MCCORMICK & CO INC
Form 10-Q
June 28, 2018
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-Q
QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934
For Quarter Ended May 31, 2018
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)	(I.R.S. Employer Identification No.)

18 Loveton Circle, P. O. Box 6000, Sparks, MD	21152-6000
(Address of principal executive offices)	(Zip Code)

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

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 filing requirements for the past 90 days. Yes x No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of "accelerated filer," "large accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

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

	Shares Outstanding May 31, 2018
Common Stock	9,986,107
Common Stock Non-Voting	121,280,906

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	Three months ended May 31,		Six months ended May 31,	
	2018	2017	2018	2017
Net sales	$1,327.3	$1,114.3	$2,564.4	$2,158.0
Cost of goods sold	752.1	669.7	1,469.2	1,300.4
Gross profit	575.2	444.6	1,095.2	857.6
Selling, general and administrative expense	367.3	307.3	692.7	582.5
Transaction and integration expenses (related to RB Foods acquisition)	7.8	—	16.5	—
Special charges	8.4	4.7	10.6	8.3
Operating income	191.7	132.6	375.4	266.8
Interest expense	44.2	14.9	86.0	29.4
Other income, net	1.5	1.2	3.0	1.3
Income from consolidated operations before income taxes	149.0	118.9	292.4	238.7
Income tax expense (benefit)	33.1	27.3	(238.0)	60.6
Net income from consolidated operations	115.9	91.6	530.4	178.1
Income from unconsolidated operations	7.4	8.4	15.5	15.4
Net income	$123.3	$100.0	$545.9	$193.5
Earnings per share – basic	$0.94	$0.80	$4.16	$1.55
Average shares outstanding – basic	131.4	124.7	131.3	125.0
Earnings per share – diluted	$0.93	$0.79	$4.11	$1.53
Average shares outstanding – diluted	132.9	126.4	132.9	126.7
Cash dividends paid per share	$0.52	$0.47	$1.04	$0.94
Cash dividends declared per share	$0.52	$0.47	$0.52	$0.47

See notes to condensed consolidated financial statements (unaudited).

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

	Three months ended May 31,		Six months ended May 31,	
	2018	2017	2018	2017
Net income	$123.3	$100.0	$545.9	$193.5
Net income attributable to non-controlling interest	1.1	(0.3)	2.0	0.8
Other comprehensive income (loss):				
Unrealized components of pension and postretirement plans (including curtailment gains of $18.0 and $76.7 for the six months ended May 31, 2018 and 2017, respectively)	0.4	1.1	20.8	87.6
Currency translation adjustments	(86.9)	69.9	(25.2)	85.0
Change in derivative financial instruments	2.7	(6.9)	1.7	(9.5)
Deferred taxes	(0.3)	1.6	(5.3)	(28.0)
Comprehensive income	$40.3	$165.4	$539.9	$329.4

See notes to condensed consolidated financial statements (unaudited).

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

	May 31, 2018 (unaudited)	May 31, 2017 (unaudited)	November 30, 2017
ASSETS			
Current Assets			
Cash and cash equivalents	$202.6	$130.0	$186.8
Trade accounts receivables, net	473.9	429.7	555.1
Inventories, net			
Finished products	399.1	362.5	398.1
Raw materials and work-in-process	398.5	417.3	395.2
	797.6	779.8	793.3
Prepaid expenses and other current assets	90.1	86.4	81.8
Total current assets	1,564.2	1,425.9	1,617.0
Property, plant and equipment	2,054.6	1,719.4	1,865.9
Less: accumulated depreciation	(1,106.9)	(1,015.6)	(1,056.8)
Property, plant and equipment, net	947.7	703.8	809.1
Goodwill	4,577.2	1,894.8	4,490.1
Intangible assets, net	2,893.1	489.0	3,071.1
Investments and other assets	401.6	358.6	398.5
Total assets	$10,383.8	$4,872.1	$10,385.8
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current Liabilities			
Short-term borrowings	$623.5	$656.2	$257.6
Current portion of long-term debt	75.5	250.6	325.6
Trade accounts payable	624.1	453.1	639.9
Other accrued liabilities	523.6	441.5	724.2
Total current liabilities	1,846.7	1,801.4	1,947.3
Long-term debt	4,456.2	804.3	4,443.9
Deferred taxes	659.9	126.4	1,094.5
Other long-term liabilities	380.7	330.6	329.2
Total liabilities	7,343.5	3,062.7	7,814.9
Shareholders' Equity			
Common stock	390.0	409.3	378.2
Common stock non-voting	1,315.3	693.9	1,294.7
Retained earnings	1,631.6	1,074.2	1,166.5
Accumulated other comprehensive loss	(308.4)	(379.3)	(279.5)
Non-controlling interests	11.8	11.3	11.0
Total shareholders' equity	3,040.3	1,809.4	2,570.9
Total liabilities and shareholders' equity	$10,383.8	$4,872.1	$10,385.8

See notes to condensed consolidated financial statements (unaudited).

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

	Six months ended May 31,	
	2018	2017
Operating activities		
Net income	$545.9	$193.5
Adjustments to reconcile net income to net cash flow provided by operating activities:		
Depreciation and amortization	74.1	58.1
Stock-based compensation	16.1	14.4
Non-cash net income tax benefit (related to enactment of the U.S. Tax Act)	(297.9)	—
Fixed asset impairment charge	3.0	—
Income from unconsolidated operations	(15.5)	(15.4)
Changes in operating assets and liabilities, net of effect of businesses acquired	(103.4)	(85.1)
Dividends from unconsolidated affiliates	12.6	11.7
Net cash flow provided by operating activities	234.9	177.2
Investing activities		
Acquisition of businesses (net of cash acquired)	(4.2)	(124.0)
Capital expenditures	(59.9)	(66.2)
Other investing activities	0.9	0.4
Net cash flow used in investing activities	(63.2)	(189.8)
Financing activities		
Short-term borrowings, net	367.8	264.0
Long-term debt borrowings	13.5	—
Long-term debt repayments	(389.2)	(3.6)
Proceeds from exercised stock options	21.6	24.0
Taxes withheld and paid on employee stock awards	(6.7)	(5.4)
Purchase of minority interest	—	(1.2)
Common stock acquired by purchase	(32.1)	(135.8)
Dividends paid	(136.5)	(117.4)
Net cash flow (used in) provided by financing activities	(161.6)	24.6
Effect of exchange rate changes on cash and cash equivalents	5.7	(0.4)
Increase in cash and cash equivalents	15.8	11.6
Cash and cash equivalents at beginning of period	186.8	118.4
Cash and cash equivalents at end of period	$202.6	$130.0

See notes to condensed consolidated financial statements (unaudited).

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

1. ACCOUNTING POLICIES

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and do not include all the information and notes required by United States generally accepted accounting principles (U.S. GAAP) for complete financial statements. In our opinion, the accompanying condensed consolidated financial statements contain all adjustments, which are of a normal and recurring nature, necessary to present fairly the financial position and the results of operations for the interim periods presented.

The results of consolidated operations for the three- and six-month periods ended May 31, 2018 are not necessarily indicative of the results to be expected for the full year. Historically, our net sales, net income and cash flow from operations are lower in the first half of the fiscal year and increase in the second half. The typical increase in net sales, net income and cash flow from operations in the second half of the year is largely due to the consumer business cycle in the U.S., where customers typically purchase more products in the fourth quarter due to the Thanksgiving and Christmas holiday seasons. In addition, net income for the six-month period ended May 31, 2018 reflects a significant non-recurring tax benefit as more fully described in note 9.

For further information, refer to the consolidated financial statements and notes included in our Annual Report on Form 10-K for the year ended November 30, 2017.

Accounting Pronouncements Adopted in 2018

In February 2018, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2018-02 Income Statement-Reporting Comprehensive Income (Topic 220)—Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income. This guidance allows a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the U.S. Tax Cuts and Jobs Act enacted in December 2017. The new standard, which would be effective for the first quarter of our fiscal year ending November 30, 2020, permits early adoption in any interim period or fiscal year before the effective date. We adopted this new accounting pronouncement effective December 1, 2017. The adoption resulted in a reclassification of $20.9 million from accumulated other comprehensive income to retained earnings.

