

MCCORMICK & CO INC
Form 10-K/A
February 02, 2018

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

FORM 10-K/A
(Amendment No. 1)

(Mark One)

**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 (State or other jurisdiction of incorporation or organization)	52-0408290 (IRS Employer Identification No.)
18 Loveton Circle, Sparks, Maryland (Address of principal executive offices)	21152 (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 ☐ 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 ☐

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

Indicate by check mark whether the registrant has submitted electronically 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 ☐ 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. ☐

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,"

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accelerated filer, smaller reporting company and emerging growth company in Rule 12b-2 of the Exchange Act.

Check one:

Large accelerated filer

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

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

EXPLANATORY NOTE

This Amendment No. 1 to the Annual Report on Form 10-K of McCormick & Company, Incorporated, for the fiscal year ended November 30, 2017, as filed with the Securities and Exchange Commission on January 25, 2018 (the Original Filing) is being filed solely to correct a scrivener's error in the Original Filing with respect to a description of our expectations on material cost inflation in Part II, Item 7: Management's Discussion and Analysis of Financial Condition and Results of Operations. The following sentence in the fourth paragraph under 2018 Outlook has been deleted: ~~—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.~~ The deleted sentence conflicted with the correct description of our expectations on material cost inflation, which is provided elsewhere in that section.

As required under SEC rules, this amendment sets forth the complete text of Part II, Item 7: Management's Discussion and Analysis of Financial Condition and Results of Operations, as amended. In addition, pursuant to SEC Rules, we are also including new certifications by our Principal Executive Officer and Principal Financial Officer. Except as described above, no other changes have been made to the Original Filing, and this amendment does not otherwise amend, update or change the financial statements or other disclosures in the Original Filing.

PART II.

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 [®], Frank's [®], RedHot[®] and Cattlemen [®], 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.

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.

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	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	\$
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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.

	2016	2015
Interest expense	\$ 56.0	\$ 53.3
Other income, net	4.2	1.1

Interest expense for 2016 was higher than the prior year, primarily due to higher average borrowings. Other income, net, for 2016 rose by \$3.1 million over the 2015 level, primarily due to higher interest income and lower non-operating foreign currency losses, both as compared to 2015, as well as to a gain on the 2016 sale of a non-operating asset.

	2016	2015
Income from consolidated operations before income taxes	\$ 589.2	\$ 496.2
Income taxes	153.0	131.3
Effective tax rate	26.0%	26.5%

The effective tax rate decreased 50 basis points to 26.0% in 2016, from 26.5% in 2015, primarily as a result of the following factors. Net discrete tax benefits increased by \$2.0 million, from \$19.1 million in 2015 to \$21.1 million in 2016. Both 2016 and 2015 included discrete tax benefits for (i) the reversal of reserves for unrecognized tax benefits, net of additional taxes provided, for the expiration of statutes of limitation in several tax jurisdictions, (ii) 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, and (iii) prior year adjustments for the research tax credit related to legislation enacted subsequent to the reporting dates. A portion of the 2015 discrete tax benefit was offset by a discrete tax detriment for the revaluation of deferred tax assets in the U.K. resulting from legislation enacted in 2015 reducing the statutory tax rate for future periods.

	2016	2015
Income from unconsolidated operations	\$ 36.1	\$ 36.7

Income from unconsolidated operations decreased \$0.6 million in 2016 from the prior year. This decrease was mainly attributable to 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. In 2016, our 50% interest in the McCormick de Mexico joint venture represented 57% of the sales and 83% of the income of our unconsolidated operations. We own 50% of most of our other unconsolidated joint ventures.

We reported diluted earnings per share of \$3.69 in 2016, compared to \$3.11 in 2015. The table below outlines the major components of the change in diluted earnings per share from 2015 to 2016. The increase in adjusted operating

income in the table below includes the impact from unfavorable currency exchange rates in 2016.

2015 Earnings per share diluted	\$ 3.11
Impact of decrease in special charges	0.28
Increase in adjusted operating income	0.25
Impact of lower shares outstanding	0.03
Increase other income	0.02
Impact of change in effective income tax rate, excluding taxes on special charges	0.02
Higher interest expense	(0.02)
2016 Earnings per share diluted	\$ 3.69

Consumer Segment

	2016	2015
Net sales	\$ 2,753.2	\$ 2,635.2
Percent growth	4.5%	0.4%
Components of percent growth in net sales increase (decrease):		
Volume and product mix	1.7%	3.8%
Pricing actions	1.2%	0.1%
Acquisitions	3.5%	1.4%
Foreign exchange	(1.9)%	(4.9)%
Segment operating income	\$ 490.8	\$ 456.1
Segment operating income margin	17.8%	17.3%

Sales of our consumer segment grew by 4.5% in 2016 as compared to 2015 and grew by 6.4% on a constant currency basis. Higher volume and product mix added 1.7% to sales, and pricing actions, taken in response to increased material costs, added 1.2%. The incremental impact in 2016 of acquisitions completed in that year – mainly Gourmet Garden – and two acquisitions completed in 2015 – D&A and Stubb's – added 3.5% to sales. These factors offset an unfavorable impact from foreign currency rates that reduced consumer segment sales by 1.9% compared to 2015 and is excluded from our measure of sales growth of 6.4% on a constant currency basis.

In the Americas, consumer sales rose 5.8% in 2016 as compared to 2015 and rose by 6.3% on a constant currency basis. Higher volume and product mix added 2.2% to sales, led by U.S. sales growth in spices and seasonings and recipe mixes and driven by product innovation, brand marketing, particularly in digital, and working with retailers on in-store product assortment, pricing and promotion. Pricing actions added 1.4% to sales and the incremental impact of acquisitions – mainly Gourmet Garden and Stubb's – added 2.7% to sales. These factors offset an unfavorable impact of foreign currency that reduced sales by 0.5% compared to 2015 and is excluded from our measure of sales growth of 6.3% on a constant currency basis.

In the EMEA region, consumer sales rose 2.4% in 2016 as compared to 2015 and rose 6.9% on a constant currency basis. Volume and product mix lowered sales by 0.4%, with growth in Poland and France offset by weakness in the U.K. The sales growth in Poland and France was driven by product innovation, brand marketing and expanded distribution, while weakness in the U.K. related to a difficult retail environment. Pricing added 1.5% to sales and the incremental impact of acquisitions – mainly D&A – added 5.8% to sales. An unfavorable impact from foreign currency exchange rates reduced sales by 4.5% compared to 2015 and is excluded from our measure of sales growth of 6.9% on a constant currency basis.

In the Asia/Pacific region, consumer sales increased 1.5% as compared to 2015 and increased 6.3% on a constant currency basis. Higher volume and product mix added 2.2% to sales, with strong results in both China and Australia. Volume and product mix in India declined in 2016 compared to 2015, due in part to the discontinuation of lower-margin bulk-packaged and broken rice product lines. Pricing added 0.3% to sales and the incremental impact of the Gourmet Garden acquisition added 3.8% to sales. These factors offset an unfavorable impact from foreign currency exchange rates that decreased sales by 4.8% compared to 2015 and is excluded from our measure of sales growth of 6.3% on a constant currency basis.

