MCCORMICK & CO INC
Form 10-Q
March 31, 2015

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-Q
QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934
For Quarter Ended February 28, 2015
Commission File Number 001-14920

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

MARYLAND	52-0408290
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
18 Loveton Circle, P. O. Box 6000, Sparks, MD	21152-6000
(Address of principal executive offices)	(Zip Code)
Registrant's telephone number, including area code	(410) 771-7301

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to filing requirements for the past 90 days. Yes ý No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ý No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of "accelerated filer," "large accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer	ý	Accelerated Filer	¨
Non-Accelerated Filer	¨	Smaller Reporting Company	¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No ý
Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

	Shares Outstanding February 28, 2015
Common Stock	11,969,465
Common Stock Non-Voting	115,816,466

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	Three months ended February 28,	
	2015	2014
Net sales	$1,010.4	$993.4
Cost of goods sold	620.7	601.9
Gross profit	389.7	391.5
Selling, general and administrative expense	267.6	266.9
Special charges	28.4	—
Operating income	93.7	124.6
Interest expense	12.9	12.4
Other expense (income), net	0.2	(0.2)
Income from consolidated operations before income taxes	80.6	112.4
Income taxes	20.0	35.0
Net income from consolidated operations	60.6	77.4
Income from unconsolidated operations	9.9	5.1
Net income	$70.5	$82.5
Earnings per share – basic	$0.55	$0.63
Average shares outstanding – basic	128.2	131.1
Earnings per share – diluted	$0.55	$0.62
Average shares outstanding – diluted	129.3	132.2
Cash dividends paid per share	$0.40	$0.37

See notes to condensed consolidated financial statements (unaudited).

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

	Three months ended February 28,	
	2015	2014
Net income	$70.5	$82.5
Net income attributable to non-controlling interest	1.2	1.0
Other comprehensive income (loss):		
Unrealized components of pension plans	9.6	3.8
Currency translation adjustments	(137.2)	4.3
Change in derivative financial instruments	1.2	0.3
Deferred taxes	(2.5)	(1.5)
Comprehensive income (loss)	$(57.2)	$90.4

See notes to condensed consolidated financial statements (unaudited).

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

	February 28, 2015 (unaudited)	February 28, 2014 (unaudited)	November 30, 2014
ASSETS			
Current Assets			
Cash and cash equivalents	$81.8	$89.4	$77.3
Trade accounts receivables, net	384.1	428.0	493.6
Inventories			
Finished products	297.6	309.0	303.2
Raw materials and work-in-process	410.8	373.9	410.6
	708.4	682.9	713.8
Prepaid expenses and other current assets	130.4	139.8	131.5
Total current assets	1,304.7	1,340.1	1,416.2
Property, plant and equipment	1,457.2	1,423.0	1,481.4
Less: accumulated depreciation	(876.6)	(852.0)	(878.7)
Property, plant and equipment, net	580.6	571.0	602.7
Goodwill	1,651.2	1,809.1	1,722.2
Intangible assets, net	323.1	332.8	330.8
Investments and other assets	337.9	376.7	342.4
Total assets	$4,197.5	$4,429.7	$4,414.3
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current Liabilities			
Short-term borrowings	$310.5	$280.2	$269.6
Current portion of long-term debt	205.7	1.8	1.2
Trade accounts payable	334.6	348.0	372.1
Other accrued liabilities	370.2	382.1	479.1
Total current liabilities	1,221.0	1,012.1	1,122.0
Long-term debt	806.8	1,016.6	1,014.1
Other long-term liabilities	465.8	413.6	468.8
Total liabilities	2,493.6	2,442.3	2,604.9
Shareholders' Equity			
Common stock	372.6	356.0	367.2
Common stock non-voting	634.2	615.7	628.4
Retained earnings	992.0	993.2	982.6
Accumulated other comprehensive income (loss)	(314.9)	6.6	(186.0)
Non-controlling interests	20.0	15.9	17.2
Total shareholders' equity	1,703.9	1,987.4	1,809.4
Total liabilities and shareholders' equity	$4,197.5	$4,429.7	$4,414.3

See notes to condensed consolidated financial statements (unaudited).