In July 2015, the FASB issued ASU No. 2015-11 Simplifying the Measurement of Inventory (Topic 330). This guidance is intended to simplify the subsequent measurement of inventories by replacing the current lower of cost or market test with a lower of cost and net realizable value test. We have adopted ASU No. 2015-11 effective December 1, 2017. The adoption of this new accounting pronouncement did not have a material impact on our financial statements.

Recently Issued Accounting Pronouncements

In August 2017, the FASB issued ASU No. 2017-12 Derivatives and Hedging (Topic 815)—Targeted Improvements to Accounting for Hedging Activities. This guidance eliminates the requirement to separately measure and report hedge ineffectiveness and generally requires, for qualifying hedges, the entire change in the fair value of a hedging instrument to be presented in the same income statement line as the hedged item. The guidance also modifies the accounting for components excluded from the assessment of hedge effectiveness, eases documentation and assessment requirements and modifies certain disclosure requirements. The new standard will be effective for the first quarter of our fiscal year ending November 30, 2020. Early adoption is permitted in any interim period or fiscal year before the effective date for all entities. If the guidance is early adopted in an interim period, any adjustments would be reflected as of the beginning of the fiscal year that includes that interim period. We have not yet determined our date of adoption or the impact from adoption of this new accounting pronouncement on our financial statements.

In March 2017, the FASB issued ASU No. 2017-07 Compensation-Retirement Benefits (Topic 715)—Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost. This guidance revises how employers that sponsor defined benefit pension and other postretirement plans present the net periodic benefit cost in

their income statement and requires that the service cost component of net periodic benefit cost be presented in the same income statement line items as other employee compensation costs from services rendered during the period. Of the components of net periodic benefit cost, only the service cost component will be eligible for asset capitalization. The other components of the net periodic benefit cost must be presented separately from the line items that include the service cost and outside of any subtotal of operating income on the income statement. The new standard will be effective for the first quarter of our fiscal year ending

November 30, 2019. We have not yet determined the impact from adoption of this new accounting pronouncement on our financial statements.

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

In January 2017, the FASB issued ASU No. 2017-01 Business Combinations (Topic 805)—Clarifying the Definition of a Business. This guidance changes the definition of a business to assist entities in evaluating when a set of transferred assets and activities constitutes a business. The guidance requires an entity to evaluate if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or a group of similar identifiable assets; if so, the set of transferred assets and activities is not a business. The guidance also requires a business to include at least one substantive process and narrows the definition of outputs by more closely aligning it with how outputs are described in Accounting Standards Codification (ASC 606) Revenue from Contracts with Customers. The new standard will be effective for the first quarter of our fiscal year ending November 30, 2019. Early adoption is permitted for all entities. We have not yet determined the impact from adoption of this new accounting pronouncement on our financial statements.

In February 2016, the FASB issued ASU No. 2016-02 Leases (Topic 842). This guidance revises existing practice related to accounting for leases under Accounting Standards Codification Topic 840 Leases (ASC 840) for both lessees and lessors. Our leases principally relate to: (i) certain real estate, including that related to a number of administrative, distribution and manufacturing locations, and, beginning in May 2018, to our new headquarters building; (ii) certain machinery and equipment, including a corporate airplane and automobiles; and (iii) certain software. The new guidance in ASU No. 2016-02 requires lessees to recognize a right-of-use asset and a lease liability for virtually all leases (other than leases that meet the definition of a short-term lease). The lease liability will be equal to the present value of lease payments and the right-of-use asset will be based on the lease liability, subject to adjustment such as for initial direct costs. For income statement purposes, the new standard retains a dual model similar to ASC 840, requiring leases to be classified as either operating or finance. For lessees, operating leases will result in straight-line expense (similar to current accounting by lessees for operating leases under ASC 840) while finance leases will result in a front-loaded expense pattern (similar to current accounting by lessees for capital leases under ASC 840). The new standard will be effective for the first quarter of our fiscal year ending November 30, 2020. We have not yet determined the impact from adoption of this new accounting pronouncement on our financial statements.

In May 2014, the FASB issued ASU No. 2014-09 Revenue from Contracts with Customers (Topic 606). This guidance is intended to improve—and converge with international standards—the financial reporting requirements for revenue from contracts with customers. The new standard will be effective for the first quarter of our fiscal year ending November 30, 2019. In preparation for our adoption of the new standard in our fiscal year ending November 30, 2019, we have obtained representative samples of contracts and other forms of agreements with our customers in the U.S. and international locations and are evaluating the provisions contained therein in light of the five-step model specified by the new guidance. That five-step model includes: (1) determination of whether a contract—an agreement between two or more parties that creates legally enforceable rights and obligations—exists; (2) identification of the performance obligations in the contract; (3) determination of the transaction price; (4) allocation of the transaction price to the performance obligations in the contract; and (5) recognition of revenue when (or as) the performance obligation is satisfied. We are also evaluating the impact of the new standard on certain common practices currently employed by us and by other manufacturers of consumer products, such as slotting fees, co-operative advertising, rebates and other pricing allowances, merchandising funds and consumer coupons. We have not yet determined the impact of the new standard on our financial statements or whether we will adopt on a prospective or retrospective basis in the first quarter of our fiscal year ending November 30, 2019.

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2. ACQUISITIONS

Acquisition of RB Foods

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. During the three months ended February 28, 2018, we paid an additional $4.2 million associated with the final working capital adjustment. The acquisition was funded through our issuance of approximately 6.35 million shares of common stock non-voting and through new borrowings comprised of senior unsecured notes and pre-payable term loans. 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 flavor solutions segments (we formerly referred to our flavor solutions segment as our industrial segment). 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 are included in our consolidated financial statements as a component of our consumer and flavor solutions segments from the date of acquisition.

The purchase price of RB Foods was preliminarily allocated to the underlying assets acquired and liabilities assumed based upon their estimated fair values at the date of acquisition. We estimated the fair values based on independent valuations, discounted cash flow analyses, quoted market prices, and estimates made by management, a number of which are subject to finalization. The estimated fair value methodologies are further described in note 2 of the financial statements in our 2017 Annual Report on Form 10-K for the year ended November 30, 2017.

During the six months ended May 31, 2018, we revised the fair value estimate of the acquired intangible assets. The fair value estimate of those intangible assets was determined using income methodologies. Trademarks and customer relationships were valued at $2,320.0 million and $110.0 million, respectively. We valued trademarks using the relief from royalty method, an income approach. For customer relationships, we used the distributor method, a variation of the excess earnings method that uses distributor-based inputs for margins and contributory asset charges. Some of the more significant assumptions inherent in developing the valuations included the estimated annual net cash flows for each indefinite-lived or definite-lived intangible asset (including net sales, cost of products sold, selling and marketing costs, and working capital/contributory asset charges), the discount rate that appropriately reflects the risk inherent in each future cash flow stream, the assessment of each asset's life cycle, and competitive trends, as well as other factors. We determined the assumptions used in the financial forecasts using historical data, supplemented by current and anticipated market conditions, estimated product category growth rates, management plans, and market comparables. The impact of revising the fair value estimate of the acquired intangible assets in the first half of 2018 increased goodwill and decreased deferred taxes by $104.6 million and $60.4 million, respectively.

We also recognized other preliminary purchase accounting adjustments during the six months ended May 31, 2018 that increased goodwill by $2.8 million.