We grew segment operating income for our consumer segment by \$34.7 million, or 7.6%, in 2016 compared to 2015. The favorable impact of sales growth 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 8.7%. Segment operating income margin for the consumer segment rose 50 basis points to 17.8% in 2016 from 17.3% in 2015.

Industrial Segment

	2016	2015
Net sales	\$ 1,658.3	\$ 1,661.1
Percent (decline) growth	(0.2)%	2.7%
Components of percent change in net sales increase (decrease):		
Volume and product mix	1.5%	4.3%
Pricing actions	2.0%	2.6%
Acquisitions	0.4%	1.3%
Foreign exchange	(4.1)%	(5.5)%
Segment operating income	\$ 166.2	\$ 157.8
Segment operating income margin	10.0%	9.5%

Sales of our industrial segment declined 0.2% in 2016 as compared to 2015 but increased by 3.9% on a constant currency basis. Higher volume and product mix added 1.5% to sales and pricing actions, taken in response to increased material costs, added 2.0%. The incremental impact on 2016 industrial sales of the Brand Aromatics acquisition completed in 2015 added 0.4% to sales. These factors partially offset an unfavorable impact from foreign currency rates that reduced industrial segment sales by 4.1% compared to 2015 and is excluded from our measure of sales growth of 3.9% on a constant currency basis.

In the Americas, industrial sales rose 1.7% in 2016 as compared to 2015 and rose 3.7% on a constant currency basis. Higher volume and product mix added 1.4% 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 1.7% to sales and the incremental impact of the Brand Aromatics acquisition added 0.6% to sales. These factors offset an unfavorable impact from foreign currency rates that reduced sales by 2.0% compared to 2015 and is excluded from our measure of sales growth of 3.7% on a constant currency basis.

In the EMEA region, industrial sales declined 6.4% in 2016 as compared to 2015, but increased 4.8% on a constant currency basis. Higher volume and product mix added 1.1% to sales and included growth in sales to leading quick service restaurants in this region. Pricing actions added 3.7% to sales. These factors partially offset an unfavorable impact from foreign currency exchange rates that decreased sales by 11.2% compared to 2015 and is excluded from our measure of sales growth of 4.8% on a constant currency basis.

In the Asia/Pacific region, industrial sales declined 0.1% in 2016 as compared to 2015, but increased by 3.8% on a constant currency basis. Higher volume and product mix added 3.0% to sales and included growth in sales to leading quick service restaurants supplied from our facilities in both Australia and Southeast Asia that offset weakness in China that resulted, in large part, from a decision by a large customer to add a secondary supply source. Pricing actions added 0.8% to sales. These factors partially offset an unfavorable impact from foreign currency exchange rates that reduced sales by 3.9% compared to 2015 and is excluded from our measure of sales growth of 3.8% on a constant currency basis.

We grew segment operating income for our industrial segment by \$8.4 million, or 5.3%, in 2016 compared to 2015. The favorable impact of sales growth 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 11.6%. Segment

operating income margin for the industrial segment rose by 50 basis points to 10.0% in 2016 from 9.5% in 2015 and included the impact of our efforts to shift our business mix to more value-added products through innovation and acquisitions.

NON-GAAP FINANCIAL MEASURES

The following tables include financial measures of adjusted gross profit, adjusted gross profit margin, adjusted operating income, adjusted operating income margin, adjusted income from unconsolidated operations, adjusted net income and adjusted diluted earnings per share. These financial measures also exclude, for 2018, and the comparison of our expected results for 2018 to 2017, the net estimated impact of the effects of the deemed repatriation tax and remeasurement of our U.S. deferred tax assets and liabilities as a result of the recent U.S. tax legislation as these items will significantly impact comparability between years. These represent non-GAAP financial measures which are prepared as a complement to our financial results prepared in accordance with United States generally accepted accounting principles. These financial measures exclude the impact, as applicable, of the following:

Special charges Special charges consist of expenses associated with certain actions undertaken by the company to reduce fixed costs, simplify or improve processes, and improve our competitiveness and are of such significance in terms of both up-front costs and organizational/structural impact to require advance approval by our Management Committee, comprised of our Chairman, President and Chief Executive Officer; Executive Vice President and Chief Financial Officer; President, Global Industrial Segment and McCormick International; President, Global Consumer Segment and Americas; Senior Vice President, Human Relations; and Senior Vice President, Strategy and Global Enablement. Upon presentation of any such proposed action (including details with respect to estimated costs, which generally consist principally of employee severance and related benefits, together with ancillary costs associated with the action that may include a non-cash component or a component which relates to inventory adjustments that are included in cost of goods sold; impacted employees or operations; expected timing; and expected savings) to the Management Committee and the Committee's advance approval, expenses associated with the approved action are classified as special charges upon recognition and monitored on an ongoing basis through completion.

Transaction and integration expenses associated with the RB Foods acquisition Beginning in 2017, we revised our non-GAAP measures to exclude certain costs associated with our acquisition of RB Foods in August of 2017 and its subsequent integration into the company. We made this change because of the significance of the RB Foods acquisition and, therefore, the impact on the comparability of our results of the costs associated with the acquisition and subsequent integration. Such costs, which we refer to as transaction and integration expenses include the impact of the acquisition-date fair value adjustment for inventory, transaction costs associated with the acquisition, integration costs following the acquisition, and the bridge financing costs. In our income statement, we include the impact of the fair value adjustment for inventory in cost of goods sold, the bridge financing cost in other debt costs, and present all other transaction and integration costs associated with the RB Foods acquisition in our income statement on the line, Transaction and integration expenses (related to RB Foods acquisition). The size of this acquisition and related costs distinguishes it from our past, recent and smaller acquisitions, the costs of which have not been excluded from our non-GAAP financial measures.

Details with respect to the composition of special charges, as well as transaction and integration expenses (including other debt costs) recorded for the periods and in the amounts set forth below are included in notes 2 and 3, respectively, of the financial statements.

