect this growth rate to be mainly driven by increased adjusted operating income and a lower effective tax rate which will more than offset the effects of higher interest expense and higher diluted shares.

RESULTS OF OPERATIONS—2017 COMPARED TO 2016

	2017	2016
Net sales	$4,834.1	$4,411.5
Percent growth	9.6 %	2.7 %
Components of percent growth in net sales–increase (decrease):		
Volume and product mix	1.7 %	1.7 %
Pricing actions	2.1 %	1.5 %
Acquisitions	6.5 %	2.3 %
Foreign exchange	(0.7)%	(2.8)%

Sales for 2017 increased by 9.6% from 2016 and by 10.3% 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). Both the consumer and industrial segments drove higher volume and product mix that added 1.7% to sales. This was driven by product innovation, brand marketing and expanded distribution. Pricing actions, taken in response to increased material costs, added 2.1% to sales. The incremental impact of acquisitions completed in 2017 (both RB Foods and Giotti) and in 2016 (principally, Gourmet Garden) added 6.5% to sales. These factors offset an unfavorable impact from foreign currency exchange that reduced sales by 0.7% compared to 2016 and is excluded from our measure of sales growth of 10.3% on a constant currency basis.

	2017	2016
Gross profit	$2,010.2	$1,831.7
Gross profit margin	41.6 %	41.5 %

In 2017, gross profit rose 10 basis points to 41.6% from 41.5% in 2016, as the favorable impact of pricing actions, CCI-led cost savings and more favorable business mix more than offset the unfavorable material cost inflation, including unfavorable foreign currency effects. In addition, our gross profit for 2017 was burdened by $20.9 million of transaction and integration expenses, representing the amortization of the fair value adjustment to the acquired inventories of RB Foods, that depressed our fiscal 2017 gross profit margin of 41.6% by 40 basis points. Excluding those transaction and integration expenses, adjusted gross profit margin rose 50 basis points from 41.5% in 2016 to 42.0% in 2017.

	2017	2016
Selling, general & administrative expense (SG&A)	$1,244.8	$1,175.0
Percent of net sales	25.8 %	26.6 %

Selling, general and administrative expense was $1,244.8 million in 2017 compared to $1,175.0 million in 2016, an increase of $69.8 million. That increase in SG&A expense was driven by the impact of acquisitions, together with increased brand marketing and higher freight costs, partially offset by lower acquisition-related costs related to both completed and uncompleted acquisitions, all as compared to the 2016 levels. The lower acquisition-related costs in the 2017 period were primarily the result of costs associated with our investigation in 2016 of a large potential acquisition in the U.K. that we ultimately declined to pursue. In addition, acquisition-related costs attributable to RB Foods in 2017 are not included in SG&A expense but are instead included in transaction and integration expenses in our income statement (and are further discussed below). SG&A expense as a percentage of net sales was 25.8%, an 80-basis point improvement from 2016. Driving this reduction in SG&A expense as a percentage of net sales, in addition to the items described above were lower employee benefit expense, including lower pension and other postretirement benefit expense, together with benefits from the organization and streamlining actions described in note 3 of the financial statements.

	2017	2016
Special charges included in cost of goods sold	$—	$0.3
Other special charges in the income statement	22.2	15.7
Total	$22.2	$16.0

We regularly evaluate whether to implement changes to our organization structure to reduce fixed costs, simplify or improve processes, and improve our competitiveness, and we expect to continue to evaluate such actions in the future. From time to time, those changes are of such significance in terms of both up-front costs and organizational/ structural impact that we obtain advance approval from our Management Committee and classify expenses related to those changes as special charges in our financial statements. Special charges of $22.2 million were recorded in 2017 and $16.0 million in 2016 to enable us to implement these changes.