The preliminary allocation, net of cash acquired, of the fair value of the RB Foods acquisition, which reflects adjustments to the preliminary allocation during the six months ended May 31, 2018, is summarized in the table below (in millions):

Trade accounts receivable	$36.9
Inventories	67.1
Property, plant and equipment	33.1
Goodwill	2,653.7
Intangible assets	2,430.0
Other assets	4.4
Trade accounts payable	(65.5)
Other accrued liabilities	(32.6)
Deferred taxes	(894.1)
Other long-term liabilities	(23.1)

Total	$4,209.9

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The final allocation of the fair value of the RB Foods acquisition, including the allocation of goodwill to our reporting units, which are the consumer and flavor solutions segments, was not complete as of May 31, 2018, but will be finalized in the third quarter of 2018. The results of RB Foods' operations have been included in our consumer and flavor solutions segments since its acquisition.

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. We incurred $77.1 million of the anticipated transaction and integration expenses during the year ended November 30, 2017. Those costs consisted of the amortization of the acquisition-date fair value adjustment of inventories in the amount of $20.9 million that was included in cost of goods sold for 2017; outside advisory, service and consulting costs; employee-related costs; and other costs related to the acquisition, including the costs of $15.4 million related to the Bridge financing commitment that was included in other debt costs for 2017. Of the total anticipated transaction and integration expenses, we expect to incur the balance in fiscal 2018 consisting of outside advisory, service and consulting costs; employee-related costs; and other costs related to the acquisition. The following are the transaction and integration expenses that we have recorded for the three and six months ended May 31, 2018 related to the RB Foods acquisition (in millions):

	Three months ended May 31, 2018	Six months ended May 31, 2018
Transaction expenses	$ —	$ 0.2
Integration expenses	7.8	16.3
Total	$ 7.8	$ 16.5

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For the three and six months ended May 31, 2018, RB Foods added $144.0 million and $271.6 million, respectively, to our sales. The impact of RB Foods on our consolidated income before income taxes for the three and six months ended May 31, 2018 was not material, taking into account the effects of the transaction and integration expenses and financing costs.

The following unaudited pro forma information presents consolidated financial information as if RB Foods had been acquired at the beginning of fiscal 2016. Interest expense has been adjusted to reflect the debt issued to finance the acquisition as though that debt had been outstanding at December 1, 2015. The pro forma results reflect amortization expense of approximately $4.0 million, relating to definite lived intangible assets recorded based upon preliminary third-party valuations. The pro forma results for the six months ended May 31, 2017 do not include certain transaction and integration costs, amortization of the acquisition-date fair value adjustment of inventories and costs associated with the Bridge financing commitment, since all of these costs would be reflected in the fiscal year ended November 30, 2016, assuming that the acquisition had occurred as of December 1, 2015. The pro forma adjustments previously noted have been adjusted for the applicable income tax impact. Basic and diluted shares outstanding have been adjusted to reflect the issuance of 6.35 million shares of our common stock non-voting to partially finance the acquisition.

(in millions, except per share data)	Six months ended May 31, 2017
Net sales	$2,433.4
Net income	208.9
Earnings per share – basic	$1.59
Earnings per share – diluted	$1.57

These unaudited pro forma consolidated results are not adjusted for changes in the business that will take place subsequent to our acquisition, including, but not limited to, additional transaction and integration costs that may be incurred. Accordingly, the above unaudited pro forma results are not necessarily indicative of the results that actually would have occurred if the acquisition had been completed as of December 1, 2015, nor are they indicative of future consolidated results.

Giotti Acquisition

On December 15, 2016, we purchased 100% of the shares of Enrico Giotti SpA (Giotti), a leading European flavor manufacturer located in Italy, for a cash payment of $123.8 million (net of cash acquired of $1.2 million), including the effect of a $0.2 million favorable net working capital adjustment recorded in the fourth quarter of 2017. The acquisition was funded with cash and short-term borrowings. Giotti is well known in the industry for its innovative beverage, sweet, savory and dairy flavor applications. At the time of the acquisition, annual sales of Giotti were approximately €53 million. Our acquisition of Giotti in fiscal 2017 expands the breadth of value-added products for McCormick's flavor solutions segment, including

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additional expertise in flavoring health and nutrition products. Giotti has been included in our flavor solutions segment since its acquisition. During the six months ended May 31, 2017, we recorded $2.1 million in transaction-related expenses associated with this acquisition; those expenses are included in selling, general and administrative expense in our consolidated income statement.

Proforma financial information for the acquisition of Giotti has not been presented because the incremental financial impact is not material.

3. SPECIAL CHARGES

In our consolidated income statement, we include a separate line item captioned “Special charges” in arriving at our consolidated operating income. Special charges consist of expenses associated with certain actions undertaken by the Company to reduce fixed costs, simplify or improve processes, and improve our competitiveness and are of such significance in terms of both up-front costs and organizational/structural impact to require advance approval by our Management Committee, comprised of our senior management, including our Chairman, President and Chief Executive Officer. Upon presentation of any such proposed action (generally including details with respect to estimated costs, which typically consist principally of employee severance and related benefits, together with ancillary costs associated with the action that may include a non-cash component or a component which relates to inventory adjustments that are included in cost of goods sold; impacted employees or operations; expected timing; and expected savings) to the Management Committee and the Committee’s advance approval, expenses associated with the approved action are classified as special charges upon recognition and monitored on an on-going basis through completion. In 2018, we also included in special charges, as approved by our Management Committee, expense associated with a one-time payment, made to eligible U.S. hourly employees, to distribute a portion of the non-recurring net income tax benefit recognized in connection with the enactment of the U.S. Tax Act and as more fully described in note 9.

The following is a summary of special charges recognized in the three and six months ended May 31, 2018 and 2017 (in millions):

	Three months ended May 31,		Six months ended May 31,	
	2018	2017	2018	2017
Employee severance benefits and related costs	$0.7	$—	$1.1	$1.7
Other costs	7.7	4.7	9.5	6.6
Total	$8.4	$4.7	$10.6	$8.3

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

In 2017, our Management Committee approved a three-year initiative during which we expect to execute significant changes to our global processes, capabilities and operating model to provide a scalable platform for future growth. We expect this initiative to enable us to accelerate our ability to work globally and cross-functionally by aligning and simplifying processes throughout McCormick, in part building upon our current shared services foundation and expanding the end-to-end processes presently under that foundation. We expect this initiative, which we refer to as Global Enablement (GE), to enable this scalable platform for future growth while reducing costs, enabling faster decision making, increasing agility and creating capacity within our organization.

While we are continuing to fully develop the details of our GE operating model, we expect the cost of the GE initiative—to be recognized as "Special charges" in our consolidated income statement over its expected three-year course—to range from approximately $55 million to $65 million. Of that $55 million to $65 million, we estimate that two-thirds will be attributable to employee severance and related benefit payments and one-third will be attributable to cash payments associated with the related costs of GE implementation and transition, including outside consulting and other costs directly related to the initiative. The GE initiative is expected to generate annual savings, ranging from approximately $30 million to $40 million, once all actions are implemented.

During the three months ended May 31, 2018, we recorded $8.4 million of special charges, consisting primarily of: (i) $5.5 million related to our GE initiative, as more fully described below; (ii) a one-time payment, in the aggregate amount of $2.2 million, made to eligible U.S. hourly employees to distribute a portion of the non-recurring net income tax benefit recognized in connection with the enactment of the U.S. Tax Act and more fully described in note 9; and (iii) $0.6 million related to employee severance benefits and other costs directly associated with the relocation of our of our Chinese manufacturing

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facilities. Of the $5.5 million in special charges recognized in the second quarter of 2018 related to our GE initiative, $2.5 million related to third party expenses and $3.0 million represented a non-cash asset impairment charge. That non-cash asset impairment charge was related to the write-off of certain software assets that are incompatible with our future move, approved in the second quarter of 2018, to a new global enterprise planning (ERP) platform to facilitate planned actions under our GE initiative to align and simplify our end-to-end processes to support our future growth.