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

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

A reconciliation of these non-GAAP measures to GAAP financial results is provided below (in millions, except per share data):

	2017	2016	2015
Gross profit	\$ 2,010.2	\$ 1,831.7	\$ 1,737.3
Impact of special charges, transaction and integration expenses included in cost of goods sold (1)	20.9	0.3	4.0
Adjusted gross profit	\$ 2,031.1	\$ 1,832.0	\$ 1,741.3
Adjusted gross profit margin (2)	42.0%	41.5%	40.5%
Operating income	\$ 702.4	\$ 641.0	\$ 548.4
Impact of special charges, transaction and integration expenses included in cost of goods sold (1)	20.9	0.3	4.0
Impact of other transaction and integration expenses (1)	40.8		
Impact of other special charges (3)	22.2	15.7	61.5
Adjusted operating income	\$ 786.3	\$ 657.0	\$ 613.9
% increase versus prior year	19.7%	7.0%	0.9%
Adjusted operating income margin (2)	16.3%	14.9%	14.3%
Income from unconsolidated operations	\$ 33.9	\$ 36.1	\$ 36.7
Impact of special charges attributable to non-controlling interests (4)		(1.9)	(2.0)
Adjusted income from unconsolidated operations	\$ 33.9	\$ 34.2	\$ 34.7
% (decrease) increase versus prior year	(0.9)%	(1.4)%	18.0%
Net income	\$ 477.4	\$ 472.3	\$ 401.6

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Impact of total transaction and integration expenses ⁽¹⁾	53.5		
Impact of total special charges ⁽³⁾	15.8	13.0	49.9
Impact of special charges attributable to non-controlling interests ⁽⁴⁾		(1.9)	(2.0)
Adjusted net income	\$ 546.7	\$ 483.4	\$ 449.5
% increase versus prior year	13.1%	7.5%	1.8%
Earnings per share diluted	\$ 3.72	\$ 3.69	\$ 3.11
Impact of total transactions and integration expenses ⁽¹⁾	0.42		
Impact of total special charges ⁽³⁾	0.12	0.10	0.38
Impact of special charges attributable to non-controlling interests ⁽⁴⁾		(0.01)	(0.01)
Adjusted earnings per share diluted	\$ 4.26	\$ 3.78	\$ 3.48
% increase versus prior year	12.7%	8.6%	3.3%

- (1) As more fully described in note 2 of the financial statements, transaction and integration expenses related to the acquisition of RB Foods are recorded in our consolidated income statement as follows for the year ended November 30, 2017 (in millions, except per share amounts):

Transaction and integration expenses included in cost of goods sold	\$ 20.9
Reflected in transaction and integration expenses	40.8
Transaction and integration expenses included in operating income	61.7
Transaction and integration expenses included in other debt costs	15.4
Total pre-tax transaction and integration expenses	77.1
Less: Tax effect	(23.6)
Total after-tax transaction and integration expenses	\$ 53.5

- (2) Adjusted gross profit margin is calculated as adjusted gross profit as a percentage of net sales for each period presented. Adjusted operating income margin is calculated as adjusted operating income as a percentage of net sales for each period presented.
- (3) Total special charges of \$22.2 million for 2017, \$16.0 million for 2016 and \$65.5 million for 2015 are net of taxes of \$6.4 million, \$3.0 million and \$15.6 million, respectively.
- (4) In 2016, represents the portion of the total special charge of \$2.8 million, net of tax of \$0.9 million, associated with our exit of a consolidated joint venture in South Africa, attributable to our former joint venture partner. In 2015, represents the portion of the Kohinoor total special charge of \$14.2 million attributable to Kohinoor's 15% minority stakeholder.

	Estimate for the year ending November 30, 2017
Earnings per share diluted	\$ 6.89 to \$7.14
Impact of special charges and transaction and integration expenses	0.24
Estimated non-recurring benefit, net of the U.S. Tax Act	(2.33) to (2.48)
Adjusted earnings per share diluted	\$ 4.80 to \$4.90

Because we are a multi-national company, we are subject to variability of our reported U.S. dollar results due to changes in foreign currency exchange rates. Those changes have been volatile over the past several years. The exclusion of the effects of foreign currency exchange, or what we refer to as amounts expressed on a constant currency basis, is a non-GAAP measure. We believe that this non-GAAP measure provides additional information that enables enhanced comparison to prior periods excluding the translation effects of changes in rates of foreign currency exchange and provides additional insight into the underlying performance of our operations located outside of the U.S.

It should be noted that our presentation herein of amounts and percentage changes on a constant currency basis does not exclude the impact of foreign currency transaction gains and losses (that is, the impact of transactions denominated in other than the local currency of any of our subsidiaries in their local currency reported results).

Percentage changes in sales and adjusted operating income expressed on a constant currency basis are presented excluding the impact of foreign currency exchange. To present this information for historical periods, current year results for entities reporting in currencies other than the U.S. dollar are translated into U.S. dollars at the average exchange rates in effect during the prior fiscal year, rather than at the actual average exchange rates in effect during the current fiscal year. As a result, the foreign currency impact is equal to the current year results in local currencies multiplied by the change in the average foreign currency exchange rate between the current year and the prior fiscal year. The tables set forth below present our growth in net sales and adjusted operating income on a constant currency basis as follows: (1) to present our growth in net sales and adjusted operating income for 2017 on a constant currency basis, net sales and adjusted operating income for 2017 for entities reporting in currencies other than the U.S. dollar have been translated using the average foreign exchange rates in effect for 2016 and compared to the reported results for 2016; and (2) to present our growth in net sales and adjusted operating income for 2016 on a constant currency basis, net sales and operating income for 2016 for entities reporting in currencies other than the U.S. dollar have been translated using the average foreign exchange rates in effect for 2015 and compared to the reported results for 2015.

For the year ended November 30, 2017			
	Percentage change as reported	Impact of foreign currency exchange	Percentage change on constant currency basis
Net sales:			
Consumer segment:			
Americas	11.2%	0.1%	11.1%
EMEA	(1.6)%	0.7%	(2.3)%
Asia/Pacific	6.4%	(2.5)%	8.9%
Total Consumer	7.9%	(0.1)%	8.0%
Industrial segment:			
Americas	10.8%	(0.4)%	11.2%
EMEA	20.5%	(6.4)%	26.9%
Asia/Pacific	9.0%	(1.1)%	10.1%
Total Industrial	12.4%	(1.6)%	14.0%
Total net sales	9.6%	(0.7)%	10.3%
Adjusted operating income:			
Consumer segment	15.0%	0.1%	14.9%
Industrial segment	33.6%	(3.5)%	37.1%
Total adjusted operating income	19.7%	(0.8)%	20.5%

For the year ended November 30, 2016			
	Percentage change as reported	Impact of foreign currency exchange	Percentage change on constant currency basis
Net sales:			
Consumer segment:			
Americas	5.8%	(0.5)%	6.3%
EMEA	2.4%	(4.5)%	6.9%
Asia/Pacific	1.5%	(4.8)%	6.3%
Total Consumer	4.5%	(1.9)%	6.4%
Industrial segment:			
Americas	1.7%	(2.0)%	3.7%
EMEA	(6.4)%	(11.2)%	4.8%
Asia/Pacific	(0.1)%	(3.9)%	3.8%
Total Industrial	(0.2)%	(4.1)%	3.9%
Total net sales	2.7%	(2.8)%	5.5%

Adjusted operating income:			
Consumer segment	7.6%	(1.1)%	8.7%
Industrial segment	5.3%	(6.3)%	11.6%
Total adjusted operating income	7.0%	(2.4)%	9.4%

To present information for the fiscal year 2018 projection on a constant currency basis, projected sales for entities reporting in currencies other than the U.S. dollar are translated into U.S. dollars at the company's budgeted exchange rates for 2018 and are compared to the 2017 results, translated into U.S. dollars using the same 2018 budgeted exchange rates, rather than at the average actual exchange rates in effect during fiscal year 2017.