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

	Three months ended February 28, 2015	2014
Operating activities		
Net income	$70.5	$82.5
Adjustments to reconcile net income to net cash flow provided by operating activities:		
Depreciation and amortization	24.9	26.8
Stock-based compensation	3.7	2.6
Income from unconsolidated operations	(9.9)	(5.1)
Changes in operating assets and liabilities	3.0	(34.1)
Dividends from unconsolidated affiliates	3.7	4.0
Net cash flow provided by operating activities	95.9	76.7
Investing activities		
Capital expenditures	(15.5)	(18.5)
Proceeds from sale of property, plant and equipment	—	0.5
Net cash flow used in investing activities	(15.5)	(18.0)
Financing activities		
Short-term borrowings, net	40.9	68.4
Long-term debt repayments	(0.2)	(0.4)
Proceeds from exercised stock options	11.3	8.9
Common stock acquired by purchase	(64.9)	(56.9)
Dividends paid	(51.3)	(48.6)
Net cash flow used in financing activities	(64.2)	(28.6)
Effect of exchange rate changes on cash and cash equivalents	(11.7)	(3.7)
Increase in cash and cash equivalents	4.5	26.4
Cash and cash equivalents at beginning of period	77.3	63.0
Cash and cash equivalents at end of period	$81.8	$89.4

See notes to condensed consolidated financial statements (unaudited).

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

1. ACCOUNTING POLICIES

Basis of Presentation

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

The results of consolidated operations for the three month period ended February 28, 2015 are not necessarily indicative of the results to be expected for the full year. Historically, our net sales, net income and cash flow from operations are lower in the first half of the fiscal year and increase in the second half. The typical increase in net sales, net income and cash flow from operations in the second half of the year is largely due to the consumer business cycle in the U.S., where customers typically purchase more products in the fourth quarter due to the Thanksgiving and Christmas holiday seasons.

For further information, refer to the consolidated financial statements and notes included in our Annual Report on Form 10-K for the year ended November 30, 2014.

Accounting and Disclosure Changes

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2014-09 Revenue from Contracts with Customers (Topic 606). This guidance is intended to improve and converge with international standards the financial reporting requirements for revenue from contracts with customers. It will be effective for our first quarter of 2018 and early adoption is not permitted. We have not yet determined the impact from adoption of this new accounting pronouncement on our financial statements.

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2. ACQUISITIONS

In February 2015, we signed an agreement to purchase 100% of the shares of Drogheria & Alimentari (D&A), a privately held company based in Italy. The completion of the acquisition is expected to occur in mid-2015, subject to regulatory approval and customary closing conditions. As a supplier of both brand and private label products, D&A, which will be included in our consumer business segment following completion of the acquisition, is a leader of the spice and seasoning category in Italy. Annual sales of D&A were approximately €50 million. The purchase price will consist of a cash payment of €50 million, subject to certain closing adjustments, and a potential earn out payment in 2018 of up to €35 million, based upon the performance of the business.

3. SPECIAL CHARGES

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

In January 2015, we offered a voluntary retirement plan, which included enhanced separation benefits but did not include supplementary pension benefits, to certain U.S. employees aged 55 years or older with at least ten years of service to the Company. Upon our receipt of notification from participants that they accepted this plan, which closed in the first quarter of 2015, we accrued special charges of $24.5 million, consisting of employee severance and related costs that will be paid in cash. Substantially all of the affected employees will leave the company in 2015, with the majority exiting in the second quarter.

The voluntary retirement plan is part of our ongoing North American effectiveness initiative that, upon completion, is expected to generate cost savings of approximately $10 million in 2015 and annual cost savings with a full year impact of approximately $25 million beginning in 2016. We currently estimate the total cost to implement the North American effectiveness initiative to approximate $26 million, including the cost of the voluntary early retirement plan and other actions necessary to achieve the cost savings previously described, consisting principally of severance and related benefits that will be paid in cash. The following table outlines the major components of accrual balances and activity relating to the special charges associated with our North American effectiveness initiative for the three months ended February 28, 2015 (in millions):

	Employee severance and related benefits	Other related costs	Total
Special charges	$23.9	$0.6	$24.5
Amounts utilized	(0.4)	—	(0.4)
Balance as of February 28, 2015	$23.5	$0.6	$24.1

In late 2013, we announced a reorganization in parts of the Europe, Middle East and Africa (EMEA) region to further improve EMEA's profitability and process standardization while supporting its competitiveness and long-term growth. These actions included the closure of our current sales and distribution operations in The Netherlands, with the transition to a third-party distributor model to continue to sell the Silvo brand, as well as actions intended to reduce selling, general and administrative activities throughout EMEA, including the centralization of shared service activity across the region into Poland. In fiscal years 2013 and 2014, we recorded a total of $27.1 million of cash and non-cash charges related to this reorganization. We expect to realize annual cost savings of approximately $10 million in 2015 for the EMEA reorganization.