During the six months ended May 31, 2018, we recorded $10.6 million of special charges, consisting primarily of: (i) $6.7 million related to our GE initiative, consisting of $3.7 million of third party expenses and the non-cash asset impairment charge of $3.0 million previously described, (ii) a one-time payment, in the aggregate amount of $2.2 million described earlier made to certain U.S. hourly employees associated with the enactment of the U.S Tax Act; (iii) $0.8 million related to employee severance benefits and other costs directly associated with the relocation of one of our Chinese manufacturing facilities; and (iv) $0.7 million related to employee severance benefits and other costs related to the transfer of certain manufacturing operations in our Asia Pacific region to a new facility under construction in Thailand.

During the three months ended May 31, 2017, we recorded $4.7 million of special charges, consisting primarily of $4.5 million related to third party expenses incurred associated with our GE initiative and $0.5 million related to other exit costs associated with actions undertaken to enhance organization efficiency and streamline processes in our Europe, Middle East and Africa (EMEA) region. These charges were partially offset by a $0.7 million net credit recorded in the second quarter related to our finalization of special charges associated with the 2015 discontinuance of Kohinoor's non-profitable bulk-packaged and broken basmati rice product lines.

During the six months ended May 31, 2017, we recorded $8.3 million of special charges, consisting primarily of $5.5 million related to third party expenses incurred associated with our GE initiative, $1.9 million for severance and other exit costs associated with our EMEA region's closure of its manufacturing plant in Portugal in mid-2017, $0.5 million related to other exit costs associated with actions undertaken to enhance organization efficiency and streamline processes in our EMEA region, and $0.4 million related to employee severance benefits and other costs related to the transfer of certain manufacturing operations in our Asia Pacific region to a new facility under construction in Thailand. These charges were partially offset by a $0.4 million net credit recorded during the six months ended May 31, 2017 related to our finalization of special charges associated with the 2015 discontinuance of Kohinoor's non-profitable bulk-packaged and broken basmati rice product lines.

Of the $10.6 million in special charges recognized during the six months ended May 31, 2018, approximately $3.6 million were paid in cash and $3.0 million represented a non-cash asset impairment charge, with the remaining accrual expect to be paid in the second half of 2018.

In addition to the amounts recognized in the first six months of 2018, we expect to incur additional special charges during the remainder of 2018. We expect total special charges in 2018 of $18.5 million, consisting of: (i) approximately $13.0 million associated with our GE initiative, including $3.0 million of non-cash asset impairment charges, together with third party expenses and employee severance benefits; (ii) the one-time payment, in the aggregate amount of $2.2 million, previously described made to certain U.S. hourly employees associated with enactment of the U.S. Tax Act; and (iii) the remaining $3.3 million comprised of employee severance benefits and other costs directly associated with the relocation of one of our Chinese manufacturing facilities, ongoing EMEA reorganization plans, and the transfer of certain manufacturing operations in our Asia Pacific region to a new facility under construction in Thailand.

The following is a breakdown by business segments of special charges for the three and six months ended May 31, 2018 and 2017 (in millions):

	Three months ended May 31,		Six months ended May 31,	
	2018	2017	2018	2017
Consumer segment	$5.4	$3.0	$6.4	$5.5
Flavor solutions segment	3.0	1.7	4.2	2.8
Total special charges	$8.4	$4.7	$10.6	$8.3

All remaining balances associated with our special charges are included in accounts payable and other accrued liabilities in our consolidated balance sheet.

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4. GOODWILL

The changes in the carrying amount of goodwill by business segment for the six months ended May 31, 2018 and 2017 were as follows (in millions):

	2018		2017	
	Consumer	Flavor Solutions	Consumer	Flavor Solutions
Beginning of year	$3,385.4	$1,104.7	$1,608.3	$ 163.1
Changes in preliminary purchase price allocation	71.7	35.7	(7.7)	—
Increases in goodwill from acquisitions	—	—	—	74.9
Foreign currency fluctuations	(17.7)	(2.6)	49.1	7.1
Balance as of end of period	$3,439.4	$1,137.8	$1,649.7	$ 245.1

As more fully described in Note 2, during the six months ended May 31, 2018, we have made changes in the preliminary allocation of the purchase price of the RB Foods acquisition which resulted in a change in goodwill of $71.7 million in the consumer segment and $35.7 million in the flavor solutions segment. During the six months ended May 31, 2017, a preliminary valuation of the acquired net assets of Giotti in December 2016 resulted in the allocation of $74.9 million of goodwill to the flavor solutions segment.

5. FINANCING ARRANGEMENTS AND FINANCIAL INSTRUMENTS

In December 2017, we repaid our $250 million, 5.75% notes that matured on December 15, 2017. During the six months ended May 31, 2018, we repaid $100 million of the three-year term loan due August 17, 2020 and we repaid $37.5 million of the five-year term loan due August 17, 2022, which has required quarterly principal installments.

We expect to consolidate our Corporate staff and certain non-manufacturing U.S. employees, currently housed in four locations in the Hunt Valley, Maryland area, to the new headquarters building later this year. In July 2016, we entered into a 15-year lease for that headquarters building. The lease requires monthly lease payments of approximately $0.9 million beginning in the first quarter of 2019. The $0.9 million monthly lease payment is subject to adjustment after an initial 60-month period and thereafter on an annual basis as specified in the lease agreement. In addition, the initial $0.9 million monthly lease payment is subject to increase in the event of agreed-upon changes to specifications related to the headquarters building. Upon commencement of fit-out in the second quarter of 2018 we obtained access to the building, which resulted in the lease commencement date for accounting purposes. We have recognized this lease as a capital lease, with the leased asset of $137.9 million included in property, plant and equipment, net, and the lease obligation in the amount of $138.8 million included in long-term debt as of May 31, 2018. During the three months ended May 31, 2018, we recognized amortization expense of $0.9 million related to the leased asset.

We use derivative financial instruments to enhance our ability to manage risk, including foreign currency and interest rate exposures, which exist as part of our ongoing business operations. We do not enter into contracts for trading purposes, nor are we a party to any leveraged derivative instruments. The use of derivative financial instruments is monitored through regular communication with senior management and the use of written guidelines.

We are potentially exposed to foreign currency fluctuations affecting net investments, transactions and earnings denominated in foreign currencies. We selectively hedge the potential effect of these foreign currency fluctuations by entering into foreign currency exchange contracts. As of May 31, 2018, the maximum time frame for our foreign exchange forward contracts is 12 months.

Contracts which are designated as hedges of anticipated purchases denominated in a foreign currency (generally purchases of raw materials in U.S. dollars by operating units outside the U.S.) are considered cash flow hedges. From time to time, we enter into fair value foreign currency exchange contracts to manage exposure to currency fluctuations in certain intercompany loans between subsidiaries. At May 31, 2018, the notional value of these contracts was $361.7 million. During the three months ended May 31, 2018 and 2017, we recognized (losses) gains of $(0.4) million and $5.0 million, respectively, on the change in fair value of these contracts and gains (losses) of $0.2 million and $(5.4) million, respectively, on the change in the currency component of the underlying loans. During the six months ended May 31, 2018 and 2017, we recognized (losses) gains of $(2.6) million and $2.3 million, respectively, on the change in fair value of these contracts and gains (losses) of $2.2 million and $(2.9) million, respectively, on the change in the currency component of the underlying loans. Both the gains and the losses were recognized in our consolidated income statement as other income, net.

We finance a portion of our operations with both fixed and variable rate debt instruments, principally commercial paper, notes and bank loans. We utilize interest rate swap agreements to minimize worldwide financing costs and achieve a desired mix of variable and fixed rate debt. As of May 31, 2018, we have $100 million notional value of interest rate swap contracts outstanding which expire in November 2025. We receive interest at 3.25% and pay a variable rate of interest based on three-month LIBOR plus 1.22%. These swaps are designated as fair value hedges of the changes in fair value of $100 million of the $250 million 3.25% medium-term notes due 2025. Any realized gain or loss on these swaps was offset by a corresponding increase or decrease of the value of the hedged debt. Hedge ineffectiveness was not material.

All derivatives are recognized at fair value in the balance sheet and recorded in either current or noncurrent other assets or other accrued liabilities or other long-term liabilities depending upon their nature and maturity.