	Estimate for the year ending November 30, 2018
Percentage change in net sales	12% to 14%
Impact of favorable foreign currency exchange rates	(1)%
Percentage change in net sales on a constant currency basis	11% to 13%

In addition to the above non-GAAP financial measures, we use a leverage ratio which is determined using non-GAAP measures. A leverage ratio is a widely-used measure of ability to repay outstanding debt obligations and is a meaningful metric to investors in evaluating financial leverage. We believe that our leverage ratio is a meaningful metric to investors in evaluating our financial leverage and may be different than the method used by other companies to calculate such a leverage ratio. We determine our leverage ratio as net debt (which we define as total debt, net of cash in excess of \$75.0 million) to adjusted earnings before interest, tax, depreciation and amortization (Adjusted EBITDA). We define Adjusted EBITDA as net income plus expenses for interest, income taxes, depreciation and amortization, less interest income and as further adjusted for cash and non-cash acquisition-related transaction and integration expenses (which may include the effect of the fair value adjustment of acquired inventory on cost of goods sold), special charges and stock-based compensation expenses. Adjusted EBITDA and our leverage ratio are both non-GAAP financial measures. Our determination of the leverage ratio is consistent with the terms of our \$1.0 billion revolving credit facility and our term loans which require us to maintain our leverage ratio below certain levels. Under those agreements, the applicable leverage ratio is reduced annually commencing on November 30, 2018. As of November 30, 2017, our capacity under the revolving credit facility is not affected by these covenants. We do not expect that these covenants would limit our access to our revolving credit facility for the foreseeable future; however, the leverage ratio could restrict our ability to utilize this facility. We expect to comply with this financial covenant for the foreseeable future.

The following table reconciles our net income to Adjusted EBITDA for the years ended November 30, 2017, 2016 and 2015:

	2017	2016	2015
Net income	\$ 477.4	\$ 472.3	\$ 401.6
Depreciation and amortization	125.2	108.7	105.9
Interest expense	95.7	56.0	53.3
Income tax expense	151.3	153.0	131.3
EBITDA	849.6	790.0	692.1
Adjustments to EBITDA ^{(1), (2)}	117.4	36.1	77.8
Adjusted EBITDA	\$ 967.0	\$ 826.1	\$ 769.9
Net debt ⁽³⁾	\$ 4,915.3	\$ 1,403.8	\$ 1,356.8
Leverage ratio (Net debt/Adjusted EBITDA)	5.1	1.7	1.8

(1)

Adjustments to EBITDA are determined under the leverage ratio covenant in our \$1.0 billion revolving credit facility and term loan agreements and includes special charges, stock-based compensation expense and, for the trailing twelve-month period ended November 30, 2017, transaction and integration expenses (related to RB Foods acquisition), including other debt costs.

- (2) The leverage ratio covenant in our \$1.0 billion revolving credit facility and the term loan agreements provide that Adjusted EBITDA also includes the pro forma impact of acquisitions. As of November 30, 2017, our leverage ratio under the terms of those agreements is 4.5.
- (3) The leverage ratio covenant in our \$1.0 billion revolving credit facility and the term loan agreements define net debt as the sum of short-term borrowings, current portion of long-term debt, and long-term debt, less the amount of cash and cash equivalents that exceeds \$75.0 million.

Our long-term target for our leverage ratio is 1.5 to 1.8. Our leverage ratio can be temporarily impacted by our acquisition activity.

LIQUIDITY AND FINANCIAL CONDITION

	2017	2016	2015
Net cash provided by operating activities	\$ 815.3	\$ 658.1	\$ 590.0
Net cash used in investing activities	(4,508.3)	(267.1)	(338.9)
Net cash provided by (used in) financing activities	3,756.0	(371.5)	(199.6)

We generate strong cash flow from operations which enables us to fund operating projects and investments that are designed to meet our growth objectives, service our debt, increase our dividend, fund capital projects and make share repurchases when appropriate. Due to the cyclical nature of a portion of our business, we generate much of our cash flow in the fourth quarter of the fiscal year.

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

The reported values of our assets and liabilities held in our non-U.S. subsidiaries and affiliates can be significantly affected by fluctuations in foreign exchange rates between periods. At November 30, 2017, the exchange rates for the Euro, the British pound sterling, Canadian dollar, Australian dollar, Polish zloty and Chinese renminbi were higher versus the U.S. dollar than at November 30, 2016.

Operating Cash Flow Operating cash flow was \$815.3 million in 2017, \$658.1 million in 2016 and \$590.0 million in 2015. The improvement in cash flow from operations in 2017 compared to 2016 is primarily attributable to improvements in cash flow generated from inventories and accounts payable and a higher level of non-cash items that impacted net income, which was partially offset by the timing of employee benefit payments. The improvement in cash flow from operations in 2016 compared to 2015 is predominantly due to higher net income, resulting principally from higher sales and gross profit, a decrease in cash payments related to special charges and the impact of higher income tax and employee benefit accruals.

Our working capital management principally related to inventory, trade accounts receivable, and accounts payable impacts our operating cash flow. The change in inventory had a significant impact on the variability in cash flow from operations. It was a significant source of cash in 2017, a significant use of cash in 2016 and a less significant use of cash in 2015, when compared to 2016. The change in trade accounts receivable has varied in the last three years, as it was a use of cash in 2017 and 2016 and a source of cash in 2015. The change in accounts payable was a significant source of cash in all three years, but more so in 2017 compared to 2016 and 2015. Dividends received from unconsolidated affiliates, which were lower in 2017 as compared to 2016 and higher in 2016 as compared to 2015, also impacted our cash flow from operations.

In addition to operating cash flow, we also use cash conversion cycle (CCC) to measure our working capital management. This metric is different than operating cash flow in that it uses average balances instead of specific point in time measures. CCC is a calculation of the number of days, on average, that it takes us to convert a cash outlay for resources, such as raw materials, to a cash inflow from collection of accounts receivable. Our goal is to lower our CCC over time. We calculate CCC as follows:

Days sales outstanding (average trade accounts receivable divided by average daily net sales) plus days in inventory (average inventory divided by average daily cost of goods sold) less days payable outstanding (average trade accounts payable divided by average daily cost of goods sold plus the average daily change in inventory).

The following table outlines our cash conversion cycle (in days) over the last three years:

	2017	2016	2015
Cash Conversion Cycle	76.6	88.5	90.2

The decrease in CCC in 2017 from 2016 is due to an increase in our days payable outstanding as a result of extending our payment terms to suppliers and, to a lesser extent, a decrease in our days in inventory. The decrease in CCC in 2016 from 2015 is mainly due to an increase in our days payable outstanding as a result of extending our payment terms to suppliers.

