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MKC - Q2 2012 McCormick & Company, Inc. Earnings Conference Call

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OVERVIEW:

MKC reported 2Q12 operating income of $121m and EPS of $0.60. Expects FY12 sales growth of 9-11% in local currency. Co. expects 2012 EPS to be $3.01-3.06.

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PRESENTATION

Joyce Brooks - *McCormick & Company, Incorporated - VP of IR*

Good morning, this is Joyce Brooks, McCormick's Vice President of Investor Relations. Thank you for joining today's call to review the Company's second-quarter financial results in 2012 outlook. We have posted a set of slides to accompany today's call at our website, IR. McCormick.com.

At this time all participants are in a listen-only mode. A question-and-answer session will follow our remarks. (Operator Instructions). As a reminder, the conference is being recorded.

With me on today's call are Alan Wilson, Chairman, President and CEO, and Gordon Stetz, Executive Vice President and CFO. Mike Smith, formerly Vice President, Treasury and Investor Relations, who participated in our past two calls recently accepted the role of CFO of our EMEA region and is in the process of relocating to the UK.

Our remarks this morning will be brief so that we have time for your questions and can start to wrap up around 8.50 a.m., allowing time for those who plan to join the General Mills call at 9 a.m.

As a reminder, today's presentation contains projections and other forward-looking statements. Actual results could differ materially from those projected. The Company undertakes no obligation to update or revise publicly any forward-looking statements whether as a result of new information, future events or other factors.

As seen on slide 2, our forward-looking statement also provides information on risk factors that could affect our financial results. It's now my pleasure to turn the discussion over to Alan.

Alan Wilson - *McCormick & Company, Incorporated - Chairman, President & CEO*

Thanks, Joyce. Good morning, everyone; thanks for joining us. I'm pleased to report that we achieved a fifth consecutive quarter of double-digit sales growth and delivered a solid profit performance for the second quarter of fiscal 2012.

These results demonstrate our progress with a number of key growth initiatives -- product innovation, brand marketing, customer intimacy and expanded distribution as well as acquisitions. Through the first half of 2012 we generated $144 million of cash flow from operations.

Importantly, we've turned a corner on our gross profit and material costs. After posting [decreases] in gross profit margin for the past four quarters that ranged from 120 basis points to 270 basis points, gross profit margin in the second quarter was down just 20 basis points. This is right in line with our expectations and we expect to maintain this leveling out for the next two quarters as we are now lapping the steep material cost increases that began to impact us in the second quarter of 2011.

By no means are we predicting an end to the volatility in material costs. However, we believe that we're now better positioned for the benefits of our comprehensive continuous improvement program and our long-term shift in business mix to positively impact not only our gross profit dollars, but our percentage margins.

While the second quarter produced solid results, we continue to operate in a challenging environment with customers and consumers under pressure in many of our markets. The macroeconomic situation is also having an impact on our business and was most pronounced this period in our income from unconsolidated results which is being impacted by the exchange rate between the US dollar and the Mexican peso.

We continue to manage through these challenges, adapting our growth initiatives and resources to maintain our momentum and effectiveness. In that regard I'd like to share with you our latest activity in each of our three regions.

In the Americas we've grown consumer business sales in a 6% to 7% range for the first two quarters of 2012. As you recall in the first quarter, our sales growth came mainly from pricing and our acquisition of Kitchen Basics in mid-2011. First-quarter volume and product mix were down a bit on the heels of our fourth-quarter 2011 pricing action.

In the second quarter of 2012, as consumers adjust to the higher pricing, we've seen an improvement in volume and product mix which was more on par with the year ago period. We're hoping that consumers adjust in driving sales with value programs and driving category interest with new products.

We have seen early signs of success with a number of items including Zatarain's Frozen Meals for Two, Grill Mates Blends, Marinades and Barbeque sauces as well as new McCormick Gourmet and McCormick Recipe Mixes that allow consumers to easily prepare wholesome, traditional meals for their families. In Canada we've gained great retail acceptance for over 35 new products.

As for the latest category growth, 52-week sales of spice and seasoning at grocery are up 3% in dollars. While our branded sales trail this rate of growth in the grocery channel, our retail take-away is up 5% across all channels for the latest 52-week period. We believe that this reflects some consumer channel migration as well as our own success in expanding our distribution in warehouse clubs, dollar stores and other alternate channels.

The sales increase for our industrial business has been even greater in the Americas with 11% growth in the first half without any benefit from acquisitions. We have pricing in place to cover higher material costs and have had increased demand, particularly for customized flavor solutions to food manufacturers.