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

As of May 31, 2018	Asset Derivatives			Liability Derivatives		
	Balance sheet location	Notional amount	Fair value	Balance sheet location	Notional amount	Fair value
Interest rate contracts	Other current assets	$ —	$—	Other accrued liabilities	$ 100.0	$5.8
Foreign exchange contracts	Other current assets	297.7	5.8	Other accrued liabilities	155.2	5.2
Total			$5.8			$11.0

As of May 31, 2017	Asset Derivatives			Liability Derivatives		
	Balance sheet location	Notional amount	Fair value	Balance sheet location	Notional amount	Fair value
Interest rate contracts	Other current assets	$ —	$—	Other accrued liabilities	$ 250.0	$3.7
Foreign exchange contracts	Other current assets	193.9	3.2	Other accrued liabilities	160.7	3.2
Total			$3.2			$6.9

As of November 30, 2017	Asset Derivatives			Liability Derivatives		
	Balance sheet location	Notional amount	Fair value	Balance sheet location	Notional amount	Fair value
Interest rate contracts	Other current assets	$ —	$—	Other accrued liabilities	$ 100.0	$2.5
Foreign exchange contracts	Other current assets	326.3	12.7	Other accrued liabilities	79.6	4.7
Total			$12.7			$7.2

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The following tables disclose the impact of derivative instruments on our other comprehensive income (OCI), accumulated other comprehensive income (AOCI) and our income statement for the three and six-month periods ended May 31, 2018 and 2017 (in millions):

Fair Value Hedges

Derivative	Income statement location	Income (expense)			
		Three months ended May 31, 2018	Three months ended May 31, 2017	Six months ended May 31, 2018	Six months ended May 31, 2017
Interest rate contracts	Interest expense	$0.1	$ 0.2	$ 0.2	$ 0.5

Three months ended May 31,	Income statement location	Gain (loss) recognized in income			Income statement location	Gain (loss) recognized in income	
Derivative		2018	2017	Hedged item		2018	2017
Foreign exchange contracts	Other income, net	$(0.4)	$5.0	Intercompany loans	Other income, net	$0.2	$(5.4)

Six months ended May 31,	Income statement location	Gain (loss) recognized in income			Income statement location	Gain (loss) recognized in income	
Derivative		2018	2017	Hedged item		2018	2017
Foreign exchange contracts	Other income, net	$(2.6)	$2.3	Intercompany loans	Other income, net	$2.2	$(2.9)

Cash Flow Hedges

Three months ended May 31,

Derivative	Gain or (loss) recognized in OCI		Income statement location	Gain or (loss) reclassified from AOCI	
	2018	2017		2018	2017
Interest rate contracts	$ —	$ (3.0)	Interest expense	$ 0.1	$ —
Foreign exchange contracts	2.0	(1.4)	Cost of goods sold	(1.6)	0.7
Total	$ 2.0	$ (4.4)		$ (1.5)	$ 0.7

Six months ended May 31,

Derivative	Gain or (Loss) recognized in OCI		Income statement location	Gain or (Loss) reclassified from AOCI	
	2018	2017		2018	2017
Interest rate contracts	$ —	$ (3.2)	Interest expense	$ 0.2	$ (0.1)
Foreign exchange contracts	0.8	(1.8)	Cost of goods	(2.7)	1.8

			sold		
Total	$ 0.8	$ (5.0)		$ (2.5)	$ 1.7

For all derivatives, the net amount of accumulated other comprehensive income (loss) expected to be reclassified in the next 12 months is $0.5 million as a decrease to earnings. The amount of gain or loss recognized in income on the ineffective portion of derivative instruments is not material. The amounts noted in the tables above for OCI do not include any adjustments for the impact of deferred income taxes.

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6. FAIR VALUE MEASUREMENTS

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

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

At May 31, 2018, May 31, 2017 and November 30, 2017, we had no financial assets or liabilities that were subject to a level 3 fair value measurement. Our population of financial assets and liabilities subject to fair value measurements on a recurring basis are as follows (in millions):

	May 31, 2018		
	Fair Value	Level 1	Level 2
Assets			
Cash and cash equivalents	$ 202.6	$202.6	$—
Insurance contracts	120.3	—	120.3
Bonds and other long-term investments	4.3	4.3	—
Foreign currency derivatives	5.8	—	5.8
Total	$ 333.0	$206.9	$126.1
Liabilities			
Foreign currency derivatives	$ 5.2	$—	$5.2
Interest rate derivatives	5.8	—	5.8
Total	$ 11.0	$—	$11.0

	May 31, 2017		
	Fair Value	Level 1	Level 2
Assets			
Cash and cash equivalents	$ 130.0	$130.0	$—
Insurance contracts	113.0	—	113.0
Bonds and other long-term investments	9.2	9.2	—
Foreign currency derivatives	3.2	—	3.2
Total	$ 255.4	$139.2	$116.2
Liabilities			
Foreign currency derivatives	$ 3.2	$—	$3.2
Interest rate derivatives	2.4	—	2.4
Total	$ 5.6	$—	$5.6

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	November 30, 2017		
	Fair Value	Level 1	Level 2
Assets			
Cash and cash equivalents	$ 186.8	$186.8	$—
Insurance contracts	119.5	—	119.5
Bonds and other long-term investments	7.5	7.5	—
Foreign currency derivatives	12.7	—	12.7
Total	$ 326.5	$194.3	$132.2
Liabilities			
Foreign currency derivatives	$ 4.7	$—	$4.7
Interest rate derivatives	2.5	—	2.5
Total	$ 7.2	$—	$7.2

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

The following table sets forth the carrying amounts and fair values of our long-term debt (including the current portion thereof) at May 31, 2018, May 31, 2017 and November 30, 2017 (in millions):

	May 31, 2018	May 31, 2017	November 30, 2017
Carrying amount	$4,531.7	$1,054.9	$ 4,769.5
Fair value	4,470.9	1,116.3	4,858.5

At May 31, 2018, the fair value of long-term debt includes $3,207.0 million and $1,263.9 million determined using Level 1 and Level 2 valuation techniques, respectively. At November 30, 2017, the fair value of long-term debt includes $3,615.2 million and $1,243.3 million determined using Level 1 and Level 2 valuation techniques, respectively. The fair value for Level 2 long-term debt is determined by using quoted prices for similar debt instruments. At May 31, 2017, the fair value of long-term debt was determined using Level 1 valuation techniques.

7. EMPLOYEE BENEFIT AND RETIREMENT PLANS

During the first quarters of 2018 and 2017, we made the following significant changes to our employee benefit and retirement plans:

First quarter of 2018

- On December 1, 2017, our Management Committee approved the freezing of benefits under our pension plans in Canada. The effective date of this freeze is November 30, 2019. Although those plans will be frozen, employees who are participants in the plans will retain benefits accumulated up to the date of the freeze, based on credited service and eligible earnings, in accordance with the terms of the plans.

First quarter of 2017

- On December 1, 2016, our Management Committee approved the freezing of benefits under the McCormick U.K. Pension and Life Assurance Scheme (the U.K. plan). The effective date of this freeze was December 31, 2016. Although the U.K. plan has been frozen, employees who are participants in that plan retained benefits accumulated up to the date of the freeze, based on credited service and eligible earnings, in accordance with the terms of the plan.

On January 3, 2017, our Management Committee approved the freezing of benefits under the McCormick Pension Plan, the defined benefit pension plan available to U.S. employees hired on or prior to December 31, 2011. The effective date of this freeze is November 30, 2018. Although the U.S. Pension plan will be frozen, employees who are participants in that plan will retain benefits accumulated up to the date of the freeze, based on credited service and eligible earnings, in accordance with the terms of the plan.

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• On January 3, 2017, the Compensation Committee of our Board of Directors approved the freezing of benefits under the McCormick Supplemental Executive Retirement Plan (the "SERP"). The effective date of this freeze was January 31, 2017. Although the SERP has been frozen, executives who are participants in the SERP as of the date of the freeze, including certain named executive officers, retained benefits accumulated up to that date, based on credited service and eligible earnings, in accordance with the SERP's terms.