Investing Cash Flow Net cash used in investing activities was \$4,508.3 million in 2017, \$267.1 million in 2016 and \$338.9 million in 2015. The variability between years is principally a result of cash usage related to our acquisitions of businesses, which amounted to \$4,327.4 million in 2017, \$120.6 million in 2016 and \$210.9 million in 2015. See note 2 of the financial statements for further details related to these acquisitions. Capital expenditures were \$182.4 million in 2017, \$153.8 million in 2016 and \$128.4 million in 2015. We expect 2018 capital expenditures to approximate \$200 million to support our planned growth.

Financing Cash Flow Net cash provided by financing activities was \$3,756.0 million in 2017, as compared to a cash usage of \$371.5 million in 2016 and \$199.6 million in 2015. The variability between years is principally a result of changes in our net borrowings, share repurchase activity and dividends, both as described below. In 2017, 2016 and 2015, our net borrowing activity provided cash of \$3,574.6 million, \$55.7 million and \$118.0 million, respectively. In 2017, we issued \$4,000.0 million of long-term debt, including \$2,500.0 million of notes and \$1,500.0 million of term loans (see note 6 of the financial statements for additional information with respect to this long-term debt). The net proceeds from the issuance of this long-term debt were \$3,977.6 million. We also paid \$7.7 million of costs associated with the issuance of debt and our \$1.0 billion revolving credit facility. In 2017, we repaid \$272.7 million of long-term debt, including \$268.8 million of our \$1,500.0 million term loans issued in August 2017.

In 2016, net proceeds from short-term borrowings of \$251.7 million were used to pay off \$200 million of 5.20% notes that matured in December 2015 and for general corporate purposes. In 2015, we received net cash proceeds of \$246.5 million from our issuance of \$250.0 million of 3.25% notes due 2025. The net proceeds from this offering were used to pay down short-term borrowings and for general corporate purposes in 2015.

In 2017 and 2015, we repaid \$134.6 million and \$127.4 million, respectively, of short-term borrowings.

The following table outlines the activity in our share repurchase programs:

	2017	2016	2015
Number of shares of common stock	1.4	2.6	1.9
Dollar amount	\$ 137.8	\$ 242.7	\$ 145.8

As of November 30, 2017, \$189 million remained of a \$600 million share repurchase program that was authorized by our 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.

During 2017, we issued approximately 6.35 million shares of our Common Stock Non-Voting to fund our acquisition of RB Foods (see notes 2 and 13 of the financial statements), which included approximately 0.8 million shares from the exercise of the underwriters' option to purchase additional shares. The net proceeds from this issuance, after the underwriting discount and related expenses, was \$554.0 million. In addition, we also issued \$29.5 million of common stock related to our stock compensation plans in 2017. All of the common stock issued in 2016 and 2015 relates to our stock compensation plans, including the effects of the related excess tax benefits.

Our dividend history over the past three years is as follows:

	2017	2016	2015
Total dividends paid	\$ 237.6	\$ 217.8	\$ 204.9
Dividends paid per share	1.88	1.72	1.60
Percentage increase per share	9.3%	7.5%	8.1%

In November 2017, the Board of Directors approved a 10.6% increase in the quarterly dividend from \$0.47 to \$0.52 per share.

The following table presents our leverage ratios for the trailing twelve month periods ended November 30, 2017, 2016 and 2015:

	2017	2016	2015
Leverage ratio	5.1	1.7	1.8

Our leverage ratio was 5.1 as of November 30, 2017, as compared to the ratios of 1.7 and 1.8 as of November 30, 2016 and 2015, respectively. The increase in the ratio from 1.7 as of November 30, 2016 to 5.1 as of November 30, 2017 is principally due to an increase in total debt associated with the funding, net of cash flow from operations for 2017, of our acquisitions of RB Foods and Giotti, repurchases of common stock and payment of dividends.

The leverage ratio covenant in our \$1.0 billion revolving credit facility and the term loan agreements, both outstanding at November 30, 2017, provide that Adjusted EBITDA under that covenant also include the pro forma impact of acquisitions. As of November 30, 2017, our leverage ratio under the terms of those agreements is 4.5.

Most of our cash is in our foreign subsidiaries. We manage our worldwide cash requirements by considering available funds among the many subsidiaries through which we conduct our business and the cost effectiveness with which those funds can be accessed. Prior to the enactment of the U.S. Tax Act on December 22, 2017, the permanent repatriation of cash balances from certain of our subsidiaries could have had adverse tax consequences; however, those balances are generally available without legal restrictions to fund ordinary business operations, capital projects and future acquisitions. At November 30, 2017, we temporarily used \$43.4 million of cash from our foreign subsidiaries to pay down short-term debt in the U.S. The average short-term borrowings outstanding for the years ended November 30, 2017 and 2016 were \$630.6 million and \$603.8 million, respectively. The total average debt outstanding for the years ended November 30, 2017 and 2016 was \$2,996.6 million and \$1,658.8 million, respectively.

See notes 6 and 7 of the financial statements for further details of these transactions.

Credit and Capital Markets The following summarizes the more significant impacts of credit and capital markets on our business:

CREDIT FACILITIES Cash flows from operating activities are our primary source of liquidity for funding growth, share repurchases, dividends and capital expenditures. We also rely on our revolving credit facility, or borrowings backed by this facility, to fund seasonal working capital needs and other general corporate requirements.

In August 2017, we entered into a five-year \$1.0 billion revolving credit facility, which will expire in August 2022. The current pricing for the credit facility, on a fully drawn basis, is LIBOR plus 1.25%. The pricing of the credit facility is based on a credit rating grid that contains a fully drawn maximum pricing of the credit facility equal to LIBOR plus 1.75%. This facility replaces our prior facilities: (i) a five-year \$750 million revolving credit facility that was due to expire in June 2020 and (ii) a 364-day \$250 million revolving facility, which we entered into in the second quarter of 2017 and that was due to expire in March 2018. We generally use this facility to support our issuance of commercial paper. If the commercial paper market is not available or viable, we could borrow directly under our revolving credit facility. The facility is made available by a syndicate of banks, with various commitments per bank. If any of the banks in this syndicate are unable to perform on their commitments, our liquidity could be impacted, which could reduce our ability to grow through funding of seasonal working capital. In addition to our committed revolving credit facility, we have uncommitted credit facilities for \$233.1 million as of November 30, 2017 that will expire in 2018. We engage in regular communication with all banks participating in our 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 and other aspects of the relationships. Based on these communications and our monitoring activities, we believe our banks will perform on their commitments. See note 6 of the financial statements for more details on our financing arrangements. We believe that our internally generated funds and the existing sources of liquidity under our credit facilities are sufficient to fund ongoing operations.