The following table outlines the major components of accrual balances and activity relating to the special charges associated with the EMEA reorganization plan undertaken in 2013 and 2014 for the three months ended February 28, 2015 (in millions):

	Employee severance and related benefits	Other related costs	Total
Balance as of November 30, 2014	$9.3	$0.7	$10.0
Amounts utilized	(1.9)	(0.4)	(2.3)
Balance as of February 28, 2015	$7.4	$0.3	$7.7

In the first quarter of 2015, we recorded a special charge of $3.9 million to undertake actions, principally consisting of severance and related costs, to change our organization structure to further reduce selling, general and administrative expenses throughout EMEA. The actions associated with this special charge are expected to be completed in 2015 and to generate annual

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cost savings of $3.0 million by 2016. The following table outlines the major components of accrual balances and activity relating to the special charges associated with the EMEA reorganization plan undertaken for the three months ended February 28, 2015 (in millions):

	Employee severance and related benefits	Other related costs	Total
Special charges	$3.5	$0.4	$3.9
Amounts utilized	(0.5)	—	(0.5)
Balance as of February 28, 2015	$3.0	$0.4	$3.4

Of the $28.4 million of special charges recorded in the first quarter of 2015, $19.2 million related to our consumer business segment and $9.2 million related to our industrial business segment. All liability balances associated with our special charges are included in other accrued liabilities in our consolidated balance sheet.

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4. FINANCING ARRANGEMENTS AND FINANCIAL INSTRUMENTS

We use derivative financial instruments to enhance our ability to manage risk, including foreign currency and interest rate exposures, which exist as part of our ongoing business operations. We do not enter into contracts for trading purposes, nor are we a party to any leveraged derivative instruments. The use of derivative financial instruments is monitored through regular communication with senior management and the use of written guidelines.
As of February 28, 2015, the maximum time frame for our foreign exchange forward contracts is 21 months. The amount of foreign exchange forward contracts greater than 12 months is not material. For all derivatives, the net amount of accumulated other comprehensive income expected to be reclassified in the next 12 months is $5.7 million as an increase to earnings.

All derivatives are recognized at fair value in the balance sheet and recorded in either current or noncurrent other assets or other accrued liabilities or other long-term liabilities depending upon nature and maturity.
The following table discloses the fair values of derivative instruments on our balance sheet (in millions):

As of February 28, 2015	Asset Derivatives			Liability Derivatives		
	Balance Sheet Location	Notional Amount	Fair Value	Balance Sheet Location	Notional Amount	Fair Value
Interest rate contracts	Other current assets	$100.0	$4.9			
Foreign exchange contracts	Other current assets	92.3	8.4	Other accrued liabilities	$178.4	$3.4
Total			$13.3			$3.4

As of February 28, 2014	Asset Derivatives			Liability Derivatives		
	Balance Sheet Location	Notional Amount	Fair Value	Balance Sheet Location	Notional Amount	Fair Value
Interest rate contracts	Other current assets	$100.0	$9.7			
Foreign exchange contracts	Other current assets	138.7	2.4	Other accrued liabilities	$64.9	$1.9
Total			$12.1			$1.9

As of November 30, 2014	Asset Derivatives			Liability Derivatives		
	Balance Sheet Location	Notional Amount	Fair Value	Balance Sheet Location	Notional Amount	Fair Value
Interest rate contracts	Other current assets	$100.0	$7.4			
Foreign exchange contracts	Other current assets	106.3	4.9	Other accrued liabilities	$156.4	$1.4
Total			$12.3			$1.4

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The following tables disclose the impact of derivative instruments on our other comprehensive income (OCI), accumulated other comprehensive income (AOCI) and our income statement for the three month period ended February 28, 2015 and 2014 (in millions):

Fair Value Hedges -
For the 3 months ended February 28,

Derivative	Income statement location	Expense	
		2015	2014
Interest rate contracts	Interest expense	$1.2	$1.2

Cash Flow Hedges –
For the 3 months ended February 28,

Derivative	Gain or (Loss) recognized in OCI		Income statement location	Gain or (Loss) reclassified from AOCI	
	2015	2014		2015	2014
Interest rate contracts	$—	$—	Interest expense	$—	$—
Foreign exchange contracts	3.0	—	Cost of goods sold	1.1	(0.4)
Total	$3.0	$—		$1.1	$(0.4)

The amount of gain or loss recognized in income on the ineffective portion of derivative instruments is not material. The amounts noted in the tables above for OCI do not include any adjustments for the impact of deferred income taxes.