As a result of these changes, we remeasured pension assets and benefit obligations as of the dates of the approvals indicated above and: (i) in fiscal year 2018, we reduced the Canadian plan benefit obligations by $17.5 million; and (ii) in fiscal year 2017, we reduced the U.S. and U.K. plan benefit obligations by $69.9 million and $7.8 million, respectively. These remeasurements resulted in non-cash, pre-tax net actuarial gains of $17.5 million and $77.7 million for the six months ended May 31, 2018 and 2017, respectively. These net actuarial gains consist principally of curtailment gains of $18.0 million and $76.7 million, and are included in our Consolidated Statement of Comprehensive Income for the six months ended May 31, 2018 and 2017, respectively, as a component of Other comprehensive income (loss) on the line entitled Unrealized components of pension plans. Deferred taxes associated with these actuarial gains, together with other unrealized components of pension plans recognized during the six months ended May 31, 2018 and 2017, are also included in that statement as a component of Other comprehensive income (loss).

The following table presents the components of our pension expense of the defined benefit plans for the three months ended May 31, 2018 and 2017 (in millions):

	United States		International	
	2018	2017	2018	2017
Defined benefit plans				
Service cost	$4.3	$3.4	$1.1	$1.3
Interest costs	7.9	7.7	2.3	2.5
Expected return on plan assets	(10.8)	(10.3)	(4.2)	(3.7)
Amortization of prior service costs	—	—	—	0.1
Amortization of net actuarial losses	2.5	1.3	0.7	1.0
Total pension expense	$3.9	$2.1	$(0.1)	$1.2

The following table presents the components of our pension expense of the defined benefit plans for the six months ended May 31, 2018 and 2017 (in millions):

	United States		International	
	2018	2017	2018	2017
Defined benefit plans				
Service cost	$8.7	$7.3	$2.2	$2.8
Interest costs	15.8	15.7	4.7	5.0
Expected return on plan assets	(21.6)	(20.5)	(8.4)	(7.4)
Amortization of prior service costs	—	—	0.5	0.6
Amortization of net actuarial losses	5.0	3.2	1.4	2.0
Total pension expense	$7.9	$5.7	$0.4	$3.0

During the six months ended May 31, 2018 and 2017, we contributed $7.7 million and $8.5 million, respectively, to our pension plans. Total contributions to our pension plans in fiscal year 2017 were $18.7 million.
The following table presents the components of our other postretirement benefits expense (in millions):

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	Three months ended May 31,		Six months ended May 31,	
	2018	2017	2018	2017
Other postretirement benefits				
Service cost	$0.6	$0.7	$1.2	$1.4
Interest costs	0.6	0.9	1.2	1.8
Amortization of prior service credits	(2.1)	—	(4.3)	—
Amortization of gains	—	(0.1)	—	(0.1)
Total other postretirement benefits expense	$(0.9)	$1.5	$(1.9)	$3.1

The reduction in other postretirement benefits expense for the three and six months ended May 31, 2018 is primarily attributable to plan amendments that were approved by our Management Committee on August 23, 2017 and are more fully described in note 10 of the financial statements in our Annual Report on Form 10-K for the year ended November 30, 2017.

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8. STOCK-BASED COMPENSATION

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

	Three months ended May 31,		Six months ended May 31,	
	2018	2017	2018	2017
Stock-based compensation expense	$11.8	$10.3	$16.1	$14.4

Our 2018 annual grant of stock options and RSUs occurred in the second quarter, similar to the 2017 annual grant. The weighted-average grant-date fair value of an option granted in 2018 was $20.30 and in 2017 was $17.61 as calculated under a lattice pricing model. Substantially all of the options granted vest ratably over a three-year period or upon retirement. The fair values of option grants in the stated periods were computed using the following range of assumptions for our various stock compensation plans:

	2018	2017
Risk-free interest rates	1.7 - 2.9%	0.9 - 2.4%
Dividend yield	2.0%	1.9%
Expected volatility	18.4%	18.7%
Expected lives (in years)	7.6	7.6

The following is a summary of our stock option activity for the six months ended May 31, 2018 and 2017:

	2018		2017	
(shares in millions)	Number of Shares	Weighted-Average Exercise Price	Number of Shares	Weighted-Average Exercise Price
Outstanding at beginning of period	4.8	$ 71.91	4.9	$ 66.00
Granted	0.4	105.95	0.6	98.07
Exercised	(0.4)	56.36	(0.5)	49.64
Outstanding at end of the period	4.8	$ 75.77	5.0	$ 71.36
Exercisable at end of the period	3.9	$ 69.94	3.9	$ 64.79

As of May 31, 2018, the intrinsic value (the difference between the exercise price and the market price) for all options outstanding was $123.5 million and for options currently exercisable was $122.3 million. The total intrinsic value of all options exercised during the six months ended May 31, 2018 and 2017 was $18.8 million and $24.4 million, respectively.

The following is a summary of our RSU activity for the six months ended May 31, 2018 and 2017:

	2018		2017	
(shares in thousands)	Number of Shares	Weighted-Average Grant-Date Fair Value	Number of Shares	Weighted-Average Grant-Date Fair Value
Outstanding at beginning of period	267	$ 86.47	267	$ 80.08
Granted	190	101.03	130	94.66
Vested	(117)	88.35	(118)	80.62
Forfeited	(5)	94.86	(10)	89.83
Outstanding at end of period	335	$ 93.94	269	$ 86.54

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The following is a summary of our LTPP activity for the six months ended May 31, 2018 and 2017:

	2018		2017	
(shares in thousands)	Number of Shares	Weighted-Average Grant-Date Fair Value	Number of Shares	Weighted-Average Grant-Date Fair Value
Outstanding at beginning of period	220	$ 84.31	201	$ 78.10
Granted	86	101.90	78	89.96
Vested	(59)	74.02	(43)	69.04
Outstanding at end of period	247	$ 92.91	236	$ 83.63

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9. INCOME TAXES

In December 2017, President Trump signed into law H.R. 1, "An Act to provide for reconciliation pursuant to titles II and V of the concurrent resolution on the budget for fiscal year 2018" (this legislation was formerly called the "Tax Cuts and Jobs Act" and is referred to herein as the "U.S. Tax Act"). The U.S. Tax Act provides for significant changes in the U.S. Internal Revenue Code of 1986, as amended. Certain provisions of the U.S. Tax Act are 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. The U.S. Tax Act contains provisions with separate effective dates but is generally effective for taxable years beginning after December 31, 2017.

Beginning on January 1, 2018, the U.S. Tax Act lowers the U.S. corporate income tax rate from 35% to 21% on our U.S. earnings from that date and beyond. The revaluation of our U.S. deferred tax assets and liabilities to the 21% corporate tax rate, that was recognized in the first quarter of fiscal 2018, has reduced our net U.S. deferred income tax liability by $376.5 million and is reflected as a reduction in our income tax expense in our results for the six months ended May 31, 2018.

The U.S. Tax Act imposes a one-time transition tax on post-1986 earnings of non-U.S. affiliates that have not been repatriated for purposes of U.S. 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 $78.6 million, including related additional foreign withholding taxes of $6.3 million associated with previously unremitted prior year earnings of certain foreign subsidiaries that are no longer considered indefinitely reinvested, which we have recognized as a component of our income tax expense for the six months ended May 31, 2018. As we are not a calendar year-end company, certain elements of the transition tax cannot be finalized until the completion of our U.S. tax year ending November 30, 2018. The cash tax effects of this transition tax in the amount of $72.3 million can be remitted in installments over an eight-year period and we intend to do so. In addition to the previously described repatriation tax of $78.6 million, if an actual cash repatriation of the underlying earnings of non-U.S. affiliates occurs we could also be subject to additional foreign withholding taxes and an additional U.S. tax (generally associated with the tax on foreign exchange gains or losses).