Let's turn to Europe, the Middle East and Africa, our EMEA region. In Europe consumer confidence is low, austerity measures are adding pressure and economic and political uncertainty persists. Given this backdrop our business in EMEA has been performing quite well. Category growth is robust driven in part by people eating more at home as a way to economize.

In our two largest markets, the UK and France, spice and seasoning category sales were up 8% and 4% respectively in the latest 52 weeks. Category sales for homemade dessert category brands rose 5% in the latest 52 weeks. In each of these categories we're also achieving growth which approaches or exceeds that of the category. While private label growth in dollars remains strong, a lot of this increase in the latest quarter came from price increases which are finally being taken on these products, closing the price gap a bit with branded products.

Underpinning our sales growth is product innovation, including Recipe Inspirations, Slow Cookers and limited edition recipe mixes along with a number of new dessert items. We're supporting these new items with brand marketing. In EMEA we're also growing sales and profit with some new distribution gains.

Consumers are also economizing when eating out and on the industrial side of our business this has been driving demand for our products at quick service restaurants. We're also supporting the expansion of food service customers and food manufacturers in areas like Eastern Europe and South Africa.

While effectively growing our business in established markets our team in the EMEA simultaneously integrated the Kamis business with all of our goals met. We are now beginning to implement several key initiatives such as the conversion of SAP and a facility expansion. Going forward we're well positioned in Poland as consumers continue their shift from traditional trade to modern grocery where Kamis is strongest. And we're seeing accelerated sales growth for this business in markets like Russia and Romania.

Turning to the Asia-Pacific region, I'll begin with Kohinoor in India which we also acquired about nine months ago. This business comprised about 20% of year-to-date sales in this region and accounted for about two-thirds of our sales growth. We completed the integration of this business in the first quarter and are excited about a pipeline of value added rice products that we developed and have prepared for launch by the end of 2012.

In China, while we continue to experience quarter-to-quarter variability due to seasonality and customer promotional activity, the underlying growth is strong. On the consumer side of our business, category growth was at least 15% for herbs and spices, recipe mixes and for a number of the condiments where we a have a share including salad dressings and jams.

Our industrial business is growing in step with the leading quick service restaurants and food manufacturers that we serve in China and across both business segments we continue to expect double-digit sales growth in this market.

In our other large market in the region, Australia, we're driving growth with new distribution for a consumer business as well as product innovation, particularly in customized flavor solutions for industrial customers. Across each of our three regions it's clear that McCormick is achieving sales and profit growth in our developed markets and our increasing presence in emerging markets is accelerating this growth, both organically and through acquisitions.

To summarize, our strategy, our passion for flavor and especially our people are delivering high performance. We are effectively building and growing this business while overcoming the challenges of a tough environment. I'm confident that 2012 will be a year of success and record financial performance for McCormick. Let me turn it over to Gordon for more insight into our second quarter financial results and our latest 2012. Gordon?

Gordon Stetz - *McCormick & Company, Incorporated - EVP & CFO Management Committee*

Thanks, Alan, and good morning, everyone. Alan provided some of the headline results for the second quarter; I'd like to begin with a closer look at each of our two segments starting with our consumer business.

As seen on slide 9, we grew consumer business sales 15% in local currency. In a period of increased pricing our volumes held up well and we had another strong contribution from our 2011 acquisitions this period. In the Americas region we grew second-quarter consumer business sales 7% in local currency.

As seen on slide 10, sales from Kitchen Basics added 1% to our growth this period. Pricing was up 5% as a result of an increase taken in the fourth quarter of 2011. For the second quarter of 2012 volume and product mix were about even with the year ago period. This is an improvement from the first quarter of 2012 when we reported a 1.4% decline in volume and product mix in the period immediately following our pricing action.

As consumers continue to adjust to the higher prices we look for this stabilization in our core business to continue. We are helping this along with our brand marketing activity in the US behind everyday cooking and baking items as well as programs for Hispanic consumers. Our new products are another important growth driver and we are seeing early success with a number of items, as Alan highlighted.

In Europe, the Middle East and Africa, EMEA, we grew consumer sales 32% in local currency. Sales from Kamis, our acquisition in Poland, added 27% to sales this quarter. This was another period of improved top-line results in our base business which we grew by 5%.