PENSION ASSETS AND OTHER INVESTMENTS We hold investments in equity and debt securities in both our qualified defined benefit pension plans and through a rabbi trust for our nonqualified defined benefit pension plan. Cash payments to pension plans, including unfunded plans, were \$18.7 million in 2017, \$25.1 million in 2016 and \$15.7 million in 2015. It is expected that the 2018 total pension plan contributions will be approximately \$5 million primarily for international plans. Future increases or decreases in pension liabilities and required cash contributions are highly dependent on changes in interest rates and the actual return on plan assets. We base our investment of plan assets, in part, on the duration of each plan's liabilities. Across all of our qualified defined benefit pension plans, approximately 64% of assets are invested in equities, 26% in fixed income investments and 10% in other investments. Assets in the rabbi trust are primarily invested in corporate-owned life insurance, the value of which approximates an investment mix of 50% in equities and 50% in fixed income investments. See note 10 of the financial statements, which provides details on our pension funding.

CUSTOMERS AND COUNTERPARTIES See the subsequent section of this discussion under Market Risk Sensitivity Credit Risk.

ACQUISITIONS

Acquisitions are part of our strategy to increase sales and profits.

In fiscal 2017, we made the following acquisitions:

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. 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. Our acquisition of Giotti in fiscal 2017 expanded the breadth of value-added products for McCormick's industrial segment, including additional expertise in flavoring health and nutrition products.

On August 17, 2017, we completed the acquisition of RB Foods. 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 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 (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 Cattleman'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 operations of RB Foods have been included as a component of our consumer and industrial segments from the date of acquisition.

In fiscal 2016, we made the following acquisitions:

On April 19, 2016, we completed the purchase of 100% of the shares of Botanical Food Company, Pty Ltd, owner of the Gourmet Garden brand of packaged herbs (Gourmet Garden), a privately held company based in Australia. Gourmet Garden is a global market leader in chilled convenient packaged herbs. Gourmet Garden's products complement our existing branded herb portfolio with the addition of chilled convenient herbs located in the perimeter of the grocery store. We plan to drive sales of the Gourmet Garden brand by expanding global distribution and building awareness with increased brand investment. The purchase price was \$116.2 million, net of cash acquired of \$3.3 million, and was financed with a combination of cash and short-term borrowings. Gourmet Garden has been included in our consumer segment since its acquisition. While this business has an industrial component, the industrial component is not currently material to its overall business.

On September 1, 2016, we acquired the Cajun Injector business for \$4.4 million. Cajun Injector has been included in our consumer segment since its acquisition.

In fiscal 2015, we made the following acquisitions:

We purchased 100% of the shares of Brand Aromatics, a privately held company located in the U.S. Brand Aromatics is a supplier of natural savory flavors, marinades, and broth and stock concentrates to the packaged food industry. Its addition expanded the breadth of value-added products in our industrial segment. The purchase price for Brand Aromatics was \$62.4 million, net of post-closing adjustments and was financed with a combination of cash and short-term borrowings. Brand Aromatics has been included in our industrial segment since its acquisition.

We purchased 100% of the shares of D&A, a privately held company based in Italy, and a leader of the spice and seasoning category in Italy that supplies both branded and private label products to consumers. The purchase price for D&A consisted of a cash payment of \$49.0 million, net of cash acquired of \$2.8 million, subject to certain closing adjustments, and was financed with a combination of cash and short-term borrowings. In 2017, the contingent consideration liability specified in the purchase agreement was settled in advance of its contractual term for approximately \$29.3 million (\$26.1 million), with \$19.7 million (\$17.6 million) paid in 2017. That \$17.6 million was in addition to the \$5.0 million prepayment of the contingent consideration that we made as of the acquisition date, with the remaining \$3.5 million expected to be paid in 2018. D&A has been included in our consumer segment since its acquisition.

We purchased 100% of the shares of One World Foods, Inc., owner of the Stubb's brand of barbeque products (Stubb's), a privately held company located in Austin, Texas. Stubb's is a leading premium barbeque sauce brand in the U.S. In addition to sauces, Stubb's products include marinades, rubs and skillet sauces. Its addition expanded the breadth of value-added products in our consumer segment. The purchase price for Stubb's was \$99.4 million, subject to certain closing adjustments, and was financed with a combination of

cash and short-term borrowings. Stubb s has been included in our consumer segment since its acquisition. See note 2 of the financial statements for further details regarding these acquisitions.

PERFORMANCE GRAPH SHAREHOLDER RETURN

The following line graph compares the yearly change in McCormick's cumulative total shareholder return (stock price appreciation plus reinvestment of dividends) on McCormick's Non-Voting Common Stock with (1) the cumulative total return of the Standard & Poor's 500 Stock Price Index, assuming reinvestment of dividends, and (2) the cumulative total return of the Standard & Poor's Packaged Foods & Meats Index, assuming reinvestment of dividends.

MARKET RISK SENSITIVITY

We utilize derivative financial instruments to enhance our ability to manage risk, including foreign exchange and interest rate exposures, which exist as part of our ongoing business operations. We do not enter into contracts for trading purposes, nor are we a party to any leveraged derivative instrument. The use of derivative financial instruments is monitored through regular communication with senior management and the utilization of written guidelines. The information presented below should be read in conjunction with notes 6 and 7 of the financial statements.

Foreign Exchange Risk 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 manage certain of these foreign currency risks.

During 2017, the foreign currency translation component in other comprehensive income was principally related to the impact of exchange rate fluctuations on our net investments in our subsidiaries with a functional currency of the British pound sterling, Euro, Polish zloty, Chinese yuan and Australian dollar. We did not hedge our net investments in subsidiaries and unconsolidated affiliates.

The following table summarizes the foreign currency exchange contracts held at November 30, 2017. All contracts are valued in U.S. dollars using year-end 2017 exchange rates and have been designated as hedges of foreign currency transactional exposures, firm commitments or anticipated transactions.

FOREIGN CURRENCY EXCHANGE CONTRACTS AT NOVEMBER 30, 2017

Currency sold	Currency received	Notional value	Average contractual exchange rate	Fair value
Euro	U.S. dollar	\$ 11.0	1.14	\$ (0.6)
British pound sterling	U.S. dollar	30.0	1.29	(1.6)
Canadian dollar	U.S. dollar	174.0	0.78	1.5
U.S. dollar	Australian dollar	17.8	0.78	(0.4)
Polish zloty	U.S. dollar	17.9	3.78	(1.3)
Australian dollar	Euro	46.4	1.50	2.7
Swiss franc	Euro	67.3	1.08	5.6
Canadian dollar	British pound sterling	30.4	1.65	1.9

We had a number of smaller contracts at November 30, 2017 with an aggregate notional value of \$11.1 million to purchase or sell other currencies, such as the Swiss franc and the Romanian leu. The aggregate fair value of these contracts was \$0.2 million at November 30, 2017.

At November 30, 2016, we had foreign currency exchange contracts for the Euro, British pound sterling, Canadian dollar, Australian dollar and Polish zloty with a notional value of \$449.2 million, all of which matured in 2017. The aggregate fair value of these contracts was \$(0.5) million at November 30, 2016.