During 2017, we recorded $22.2 million of special charges, consisting primarily of $12.7 million related to third party expenses incurred as part of our evaluation of changes relating to our global enablement initiative, $2.8 million related to employee severance benefits and other costs associated with the relocation of one of our Chinese manufacturing facilities, $2.5 million for severance and other exit costs associated with the closure of our manufacturing plant in Portugal, and $1.7 million related to employee severance benefits and other costs associated with actions related to the transfer of certain manufacturing operations to a new facility under construction in Thailand. See note 3 of the financial statements for more details on these charges and our basis for classifying amounts as special charges.

Of the $16.0 million of special charges recorded in 2016, $0.3 million were recorded in cost of goods sold. The 2016 special charges principally consist of $5.7 million related to our EMEA reorganization, which began in 2015, $2.8 million related to our exit from a consolidated joint venture in South Africa, $1.9 million for other exit costs related to the discontinuance of non-profitable product lines of our Kohinoor business in India initiated in 2015, $1.8 million associated with actions in connection with our planned exit of two leased manufacturing facilities in Singapore and Thailand, and $1.7 million for employee severance actions related to our North American effectiveness initiative begun in 2015.

	2017	2016
Transaction expenses included in cost of goods sold	$20.9	$ —
Transaction expenses included in other debt costs	15.4	—
Other transaction and integration expenses	40.8	—
Total	$77.1	$ —

Total transaction and integration expenses related to the RB Foods acquisition are anticipated to approximate $100 million, of which approximately $60 million represent transaction expenses and the remainder represent estimated integration expenses. These costs are anticipated to be incurred through 2018 and primarily consist of amortization of the acquisition-date fair value adjustment of inventories of $20.9 million that is included in cost of goods sold; outside advisory, service and consulting costs; employee-related costs; and other costs related to the acquisition, including the costs related to the Bridge financing commitment of $15.4 million that is included in other debt costs. Of the total anticipated transaction and integration expenses, we incurred $77.1 million in 2017 and expect to incur the balance in 2018.

	2017	2016
Interest expense	$95.7	$56.0
Other income, net	3.5	4.2

Interest expense for 2017 was sharply higher than the prior year, primarily due to higher average borrowings related to our incurrence of $3.7 billion in debt in August to finance the acquisition of RB Foods (see note 6 of the financial statements). Other income, net, for 2017 was $0.7 million lower than the 2016 level, primarily due to a gain on the 2016 sale of a non-operating asset.

	2017	2016
Income from consolidated operations before income taxes	$594.8	$589.2
Income taxes	151.3	153.0
Effective tax rate	25.4 %	26.0 %

The effective tax rate decreased 60 basis points to 25.4% in 2017, from 26.0% in 2016, primarily because of an increase in net discrete tax benefits. Net discrete tax benefits increased by $3.1 million, from $21.1 million in 2016 to $24.2 million in 2017. In 2017, discrete items include $10.7 million of excess tax benefits associated with share-based payments to employees due to our adoption of ASU No. 2016-09 Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting on a prospective basis as of the beginning of our 2017 fiscal year (see note 1 of the financial statements for further details with respect to our adoption of this accounting standard). Both 2017 and 2016 included discrete tax benefits for the reversal of reserves for unrecognized tax benefits, net of additional taxes provided, for the expiration of statutes of limitation and, in 2017, settlements with taxing authorities in several tax jurisdictions. Discrete tax expense in 2017 included expense associated with the establishment of valuation allowances on non-U.S. deferred tax assets due to a change in our assessment of the recoverability of those deferred tax assets. Discrete tax items in 2016 included benefits associated with the reversal of valuation allowances on non-U.S. deferred tax assets due to a change in our assessment of the recoverability of those deferred tax assets. See note 12 of the financial statements for a reconciliation of the U.S. federal tax rate with the effective tax rate.
As the U.S. Tax Act was enacted after our year end of November 30, 2017, it had no impact on our fiscal 2017 financial results.