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 registrants sufficient time to obtain, prepare and analyze information to complete the accounting required under ASC 740 Income Taxes. While based upon estimates and judgments that we believe to be reasonable, the $297.9 million net benefit recognized in the first quarter of 2018 related to the U.S. Tax Act, as described above, is provisional and may change during the measurement period as a result of, 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 assumed. During the three months ended May 31, 2018, there was no change to the $297.9 million provisional net benefit recognized in the first quarter of 2018.

Income taxes for the three months ended May 31, 2018 included $2.4 million of discrete tax benefits consisting of the following: (i) $1.1 million of excess tax benefits associated with share-based compensation, and (ii) $1.3 million related to the reversal of unrecognized tax benefits and related interest associated with the expiration of statutes of limitation in non-US jurisdictions. Income taxes for the six months ended May 31, 2018 included $305.4 million of discrete tax benefits consisting of the following: (i) the $297.9 million net benefit associated with the U.S. Tax Act, previously described, (ii) $4.5 million of excess tax benefits associated with share-based compensation, and (iii) $3.5 million related to the reversal of unrecognized tax benefits and related interest associated with the expiration of statutes of limitation in non-US jurisdictions, offset by a $0.5 million net detriment related to the revaluation of deferred tax assets related to legislation enacted in a non-US jurisdiction in our first quarter.

Other than the discrete tax benefits mentioned previously and additions for current year tax positions, there were no significant changes to unrecognized tax benefits during the three and six months ended May 31, 2018.

Income taxes for the three months ended May 31, 2017 included $8.3 million of discrete tax benefits consisting of the following: (i) $7.0 million related to excess tax benefits associated with share-based compensation, and (ii) and the reversal of unrecognized tax benefits and related interest of $1.3 million associated with the expiration of a statute of limitation in a non-US jurisdiction. Income taxes for the six months ended May 31, 2017 included $10.7 million of discrete tax benefits consisting of the following: (i) $8.6 million related to excess tax benefits associated with share-based compensation, and (ii) the reversal of unrecognized tax benefits and related interest of $2.2 million associated with the expiration of statute of limitations in various jurisdictions, less (iii) a net detriment of $0.1 million resulting from the revaluation of deferred tax assets related to legislation enacted in our first quarter.

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As of May 31, 2018, we believe the reasonably possible total amount of unrecognized tax benefits that could increase or decrease in the next 12 months as a result of various statute expirations, audit closures, and/or tax settlements would not be material to our consolidated financial statements.

10. EARNINGS PER SHARE AND STOCK ISSUANCE

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

	Three months ended		Six months ended	
	May 31, 2018	May 31, 2017	May 31, 2018	May 31, 2017
Average shares outstanding – basic	131.4	124.7	131.3	125.0
Effect of dilutive securities:				
Stock options/RSUs/LTPP	1.5	1.7	1.6	1.7
Average shares outstanding – diluted	132.9	126.4	132.9	126.7

The following table sets forth the stock options and RSUs for the three and six months ended May 31, 2018 and 2017 which were not considered in our earnings per share calculation since they were anti-dilutive (in millions):

	Three months ended		Six months ended	
	May 31, 2018	May 31, 2017	May 31, 2018	May 31, 2017
Anti-dilutive securities	0.5	0.4	0.4	0.9

The following table sets forth the common stock activity for the three and six months ended May 31, 2018 and 2017 (in millions):

	Three months ended		Six months ended	
	May 31, 2018	May 31, 2017	May 31, 2018	May 31, 2017
Shares issued, net of shares withheld for taxes, under stock options, RSUs, LTPP and employee stock purchase plans	0.2	0.4	0.5	0.6
Shares repurchased under the stock repurchase program	0.1	0.5	0.3	1.4

As of May 31, 2018, $157 million remained of the $600 million share repurchase authorization that was authorized by the Board of Directors in March 2015.

11. ACCUMULATED OTHER COMPREHENSIVE LOSS

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

	May 31, 2018	May 31, 2017	November 30, 2017
Foreign currency translation adjustment	$(149.7)	$(214.4)	$ (124.4)
Unrealized (loss) gain on foreign currency exchange contracts	(1.9)	(0.7)	(3.6)

Fair value of interest rate swaps (excluding settled interest rate swaps)	—	(1.9)	—
Unamortized value of settled interest rate swaps	0.8	2.4	0.8
Pension and other postretirement costs	(157.6)	(164.7)	(152.3)
Accumulated other comprehensive loss	$(308.4)	$(379.3)	$ (279.5)

In conjunction with the adoption of ASU No. 2018-02 Income Statement-Reporting Comprehensive Income (Topic 220)-Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income, we reclassified $20.9 million of other

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comprehensive income, primarily associated with pension and other postretirement plans, from accumulated other comprehensive income to retained earnings.

The following table sets forth the amounts reclassified from accumulated other comprehensive income (loss) and into consolidated net income for the three and six months ended May 31, 2018 and 2017 (in millions):

Accumulated Other Comprehensive Income (Loss) Components	Three months ended		Six months ended		Affected Line Items in the Condensed Consolidated Income Statement
	May 31, 2018	May 31, 2017	May 31, 2018	May 31, 2017	
(Gains)/losses on cash flow hedges:					
Interest rate derivatives	$(0.1)	$ —	$(0.2)	$ 0.1	Interest expense
Foreign exchange contracts	1.6	(0.7)	2.7	(1.8)	Cost of goods sold
Total before tax	1.5	(0.7)	2.5	(1.7)	
Tax effect	(0.3)	0.2	(0.5)	0.5	Income taxes
Net, after tax	$1.2	$ (0.5)	$2.0	$ (1.2)	
Amortization of pension and postretirement benefit adjustments:					
Amortization of prior service costs (credit) (1)	$(2.1)	$ 0.1	$(3.8)	$ 0.6	SG&A expense/ Cost of goods sold
Amortization of net actuarial losses (1)	3.2	2.2	6.4	5.1	SG&A expense/ Cost of goods sold
Total before tax	1.1	2.3	2.6	5.7	
Tax effect	(0.3)	(0.8)	(0.6)	(2.0)	Income taxes
Net, after tax	$0.8	$ 1.5	$2.0	$ 3.7	

(1) This accumulated other comprehensive income (loss) component is included in the computation of total pension expense and other postretirement benefits expense (refer to note 7 for additional details).

12. BUSINESS SEGMENTS

We operate in two business segments: consumer and flavor solutions. (We formerly referred to our flavor solutions segment as our industrial segment.) The consumer and flavor solutions segments manufacture, market and distribute spices, seasoning mixes, condiments and other flavorful products throughout the world. Our consumer segment sells to retail outlets, including grocery, mass merchandise, warehouse clubs, discount and drug stores under the "McCormick" brand and a variety of brands around the world, including "French's", "Frank's RedHot", "Lawry's", "Zatarain' "Simply Asia", "Thai Kitchen", "Ducros", "Vahine", "Schwartz", "Club House", "Kamis", "Kohinoor", "DaQiao", "Drogheria Alimentari", "Stubb's", and "Gourmet Garden". Our flavor solutions segment sells to food manufacturers and the foodservice industry both directly and indirectly through distributors.

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

We measure segment performance based on operating income excluding special charges, as this activity is managed separately from the business segments, and transaction and integration expenses related to our acquisition of RB Foods, as these expenses are similarly managed separately from the business segments. These transaction and integration expenses excluded from our segment performance measure include the amortization of the acquisition-date fair value adjustment of inventories that is included in cost of goods sold, costs directly associated with that acquisition and costs associated with integrating the RB Foods business.