5. FAIR VALUE MEASUREMENTS

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

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

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Our population of financial assets and liabilities subject to fair value measurements on a recurring basis are as follows (in millions):

	February 28, 2015			
	Fair Value	Level 1	Level 2	Level 3
Assets				
Cash and cash equivalents	$81.8	$81.8	$—	$—
Insurance contracts	106.8	—	106.8	—
Bonds and other long-term investments	7.8	7.8	—	—
Interest rate derivatives	4.9	—	4.9	—
Foreign currency derivatives	8.4	—	8.4	—
Total	$209.7	$89.6	$120.1	$—
Liabilities				
Foreign currency derivatives	$3.4	$—	$3.4	$—

	February 28, 2014			
	Fair Value	Level 1	Level 2	Level 3
Assets				
Cash and cash equivalents	$89.4	$89.4	$—	$—
Insurance contracts	92.3	—	92.3	—
Bonds and other long-term investments	15.2	15.2	—	—
Interest rate derivatives	9.7	—	9.7	—
Foreign currency derivatives	2.4	—	2.4	—
Total	$209.0	$104.6	$104.4	$—
Liabilities				
Foreign currency derivatives	$1.9	$—	$1.9	$—

	November 30, 2014			
	Fair Value	Level 1	Level 2	Level 3
Assets				
Cash and cash equivalents	$77.3	$77.3	$—	$—
Insurance contracts	104.5	—	104.5	—
Bonds and other long-term investments	8.5	8.5	—	—
Interest rate derivatives	7.4	—	7.4	—
Foreign currency derivatives	4.9	—	4.9	—
Total	$202.6	$85.8	$116.8	$—
Liabilities				
Foreign currency derivatives	$1.4	$—	$1.4	$—

The fair values of insurance contracts are based upon the underlying values of the securities in which they are invested and are from quoted market prices from various stock and bond exchanges for similar type assets. The fair values of bonds and other long-term investments are based on quoted market prices from various stock and bond exchanges. The fair values for interest rate and foreign currency derivatives are based on values for similar instruments using models with market based inputs.

6. EMPLOYEE BENEFIT AND RETIREMENT PLANS

The following table presents the components of our pension expense of the defined benefit plans for the three months ended February 28, 2015 and 2014 (in millions):

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	United States		International	
	2015	2014	2015	2014
Defined benefit plans				
Service cost	$5.9	$5.0	$2.1	$2.0
Interest costs	7.9	7.8	3.1	3.4
Expected return on plan assets	(10.0)	(9.7)	(4.4)	(4.7)
Amortization of prior service costs	—	—	0.1	0.1
Recognized net actuarial loss	4.2	2.9	1.5	1.2
Total pension expense	$8.0	$6.0	$2.4	$2.0

During the three months ended February 28, 2015 and 2014, we contributed $7.3 million and $8.9 million, respectively, to our pension plans. Total contributions to our pension plans in fiscal year 2014 were $16.8 million.
The following table presents the components of our other postretirement benefits expense (in millions):

	Three months ended February 28,	
	2015	2014
Other postretirement benefits		
Service cost	$0.8	$1.0
Interest costs	0.9	1.0
Total other postretirement expense	$1.7	$2.0

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7. STOCK-BASED COMPENSATION

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

	Three months ended February 28,	
	2015	2014
Stock-based compensation expense	$3.7	$2.6

Our 2015 annual grant of stock options and RSUs is expected to occur in the second quarter, similar to the 2014 annual grant.

The following is a summary of our stock option activity for the three months ended February 28, 2015 and 2014:

	2015		2014	
(shares in millions)	Number of Shares	Weighted-Average Exercise Price	Number of Shares	Weighted-Average Exercise Price
Outstanding at beginning of period	4.8	$54.17	4.6	$47.73
Exercised	(0.3)	39.90	(0.3)	32.19
Outstanding at end of the period	4.5	54.89	4.3	48.87
Exercisable at end of the period	2.7	$47.10	2.4	$40.98

As of February 28, 2015 the intrinsic value (the difference between the exercise price and the market price) for all options outstanding was $92.5 million and for options currently exercisable was $76.2 million. The total intrinsic value of all options exercised during the three months ended February 28, 2015 and 2014 was $8.5 million and $11.7 million, respectively.