	2017	2016
Income from unconsolidated operations	$33.9	$36.1

Income from unconsolidated operations decreased $2.2 million in 2017 from the prior year. This decrease was mainly attributable to the impact of eliminating earnings associated with our minority interests in 2017 as compared to a loss in 2016 and lower earnings from our largest joint venture, McCormick de Mexico, for which the unfavorable impact of foreign exchange rates more than offset the favorable impact, in local currency, of higher sales and net income. We own 50% of most of our unconsolidated joint ventures, including McCormick de Mexico which represented 57% of the sales and 74% of the income of our unconsolidated operations in 2017.

We reported diluted earnings per share of $3.72 in 2017, compared to $3.69 in 2016. The table below outlines the major components of the change in diluted earnings per share from 2016 to 2017. The increase in operating income in the table below includes the impact from unfavorable currency exchange rates in 2017.

2016 Earnings per share—diluted	$3.69
Increase in operating income	0.75
Increase in special charges	(0.02)
Transaction and integration expenses (including other debt costs) attributable to RB Foods acquisition	(0.42)
Increase in interest expense	(0.23)
Impact of income taxes	(0.02)
Decrease in income from unconsolidated operations	(0.02)
Impact of higher shares	(0.01)
2017 Earnings per share—diluted	$3.72

We measure the performance of our business segments based on operating income, excluding special charges and, beginning in 2017, excluding transaction and integration expenses related to our RB Foods acquisition. See note 16 of the financial statements for additional information on our segment measures as well as for a reconciliation by segment of operating income, excluding special charges as well as transaction and integration expenses related to our RB Foods acquisition, to consolidated operating income. In the following discussion, we refer to our previously described measure of segment profit as segment operating income.

Consumer Segment

	2017	2016
Net sales	$2,970.1	$2,753.2
Percent growth	7.9 %	4.5 %
Components of percent growth in net sales–increase (decrease):		
Volume and product mix	0.3 %	1.7 %
Pricing actions	2.2 %	1.2 %
Acquisitions	5.5 %	3.5 %
Foreign exchange	(0.1)%	(1.9)%
Segment operating income	$564.2	$490.8
Segment operating income margin	19.0 %	17.8 %

Sales of our consumer segment grew by 7.9% as compared to 2016 and grew by 8.0% on a constant currency basis. Higher volume and product mix added 0.3% to sales, and pricing actions, taken in response to increased material costs, added 2.2%. The incremental impact of acquisitions – mainly RB Foods and Gourmet Garden, completed in 2017 and 2016, respectively – added 5.5% to sales. These factors offset an unfavorable impact from foreign currency rates that reduced consumer segment sales by 0.1% compared to 2016 and is excluded from our measure of sales growth of 8.0% on a constant currency basis.

In the Americas, consumer sales rose 11.2% in 2017 as compared to 2016 and rose by 11.1% on a constant currency basis. Higher volume and product mix added 0.5% to sales, pricing actions added 2.8% to sales, and the incremental impact of acquisitions – mainly RB Foods and Gourmet Garden – added 7.8% to sales. The favorable impact of foreign currency increased sales by 0.1% compared to 2016 and is excluded from our measure of sales growth of 11.1% on a constant currency basis.

In the EMEA region, consumer sales declined 1.6% in 2017 as compared to 2016 and declined 2.3% on a constant currency basis. Volume and product mix lowered sales by 3.3%, with weakness in Poland, the U.K. and France. The sales weakness in Poland was driven by competitive conditions, while weakness in the U.K. related to a difficult retail environment, including the effects of a reduction of Schwartz brand products by a large U.K. retailer. Pricing added 0.5% to sales and the incremental impact of the RB Foods and Gourmet Garden acquisitions added 0.5% to sales. The favorable impact of foreign currency increased sales by 0.7% compared to 2016 and is excluded from our measure of

sales decline of 2.3% on a constant currency basis.
In the Asia/Pacific region, consumer sales increased 6.4% as compared to 2016 and increased 8.9% on a constant currency basis. Higher volume and product mix added 5.1% to sales, with strong results in China that offset a volume and product mix decline in India in 2017, due in part to India's discontinuation of lower-margin product lines that occurred in 2016. Pricing added 1.7% to sales and the incremental impact of the Gourmet Garden acquisition

added 2.1% to sales. These factors offset an unfavorable impact from foreign currency exchange rates that decreased sales by 2.5% compared to 2016 and is excluded from our measure of sales growth of 8.9% on a constant currency basis.