Interest Rate Risk Our policy is to manage interest rate risk by entering into both fixed and variable rate debt arrangements. We also use interest rate swaps to minimize worldwide financing costs and to achieve a desired mix of fixed and variable rate debt. The table that follows provides principal cash flows and related interest rates, excluding the effect of interest rate swaps and the amortization of any discounts or fees, by fiscal year of maturity at November 30, 2017. For foreign currency-denominated debt, the information is presented in U.S. dollar equivalents. Variable interest rates are based on the weighted-average rates of the portfolio at the end of the year presented.

YEARS OF MATURITY AT NOVEMBER 30, 2017

	2018	2019	2020	2021	Thereafter	Total	Fair value
Debt							
Fixed rate	\$ 250.6	\$ 0.5	\$ 0.2	\$ 250.2	\$ 3,061.1	\$ 3,562.6	\$ 3,615.2
Average interest rate	5.75%	7.10%	11.94%	3.91%	3.33%		
Variable rate	\$ 332.6	\$ 76.6	\$ 576.6	\$ 76.6	\$ 438.5	\$ 1,500.9	\$ 1,500.9
Average interest rate	2.39%	2.72%	2.57%	2.72%	2.74%		

The table above displays the debt by the terms of the original debt instrument without consideration of fair value, interest rate swaps and any loan discounts or origination fees. Interest rate swaps have the following effects:

We issued \$250 million of 5.75% notes due in December 2017 in December 2007. Forward treasury lock agreements settled upon issuance of these notes effectively set the interest rate on these notes at a weighted-average fixed rate of 6.25%.

We issued \$250 million of 3.90% notes due in 2021 in July 2011. Forward treasury lock agreements settled upon issuance of these notes effectively set the interest rate on these notes at a weighted-average fixed rate of 4.01%.

We issued \$250 million of 3.50% notes due in 2023 in August 2013. Forward treasury lock agreements settled upon issuance of these notes effectively set the interest rate on these notes at a weighted-average fixed rate of 3.30%.

We issued \$250 million of 3.25% notes due in 2025 in November 2015. Forward treasury lock agreements settled upon issuance of these notes effectively set the interest rate on these notes at a weighted-average fixed rate of 3.45%. The fixed interest rate on \$100 million of the 3.25% notes due in December 2025 was effectively converted to a variable rate by interest rate swaps through 2025. Net interest payments are based on 3 month LIBOR plus 1.22% during this period.

We issued an aggregate amount of \$2.5 billion of senior unsecured notes in August 2017. These notes are due as follows: \$750 million due August 15, 2022, \$700 million due August 15, 2024, \$750 million due August 15, 2027 and \$300 million due August 15, 2047 with stated fixed interest rates of 2.70%, 3.15%, 3.40% and 4.20%, respectively. Forward treasury lock agreements settled upon issuance of the \$750 million notes due August 15, 2027 effectively set the interest rate on these \$750 million notes at a weighted-average fixed rate of 3.44%.

Commodity Risk We purchase certain raw materials which are subject to price volatility caused by weather, market conditions, growing and harvesting conditions, governmental actions and other factors beyond our control. In 2017, our most significant raw materials were pepper, dairy products, garlic, vanilla, capsicums (red peppers and paprika), onion, wheat flour and rice. While future movements of raw material costs are uncertain, we respond to this volatility in a number of ways, including strategic raw material purchases, purchases of raw material for future delivery and customer price adjustments. We generally have not used derivatives to manage the volatility related to this risk. To the extent that we have used derivatives for this purpose, it has not been material to our business.

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

CONTRACTUAL OBLIGATIONS AND COMMERCIAL COMMITMENTS

The following table reflects a summary of our contractual obligations and commercial commitments as of November 30, 2017:

CONTRACTUAL CASH OBLIGATIONS DUE BY YEAR

	Total	Less than 1 year	1 3 years	3 5 years	More than 5 years
Short-term borrowings	\$ 257.6	\$ 257.6	\$	\$	\$
Long-term debt	4,805.9	325.6	653.9	1,509.4	2,317.0
Operating leases	172.0	41.7	59.6	37.0	33.7
Interest payments	1,187.5	150.0	276.0	232.9	528.6
Raw material purchase obligations ^(a)	469.4	469.4			
Other purchase obligations ^(b)	17.8	14.4	3.4		
Total contractual cash obligations	\$ 6,910.2	\$ 1,258.7	\$ 992.9	\$ 1,779.3	\$ 2,879.3

- (a) Raw material purchase obligations outstanding as of year end may not be indicative of outstanding obligations throughout the year due to our response to varying raw material cycles.
- (b) Other purchase obligations consist of advertising media commitments and utility contracts.

The contractual cash obligations table above does not reflect any estimated lease payment obligation with respect to a 15-year lease for a headquarters building in Hunt Valley, Maryland, which we entered into in July 2016. The lease, which is expected to commence upon completion of building construction and fit-out, currently scheduled for the second half of 2018, will require monthly lease payments of approximately \$0.9 million beginning six months after lease commencement. That 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 an increase in the event of agreed-upon changes to specifications related to the headquarters building. See note 6 of the financial statements for additional details.

Pension and postretirement funding can vary significantly each year due to changes in legislation, our significant assumptions and investment return on plan assets. As a result, we have not presented pension and postretirement funding in the table above.

COMMERCIAL COMMITMENTS EXPIRATION BY YEAR

	Total	Less than 1 year	1 3 years	3 5 years	More than 5 years
Guarantees	\$ 0.6	\$ 0.6	\$	\$	\$
Standby letters of credit	7.3	7.3			
Total commercial commitments	\$ 7.9	\$ 7.9	\$	\$	\$

OFF-BALANCE SHEET ARRANGEMENTS

We had no off-balance sheet arrangements as of November 30, 2017 and 2016.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

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

CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

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

Customer Contracts

In several of our major geographic markets, the consumer segment sells our products by entering into annual or multi-year customer contracts. These contracts include provisions for items such as sales discounts, marketing allowances and performance incentives. These items are recognized based on certain estimated criteria such as sales volume of indirect customers, customers reaching anticipated volume thresholds and marketing spending. We routinely review these criteria and make adjustments as facts and circumstances change.

Goodwill and Intangible Asset Valuation

We review the carrying value of goodwill and non-amortizable intangible assets and conduct tests of impairment on an annual basis as described below. We also test for impairment if events or circumstances indicate it is more likely than not that the fair value of a reporting unit is below its carrying amount. We test indefinite-lived intangible assets for impairment if events or changes in circumstances indicate that the asset might be impaired.

Determining the fair value of a reporting unit or an indefinite-lived purchased intangible asset is judgmental in nature and involves the use of significant estimates and assumptions. These estimates and assumptions include revenue growth rates and operating margins used to calculate projected future cash flows, risk-adjusted discount rates, assumed royalty rates, future economic and market conditions, and determination of appropriate market comparables. We base our fair value estimates on assumptions we believe to be reasonable but that are inherently uncertain. Actual future results may differ from those estimates.