The following is a summary of our RSU activity for the three months ended February 28, 2015 and 2014:

	2015		2014	
(shares in thousands)	Number of Shares	Weighted-Average Grant-Date Fair Value	Number of Shares	Weighted-Average Grant-Date Fair Value
Outstanding at beginning of period	239	$67.60	161	$60.86
Vested	—	—	(2)	38.28
Forfeited	(3)	71.19	(1)	65.23
Outstanding at end of period	236	$67.55	158	$61.10

The following is a summary of our LTPP activity for the three months ended February 28, 2015 and 2014:

	2015		2014	
(shares in thousands)	Number of Shares	Weighted-Average Grant-Date Fair Value	Number of Shares	Weighted-Average Grant-Date Fair Value
Outstanding at beginning of period	231	$61.94	334	$51.73
Granted	96	74.02	105	69.04
Vested	(65)	48.78	(118)	44.47
Forfeited	—	—	(2)	44.47
Outstanding at end of period	262	$69.64	319	$60.15

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8. INCOME TAXES

Income taxes for the three months ended February 28, 2015 included $3.8 million of discrete tax benefits. Of that amount, $1.8 million related to the reversal of unrecognized tax benefits and interest associated with a statute of limitation expiration in an international jurisdiction and the remainder principally related to the recognition of a 2014 research tax credit. A new law was enacted in the first quarter 2015 that retroactively granted the credit for our tax year 2014. Other than the $1.8 million reversal previously described and additions for current year tax positions, there were no significant changes to unrecognized tax benefits during the three months ended February 28, 2015. We believe that it is reasonably possible that the total amount of unrecognized tax benefits as of February 28, 2015 could decrease by approximately $7.0 million in the next 12 months as a result of various statute expirations, audit closures, and/or tax settlements.

During the three months ended February 28, 2014, the Company reached a settlement with respect to the French taxing authority's audits of the 2007-2011 tax years. In connection with that settlement, the Company recognized international tax expense of $2.2 million related to adjustments agreed as part of the settlement and a tax benefit of $5.8 million associated with the reversal of unrecognized tax benefits and interest related to the settlement. Income taxes for the three months ended February 28, 2014, included the following discrete tax items in addition to those associated with the French tax settlement: (i) international tax expense of $0.6 million related to an increased valuation allowance associated with prior year losses of a non-U.S. subsidiary due to a change in our assessment of the likely realization of such losses; and (ii) international tax expense of $3.7 million related to fiscal year 2013 arising from a retroactive change in French tax law enacted in the three months ended February 28, 2014. (Later in 2014, final legislative guidance on that French tax law change was issued, which resulted in our reversal, during the third quarter of 2014, of the $3.7 million of tax expense that was provided in the first quarter of 2014.)

9. EARNINGS PER SHARE AND STOCK ISSUANCE

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

	Three months ended February 28,	
	2015	2014
Average shares outstanding – basic	128.2	131.1
Effect of dilutive securities:		
Stock options/RSUs/LTPP	1.1	1.1
Average shares outstanding – diluted	129.3	132.2

The following table sets forth the stock options and RSUs for the three months ended February 28, 2015 and 2014 which were not considered in our earnings per share calculation since they were anti-dilutive (in millions):

	Three months ended February 28,	
	2015	2014
Anti-dilutive securities	0.4	0.9

The following table sets forth the common stock activity for the three months ended February 28, 2015 and 2014 under the Company's stock option and employee stock purchase plans and the repurchases of common stock under its stock repurchase program (in millions):

	Three months ended February 28,	
	2015	2014
Shares issued under stock option, employee stock purchase plans and RSUs	0.3	0.3
Shares repurchased in connection with the stock repurchase program	0.9	0.9

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As of February 28, 2015, $51 million remained of the $400 million share repurchase authorization that was authorized by the Board of Directors in April 2013.

10. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

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

	February 28, 2015	February 28, 2014	November 30, 2014
Foreign currency translation adjustment	$(105.1)	$170.0	$32.1
Unrealized gain (loss) on foreign currency exchange contracts	3.7	(0.2)	3.0
Unamortized value of settled interest rate swaps	2.8	2.1	2.9
Pension and other postretirement costs	(216.3)	(165.3)	(224.0)
Accumulated other comprehensive income (loss)	$(314.9)	$6.6	$(186.0)

The following table sets forth the amounts reclassified from accumulated other comprehensive income (loss) and into consolidated net income for the three months ended February 28, 2015 and 2014 (in millions):

	Three months ended February 28,		Affected Line Items in the Condensed Consolidated Income Statement
Accumulated Other Comprehensive Income (Loss) Components	2015	2014	
Gains (losses) on cash flow hedges:			
Interest rate derivatives	—	—	Interest expense
Foreign exchange contracts	$1.1	$(0.4)	Cost of goods sold
Total before tax	1.1	(0.4)	
Tax effect	(0.3)	0.1	Income taxes
Net, after tax	$0.8	$(0.3)	
Amortization of pension and postretirement benefit adjustments:			
Amortization of prior service costs (1)	$0.1	$0.1	SG&A expense/ Cost of goods sold
Amortization of net actuarial losses (1)	5.7	4.1	SG&A expense/ Cost of goods sold
Total before tax	5.8	4.2	
Tax effect	(2.0)	(1.4)	Income taxes
Net, after tax	$3.8	$2.8	

(1) This accumulated other comprehensive income (loss) component is included in the computation of total pension expense (refer to note 6 for additional details).

11. BUSINESS SEGMENTS

We operate in two business segments: consumer and industrial. The consumer and industrial segments manufacture, market and distribute spices, seasoning mixes, condiments and other flavorful products throughout the world. Our consumer segment sells to retail outlets, including grocery, mass merchandise, warehouse clubs, discount and drug stores under the “McCormick” brand and a variety of brands around the world, including “Lawry’s”, “Zatarain’s”, “Simply Asia”, “Thai Kitchen”, “Ducros”, “Vahine”, “Schwartz”, “Club House”, “Kamis”, “Kohinoor” and “DaQiao”. Our industrial se sells to food manufacturers and the foodservice industry both directly and indirectly through distributors.

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

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

	Consumer	Industrial (in millions)	Total
Three months ended February 28, 2015			
Net sales	$620.3	$390.1	$1,010.4
Operating income excluding special charges	91.5	30.6	122.1
Income (loss) from unconsolidated operations	10.2	(0.3)	9.9
Three months ended February 28, 2014			
Net sales	$615.3	$378.1	$993.4
Operating income	94.3	30.3	124.6
Income from unconsolidated operations	5.0	0.1	5.1

A reconciliation of operating income excluding special charges (which we use to measure segment profitability) to operating income is as follows:

(millions)	Three months ended February 28, 2015
Operating income	$93.7
Add: Special charges	28.4
Operating income excluding special charges	$122.1

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12. SUBSEQUENT EVENTS

On March 9, 2015, we acquired 100% of the shares of Brand Aromatics, a privately held company located in New Jersey. Brand Aromatics is a supplier of natural savory flavors, marinades, and broth and stock concentrates to the packaged food industry. Its addition will expand the breadth of value-added products in our industrial business. Annual sales were $28 million in 2014. The purchase price for Brand Aromatics is approximately $63 million, subject to certain closing adjustments, and it will be included in our industrial business segment. Due to the estimated impact of transaction, integration and financing costs, we do not expect this acquisition to be accretive to earnings per share in 2015.

On March 25, 2015, our Board of Directors authorized a new share repurchase program to purchase up to $600 million of the company's outstanding shares.

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

OVERVIEW

Our Business

We are a global leader in flavor, with the manufacturing, marketing and distribution of spices, seasoning mixes, condiments and other flavorful products to the entire food industry. Customers range from retail outlets and food manufacturers to food service businesses. Our major sales, distribution and production facilities are located in North America, Europe and China. Additional facilities are based in Australia, Mexico, India, Singapore, Central America, Thailand and South Africa. Annually, approximately 40% of our sales have been outside of the United States.

We operate in two business segments, consumer and industrial. Consistent with market conditions in each segment, our consumer business has a higher overall profit margin than our industrial business. Historically, the consumer business contributes approximately 60% of sales and 80% of operating income and the industrial business contributes approximately 40% of sales and 20% of operating income. Across both segments, we have the customer base and product breadth to participate in all types of eating occasions, whether it is cooking at home, dining out, purchasing a quick service meal or enjoying a snack. We offer consumers a range of products from premium to value-priced.