We grew segment operating income for our consumer segment by $73.4 million, or 15.0%, in 2017 compared to 2016. The favorable impact of greater sales and cost savings more than offset the unfavorable impact of higher material costs and an increase in brand marketing. On a constant currency basis, segment operating income for our consumer segment rose 14.9%. Segment operating income margin for our consumer segment rose by 120 basis points to 19.0% in 2017 from 17.8% in 2016.

Industrial Segment

	2017	2016
Net sales	$1,864.0	$1,658.3
Percent growth (decline)	12.4 %	(0.2)%
Components of percent growth in net sales–increase (decrease):		
Volume and product mix	4.0 %	1.5 %
Pricing actions	2.0 %	2.0 %
Acquisitions	8.0 %	0.4 %
Foreign exchange	(1.6)%	(4.1)%
Segment operating income	$222.1	$166.2
Segment operating income margin	11.9 %	10.0 %

Sales of our industrial segment increased 12.4% as compared to 2016 and increased by 14.0% on a constant currency basis. Higher volume and product mix added 4.0% to sales and pricing actions, taken in response to increased material costs, added 2.0%. The incremental impact on 2017 industrial sales of the RB Foods and Giotti acquisitions completed in 2017 added 8.0% to sales. These factors partially offset an unfavorable impact from foreign currency rates that reduced industrial segment sales by 1.6% compared to 2016 and is excluded from our measure of sales growth of 14.0% on a constant currency basis.

In the Americas, industrial sales rose 10.8% in 2017 as compared to 2016 and rose 11.2% on a constant currency basis. Higher volume and product mix added 3.4% to sales and included growth in sales of branded foodservice products in the U.S. and snack seasonings in the U.S. and Mexico. Pricing actions added 2.1% to sales and the incremental impact of the RB Foods and Gourmet Garden acquisitions added 5.7% to sales. These factors offset an unfavorable impact from foreign currency rates that reduced sales by 0.4% compared to 2016 and is excluded from our measure of sales growth of 11.2% on a constant currency basis.

In the EMEA region, industrial sales increased 20.5% in 2017 as compared to 2016 and increased 26.9% on a constant currency basis. Higher volume and product mix added 2.7% to sales and included growth in sales to leading quick service restaurants in this region. Pricing actions added 3.1% to sales and the incremental impact of the Giotti and, to a lesser extent, RB Foods acquisitions added 21.1% to sales. These factors partially offset an unfavorable impact from foreign currency exchange rates that decreased sales by 6.4% compared to 2016 and is excluded from our measure of sales growth of 26.9% on a constant currency basis.

In the Asia/Pacific region, industrial sales increased 9.0% in 2017 as compared to 2016 and increased 10.1% on a constant currency basis. Higher volume and product mix added 9.6% to sales and included growth in sales to leading quick service restaurants supplied from our facilities in both China and Southeast Asia. Pricing actions added 0.1% to sales and the incremental impact of the Gourmet Garden acquisition added 0.4% to sales. These factors partially offset an unfavorable impact from foreign currency exchange rates that reduced sales by 1.1% compared to 2016 and is excluded from our measure of sales growth of 10.1% on a constant currency basis.

We grew segment operating income for our industrial segment by $55.9 million, or 33.6%, in 2017 compared to 2016. The favorable impact of greater sales and cost savings more than offset the unfavorable impact of higher material costs. On a constant currency basis, segment operating income for our industrial segment rose 37.1%. Segment operating income margin for our industrial segment rose by 190 basis points to 11.9% in 2017 from 10.0% in 2016 and reflected the impact of our efforts to shift our business mix to more value-added products through innovation and acquisitions.