Goodwill Impairment

Our reporting units are the same as our operating segments. We calculate fair value of a reporting unit by using a discounted cash flow model. Our discounted cash flow model calculates fair value by present valuing future expected cash flows of our reporting units using our internal cost of capital as the discount rate. We then compare this fair value to the carrying amount of the reporting unit, including intangible assets and goodwill. If the carrying amount of the reporting unit exceeds the calculated fair value, then we would determine the implied fair value of the reporting unit's goodwill. An impairment charge would be recognized to the extent the carrying amount of goodwill exceeds the implied fair value. As of November 30, 2017, we had \$4,490.1 million of goodwill recorded in our balance sheet (\$3,385.4 million in the consumer segment and \$1,104.7 million in the industrial segment). Included in those amounts are \$2,546.3 million (\$1,697.5 million in the consumer segment and \$848.8 million in the industrial segment) of goodwill related to our acquisition of RB Foods that, as of November 30, 2017, was determined on a preliminary basis. The final valuation of the acquired net assets of RB Foods, and the related goodwill balance by segment, will be completed in 2018. Our fiscal year 2017 testing indicates that the current fair values of our reporting units are significantly in excess of carrying values. Accordingly, we believe that only significant changes in the cash flow assumptions would result in an impairment of goodwill.

Indefinite-lived Intangible Asset Impairment

Our indefinite-lived intangible assets consist of brand names and trademarks. We calculate fair value by using a relief-from-royalty method or discounted cash flow model and then compare that to the carrying amount of the indefinite-lived intangible asset.

As of November 30, 2017, we had \$2,808.5 million of brand name assets and trademarks recorded in our balance sheet, and none of the balances exceeded their calculated fair values. Excluding (i) the brand names associated with the 2017 RB Foods acquisition, which were based upon a preliminary valuation of the acquired net assets, (ii) the brand names associated with other acquisitions in 2017, 2016 and 2015, including Giotti, Gourmet Garden, Brand Aromatics, D&A and Stubb's, (iii) the Kohinoor brand name that was written down to its estimated fair value in 2015, and (iv) the Kamis brand name as discussed below, the percentage excess of estimated fair value over book values for our major brand names and trademarks is 40% or more as of November 30, 2017.

The following table outlines the book value of our major brand names and trademarks as of November 30, 2017:

RB Foods (French's, Frank's RedHot, and Cattleman ^(a) s)	\$ 2,475.0
Zatarain's	106.4
Lawry's	48.0
Kamis	35.7
Stubb's	27.1
DaQiao/ChuShiLe	26.4
Gourmet Garden	27.3
Simply Asia/Thai Kitchen	18.6
Drogheria & Alimentari	13.6
Kohinoor	8.6
Giotti	5.4
Brand Aromatics	4.2
Other	12.2
Total	\$ 2,808.5

- (a) Book value for the French's, Frank's RedHot, and Cattlemen's brand names as of November 30, 2017 is based on a preliminary valuation of the acquired net assets of RB Foods and will be adjusted upon finalization of this valuation in 2018.

The percentage excess of calculated fair value over book value for the Kamis brand name as of November 30, 2017, was approximately 14%. A change in assumptions with respect to future performance of the Kamis business could result in impairment losses in the future.

The brand names and trademarks related to recent acquisitions (in particular, our most recent and most significant acquisition, RB Foods) may be more susceptible to future impairment as their carrying values represent recently determined fair values. A change in assumptions with respect to future performance of these recently acquired businesses, or a change in other assumptions, could result in impairment losses in the future.

Income Taxes

We estimate income taxes and file tax returns in each of the taxing jurisdictions in which we operate and are required to file a tax return. At the end of each year, an estimate for income taxes is recorded in the financial statements. Tax returns are generally filed in the third or fourth quarter of the subsequent year. A reconciliation of the estimate to the final tax return is done at that time which will result in changes to the original estimate. We believe that our tax return positions are appropriately supported, but tax authorities may challenge certain positions. We evaluate our uncertain tax positions in accordance with the U.S. GAAP guidance for uncertainty in income taxes. We believe that our reserve for uncertain tax positions, including related interest, is adequate. The amounts ultimately paid upon resolution of audits could be materially different from the amounts previously included in our income tax expense and, therefore, could have a material impact on our tax provision, net income and cash flows. We have recorded valuation allowances to reduce our deferred tax assets to the amount that is more likely than not to be realized. In doing so, we have considered future taxable income and tax planning strategies in assessing the need for a valuation allowance. Both future taxable income and tax planning strategies include a number of estimates.

Pension and Postretirement Benefits

Pension and other postretirement plans costs require the use of assumptions for discount rates, investment returns, projected salary increases, mortality rates and health care cost trend rates. The actuarial assumptions used in our pension and postretirement benefit reporting are reviewed annually and compared with external benchmarks to ensure that they appropriately account for our future pension and postretirement benefit obligations. While we believe that the assumptions used are appropriate, differences between assumed and actual experience may affect our operating results. A 1% increase or decrease in the actuarial assumption for the discount rate would impact 2018 pension and postretirement benefit expense by approximately \$10 million. A 1% increase or decrease in the expected return on plan assets would impact 2018 pension expense by approximately \$9 million.

We will continue to evaluate the appropriateness of mortality and other assumptions used in the measurement of our pension and other postretirement benefit obligations. In addition, see note 10 of the financial statements for a discussion of these assumptions and the effects on the financial statements.

Stock-Based Compensation

We estimate the fair value of our stock-based compensation using fair value pricing models which require the use of significant assumptions for expected volatility of stock, dividend yield and risk-free interest rate. Our valuation methodology and significant assumptions used are disclosed in note 11 of the financial statements.

PART IV.**ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES**

List of documents filed as part of this Report.

1. Consolidated Financial Statements

Not Applicable

2. Consolidated Financial Statement Schedule

Not Applicable

*3. Exhibits required to be filed by Item 601 of Regulation S-K***EXHIBIT INDEX**

Exhibit Number	Description	
(31)	Rule 13a-14(a)/15d-14(a) Certifications	Filed herewith
(i)	<u>Certification of Lawrence E. Kurzius, Chairman, President and Chief Executive Officer, pursuant to Rule 13a-14(a) or Rule 15d-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u>	
(ii)	<u>Certification of Michael R. Smith, Executive Vice President and Chief Financial Officer, pursuant to Rule 13a-14(a) or Rule 15d-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u>	
(32)	Section 1350 Certifications	Filed herewith
(i)	<u>Certification of Lawrence E. Kurzius, Chairman, President and Chief Executive Officer, pursuant to Rule 13a-14(b) or Rule 15d-14(b) under the Securities Exchange Act of 1934 and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u>	
(ii)	<u>Certification of Michael R. Smith, Executive Vice President and Chief Financial Officer, pursuant to Rule 13a-14(b) or Rule 15d-14(b) under the Securities Exchange Act of 1934 and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u>	

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, McCormick has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

By:	/s/ Michael R. Smith Michael R. Smith	Executive Vice President and Chief Financial Officer	February 1, 2018
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