Our Growth Model and Outlook

Our growth model is straightforward – we are increasing sales and profits by investing in the business and funding these investments, in part, with cost savings from our Comprehensive Continuous Improvement (CCI) program. This simple model has been the driver of our success and is our plan for growth in the future.

Increasing Sales and Profits – Our long-term annual growth objectives are to increase sales 4% to 6%, increase operating income 7% to 9% and increase earnings per share 9% to 11%. Over time, we expect to grow sales with similar contributions from: 1) our base business-driven by brand marketing support, customer intimacy and category growth; 2) product innovation; and 3) acquisitions. We are fueling our investment in growth mainly with cost savings from our Comprehensive Continuous Improvement (CCI) program, an ongoing initiative to improve productivity and reduce costs throughout the organization. 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.

In 2015, sales are projected to grow 4% to 6% on a constant currency basis, driven by building brand equity and a strong innovation pipeline. We expect foreign currency exchange rates to have an unfavorable impact on this projected sales growth rate. Diluted earnings per share was $3.34 in 2014. Excluding the earnings per share impact of the aforementioned special charges, adjusted diluted earnings per share in 2014 was $3.37. Adjusted diluted earnings per share (excluding an estimated $0.16 of special charges) are projected to be between $3.44 and $3.51 in 2015, or an increase of between 2% to 4%. On a constant currency basis, we expect the growth in adjusted diluted earnings per share in 2015 to range from 6% to 8% over adjusted diluted earnings per share of $3.37 in 2014. We expect this growth rate to be mainly driven by increased operating income and income from unconsolidated operations.

Our business generates strong cash flow, and we have a balanced use of cash. We are using our cash to fund shareholder dividends, with annual increases in each of the past 29 years, and to fund capital expenditures, acquisitions and share repurchases.

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Investing in the Business – We are investing for growth through innovation, brand marketing support and acquisitions. In recent years, 8% to 10% of sales came from new products launched in the past three years. For our consumer business, 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. In 2015, these include a relaunch of our entire gourmet product line with new packaging, new varieties and a flavor seal technology. Other innovation includes flavored sea salt grinders across North America, an Indian range of seasoning blends in the U.K. and further extensions of our Vahine dessert items in France. For industrial customers, we are developing seasonings for snacks and other food products, as well as flavors for new menu items. In 2015, we have a solid pipeline of new flavor solutions aligned with our customers' new product launch plans. With more than 20 technical innovation centers and product development facilities around the world, we are supporting the growth of our brands and those of our industrial customers with products that appeal to local consumers. In addition, much of our innovation is designed to meet the increasing consumer demand for healthy eating. We founded the McCormick Science Institute in 2007 to fund the advancement of scientific knowledge of the potential health benefits of culinary spices and herbs. This institute is also committed to educating consumers, nutritionists and dietitians about these potential health benefits.

In 2014, we increased our investment in brand marketing by 9% over 2013 and more than 50% from five years ago. Further increases in brand marketing support are planned in 2015. We measure the return on this investment and have identified digital marketing as one of 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. Digital marketing is expected to be approximately one third of total advertising in 2015, compared to 11% in 2010.

Through acquisitions, we are adding leading brands to extend our reach into new geographic regions where we currently have little or no distribution. We have a particular interest in emerging markets that offer high growth potential, such as China and India. Sales in emerging markets accounted for 17% of total company net sales in fiscal year 2014, up from 10% of net sales in 2011. In our developed markets, we are seeking consumer brands that have a defensible market position and meet a growing consumer trend for flavor.

Cost Savings – CCI is our ongoing initiative to improve productivity and reduce costs throughout the company. With CCI, each business unit develops cost reduction opportunities and sets specific goals. Our projects fall into the areas of cost optimization, cost avoidance and productivity that includes streamlining processes. However, the only amounts we report are actual cost reductions where costs have decreased from the prior year. CCI cost savings totaled $65 million in fiscal year 2014, of which $54 million lowered cost of goods sold. In 2015, CCI-related cost savings are expected to reach at least $65 million, with a large portion impacting our cost of goods sold. Another $20 million of cost savings are expected mainly from streamlining actions underway in North America and reorganization activities in our Europe, Middle East and Africa (EMEA) region. Material cost inflation is expected to be in the mid single-digit range in 2015, compared to approximately 2% in 2014. We anticipate the 2015 impact of material cost inflation will be largely offset by our cost savings and pricing actions.

RESULTS OF OPERATIONS - COMPANY

Three months ended February 28,