RESULTS OF OPERATIONS—2016 COMPARED TO 2015

	2016	2015
Net sales	$4,411.5	$4,296.3
Percent growth	2.7 %	1.3 %
Components of percent growth in net sales–increase (decrease):		
Volume and product mix	1.7 %	3.9 %
Pricing actions	1.5 %	1.1 %
Acquisitions	2.3 %	1.4 %
Foreign exchange	(2.8)%	(5.1)%

Sales for 2016 increased 2.7% from 2015 and increased by 5.5% on a constant currency basis, with growth in both the consumer and industrial segments that drove higher volume and product mix, and added 1.7% to sales. This was driven by product innovation, brand marketing and expanded distribution. Pricing actions, taken in response to increased material costs, added 1.5% to sales. The incremental impact of acquisitions completed in 2016 – mainly Gourmet Garden – and three acquisitions completed in 2015 – Brand Aromatics, Drogheria & Alimentari (D&A) and Stubb's – added 2.3% to sales. These factors offset an unfavorable impact from foreign currency exchange that reduced sales by 2.8% compared to 2015 and is excluded from our measure of sales growth of 5.5% on a constant currency basis.

	2016	2015
Gross profit	$1,831.7	$1,737.3
Gross profit margin	41.5 %	40.4 %

In 2016, gross profit rose 110 basis points to 41.5% from 40.4% in 2015, as the favorable impact of pricing actions, CCI-led cost savings and more favorable business mix more than offset the unfavorable impact of higher material costs.

	2016	2015
Selling, general & administrative expense (SG&A)	$1,175.0	$1,127.4
Percent of net sales	26.6 %	26.2 %

Selling, general and administrative expense was $1,175.0 million in 2016 compared to $1,127.4 million in 2015, an increase of $47.6 million. SG&A as a percentage of net sales was 26.6%, a 40-basis point increase from 2015. Driving this increase in SG&A as a percentage of net sales were higher employee related expenses, an $11.6 million increase in our brand marketing from the 2015 level to $252.2 million in 2016 and a $6.5 million increase in transaction costs, related to both completed and uncompleted acquisitions, from the 2015 level to $13.4 million in 2016. Partially offsetting these increases were cost savings from CCI and from the organization and streamlining actions described in note 3 of the financial statements.

	2016	2015
Special charges included in cost of goods sold	$0.3	$4.0
Other special charges in the income statement	15.7	61.5
Total	$16.0	$65.5

Special charges of $16.0 million were recorded in 2016 and $65.5 million in 2015. Of the $16.0 million of special charges recorded in 2016, $0.3 million were recorded in cost of goods sold. The 2016 special charges principally consist of $5.7 million related to our EMEA reorganization, which began in 2015, $2.8 million related to our exit from a consolidated joint venture in South Africa, $1.9 million for other exit costs related to the discontinuance of non-profitable product lines of our Kohinoor business in India initiated in 2015, $1.8 million associated with actions in connection with our planned exit of two leased manufacturing facilities in Singapore and Thailand, and $1.7 million for employee severance actions related to our North American effectiveness initiative begun in 2015. See note 3 of the financial statements for more details on these charges.

In 2015, we recorded special charges of $65.5 million, of which $29.2 million related to employee severance and related costs associated with our North American effectiveness initiative and $24.4 million related to a reorganization of our EMEA business. An additional $14.2 million, including a non-cash brand impairment charge of $9.6 million, related to the discontinuance by our Kohinoor consumer business in India of sales of non-profitable bulk-packaged and broken basmati rice product lines. Partially offsetting these charges was a credit of $2.3 million for the 2015 reversal of reserves previously accrued as part of special charges in 2014 and 2013.

20162015