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

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	Consumer	Flavor Solutions (in millions)	Total
Three months ended May 31, 2018			
Net sales	$ 785.4	$ 541.9	$ 1,327.3
Operating income excluding special charges and transaction and integration expenses	131.1	76.8	207.9
Income from unconsolidated operations	6.0	1.4	7.4
Three months ended May 31, 2017			
Net sales	$ 656.4	$ 457.9	$ 1,114.3
Operating income excluding special charges	91.3	46.0	137.3
Income from unconsolidated operations	6.7	1.7	8.4
Six months ended May 31, 2018			
Net sales	$ 1,542.8	$ 1,021.6	$ 2,564.4
Operating income excluding special charges and transaction and integration expenses	263.3	139.2	402.5
Income from unconsolidated operations	13.1	2.4	15.5
Six months ended May 31, 2017			
Net sales	$ 1,295.0	$ 863.0	$ 2,158.0
Operating income excluding special charges	189.2	85.9	275.1
Income from unconsolidated operations	13.2	2.2	15.4

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A reconciliation of operating income excluding special charges and, for the three and six months ended May 31, 2018, transaction and integration expenses, to operating income is as follows (in millions):

	Consumer	Flavor Solutions	Total
Three months ended May 31, 2018			
Operating income excluding special charges and transaction and integration expenses	$ 131.1	$ 76.8	$207.9
Less: Special charges	5.4	3.0	8.4
Less: Transaction and integration expenses	5.2	2.6	7.8
Operating income	$ 120.5	$ 71.2	$191.7
Three months ended May 31, 2017			
Operating income excluding special charges	$ 91.3	$ 46.0	$137.3
Less: Special charges	3.0	1.7	4.7
Operating income	$ 88.3	$ 44.3	$132.6
Six months ended May 31, 2018			
Operating income excluding special charges and transaction and integration expenses	$ 263.3	$ 139.2	$402.5
Less: Special charges	6.4	4.2	10.6
Less: Transaction and integration expenses	11.0	5.5	16.5
Operating income	$ 245.9	$ 129.5	$375.4
Six months ended May 31, 2017			
Operating income excluding special charges	$ 189.2	85.9	$275.1
Less: Special charges	5.5	2.8	8.3
Operating income	$ 183.7	83.1	266.8

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

OVERVIEW

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

Business profile

We are a global leader in flavor, with the manufacturing, marketing and distribution of spices, seasoning mixes, condiments and other flavorful products to the entire food industry-retailers, food manufacturers and the foodservice business. 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. In fiscal year 2017, 41% of our sales were outside of the United States. We also are partners in a number of joint ventures that are involved in the manufacture and sale of flavorful products, the most significant of which is McCormick de Mexico.

We operate in two business segments, consumer and flavor solutions. Our flavor solutions segment (which we formerly referred to as our industrial segment) was renamed in early 2018 to better align the segment name with its product offerings.

Consumer segment–Our consumer segment 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.

Flavor Solutions segment–In our flavor solutions 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.

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 customers and consumers a range of products that meet the increasing demand for certain product attributes such as organic, gluten-free and non-GMO (genetically modified organisms) and that extend from premium to value-priced.

Long-term growth objectives

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 flavor solutions 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 flavor solutions customers with products that appeal to local consumers.

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Acquisitions–Acquisitions are expected to approximate one-third of our long-term sales growth. Since the beginning of 2015, we have completed seven acquisitions, which are driving sales in both our consumer and flavor solutions 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.

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 Comprehensive Continuous Improvement (CCI) program, an ongoing initiative to improve productivity and reduce costs throughout the organization, as well as savings from organization and streamlining actions described in note 3 to 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. We have a balanced use of cash for debt repayment, capital expenditures and the return of cash to shareholders through dividends and share repurchases. In 2017, that return of cash to shareholders was $375.4 million and our Board declared the 32nd consecutive annual increase in our quarterly dividend. Due to our increased level of indebtedness related to 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. Although we have curtailed our share repurchase activity, we may from time-to-time repurchase shares, primarily funded by the proceeds from stock option exercises. On a long-term basis, we expect a combination of acquisitions and share repurchases to add about 2% to earnings per share growth.

2018 outlook

We are projecting 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 13% to 15%, including an estimated 2% 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 adjusted gross profit margin to be approximately 175 to 225 basis points higher than 2017, due to the effects of favorable business mix and CCI-led cost savings. We expect approximately 25 basis points of that gross margin favorability to be offset by higher freight costs, which we classify in selling, general and administrative expense, than we incurred in 2017.

Led by CCI, we expect to reach cost savings of at least $105 million in 2018, with a large portion impacting our cost of goods sold.

In 2018, we expect a significant increase in operating income, in part, due to the effects of the RB Foods acquisition, including the related transaction and integration expenses recorded in 2017. 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.

Diluted earnings per share was $3.72 in 2017. Diluted earnings per share for 2018 are projected to range from $6.85 to $6.95. Excluding the per share impact of special charges of $0.12 and transaction and integration expenses related to the RB Foods acquisition of $0.42 in 2017, adjusted diluted earnings per share was $4.26 in 2017. Adjusted diluted earnings per share (excluding an estimated $2.24 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 $4.85 to $4.95 in 2018. We expect adjusted diluted earnings per share in 2018 to grow 14% to 16%, 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.

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RESULTS OF OPERATIONS – COMPANY

	Three months ended		Six months ended	
	May 31, 2018	May 31, 2017	May 31, 2018	May 31, 2017
Net sales	$1,327.3	$1,114.3	$2,564.4	$2,158.0
Percent increase	19.1 %	4.8 %	18.8 %	3.1 %
Components of percent growth in net sales–increase (decrease):				
Volume and product mix	2.5 %	2.0 %	1.9 %	0.5 %
Pricing actions	0.2 %	2.5 %	0.5 %	2.3 %
Acquisitions	12.9 %	2.7 %	12.7 %	2.7 %
Foreign exchange	3.5 %	(2.4)%	3.7 %	(2.4)%
Gross profit	$575.2	$444.6	$1,095.2	$857.6
Gross profit margin	43.3 %	39.9 %	42.7 %	39.7 %

Sales for the second quarter of 2018 increased by 19.1% from the prior year level and by 15.6% on a constant currency basis (that is excluding the impact of foreign currency exchange as more fully described under the caption, Non-GAAP Financial Measures). Sales in the second quarter of 2018 increased in both our consumer and flavor solutions segments. The incremental impact of the RB Foods acquisition, completed in August 2017, added 12.9% to sales. In addition, pricing actions added 0.2% to sales and favorable volume and product mix increased sales by 2.5%. Both our consumer and flavor solutions segments experienced increases in volume and product mix. Sales were impacted by favorable foreign currency rates that added 3.5% to sales compared to the year-ago quarter and is excluded from our measure of sales growth of 15.6% on a constant currency basis.

Sales for the six months ended May 31, 2018 increased by 18.8% from the prior year level and by 15.1% on a constant currency basis. For the six months ended May 31, 2018, sales increased over the prior year in both our consumer and flavor solutions segments. The incremental impact of acquisitions added 12.7%, primarily driven by the RB Foods acquisition, pricing actions added 0.5% to sales and favorable volume and product mix increased sales by 1.9%. Sales were impacted by favorable foreign currency rates that added 3.7% to sales compared to the same period in 2017 and is excluded from our measure of sales growth of 15.1% on a constant currency basis.

Gross profit for the second quarter of 2018 increased by $130.6 million, or 29.4%, over the comparable period in 2017. Gross profit for the six months ended May 31, 2018 increased by $237.6 million, or 27.7% over the comparable period in 2017. Our gross profit margins for the three and six months ended May 31, 2018 were 43.3% and 42.7%, respectively, an increase of 340 basis points and 300 basis points, respectively, from the same periods in 2017. While the expansion in our gross profit margin for both the quarter and year-to-date periods includes an accretive impact from our acquisition of the RB Foods' business, our core business was also a driver of that expansion as CCI-led cost savings and the shift in our core product portfolio to more value-added products continue to drive profit expansion across both our segments.

	Three months ended		Six months ended	
	May 31, 2018	May 31, 2017	May 31, 2018	May 31, 2017
Selling, general & administrative expense (SG&A)	$367.3	$307.3	$692.7	$582.5
Percent of net sales	27.7 %	27.6 %	27.0	