The increase was primarily from higher volume and product mix in France, the UK and smaller markets. The initiatives behind new products and incremental marketing, along with distribution gains, are growing sales of our brands and helping drive the positive category growth that Alan discussed.

Consumer business sales in the Asia-Pacific region rose 64% in local currency. Kohinoor, our acquisition in India, added 59% to second-quarter sales. The base business grew 5%, mostly from pricing actions.

Those of you who follow us closely know that both our consumer and industrial business in the Asia-Pacific region tend to have more quarter-to-quarter variability due in part to the timing of holiday seasons, marketing programs and, on the industrial side, customer promotional activity and new product rollouts.

If you recall, we had a very strong performance in the first quarter with consumer sales in this region up 21%, that's excluding the impact of Kohinoor and currency. On this basis sales for this first-half increased 13% with stronger sales from China and growth in Australia as well.

Across all three regions second-quarter operating income was $89 million for our consumer business, up 15% from the prior year including the impact of a $4 million increase in brand marketing support. This is a significant improvement from the first quarter when the year-on-year increase in material costs led to a decline in operating income. Through the first half we have increased operating income by 4% with the impact of higher sales and our comprehensive continuous improvement program, CCI.

Let's turn now to our industrial business and start with the review of our sales performance. For this segment we grew sales 10% in local currency; about two-thirds of the increase was pricing and one-third volume and product mix. This growth was all organic as the 2011 acquisitions impacted only our consumer business.

On slide 15, industrial sales in the Americas rose 10% in local currency with a 7% contribution from pricing actions and 3% from volume and product mix. This period the increase was led by new products and increased demand for customized seasoning blends for snacks and other products in the US, Canada and Mexico. For foodservice customers volume and product mix was comparable to the year ago period.

Our second-quarter industrial sales results in EMEA was the fourth consecutive quarter of strong sales growth. We grew sales 12% in local currency with a 9% increase in volume and product mix. Demand from quick service restaurants remained robust and we are meeting this demand with product supply from our operations in the UK, Turkey and South Africa.

As indicated, our Asia-Pacific region has a fair bit of quarter-to-quarter variability and we certainly saw it in the first two quarters of 2012 from the industrial business. In local currency we grew sales 22% in the first quarter followed by a 1% increase in the second quarter. Year-to-date sales in local currency are up 10% with increases in both China and Australia of sales for a multinational customer including quick service restaurants that continue to expand in this region.

Operating income for the industrial business was $33 million in the second quarter compared to $32 million in the year ago period. While we delivered strong sales growth and CCI costs savings, these gains were offset in part by factors that included a less favorable mix of sales and higher benefit costs.

Through the first half, we grew operating income for this part of our business by 14% and operating income margin was 30 basis points higher than the first half of 2011. For the full year we expect to achieve increases in both operating income and operating income margin for our industrial business.

Across both segments we grew second-quarter operating income 11% to $121 million, mainly due to higher sales in our CCI program. Gross profit improved sharply from the first quarter. If you recall, gross profit margin in that period declined 270 basis points from the year-ago period as we continue to face steep year-on-year material cost increases.

As indicated, we expect that this year-on-year comparison to improve as we headed into the next three quarters of 2012.

Gross profit margin in the second quarter was 39.5%, down just 20 basis points from the prior-year period. Pricing actions and CCI costs savings are not only offsetting the impact of higher material costs dollar for dollar, but also leading to a more stable gross profit margin result, and we expect this to continue into the second half of the year. Also effecting operating income was our selling, general, and administrative expense, which was down 10 basis points as a percent of net sales in the second quarter. As stated, incremental marketing spending was $4 million.

When added to the $9 million increase in the first quarter, it is clear that the investment behind our brands have been skewed to the early part of 2012 to support new product launches and seasonal activity. Heading into the second half of the year our marketing spending is expected to be more comparable to the second half of 2011.

Moving below operating income, interest expense was up from the year-ago period with the increase relating to debt from our 2011 acquisitions. As a result of a discreet tax item, our tax rate for the second quarter was 28.7% compared to our guidance of 30% in the prior-year period at 31.1%.

Income from unconsolidated operations was one area that came in below our expectations. We are being impacted by the exchange rate between the Mexican peso and the US dollar, not only in the translation of earnings from our McCormick to Mexico joint venture, but in the transaction impact to the purchase of soybean oil.

Across all joint ventures income from unconsolidated operations ended the quarter at $3.9 million, down from $6.1 million in the year-ago quarter. As this year-on-year decline began in the fourth quarter of 2011 we expect the income from unconsolidated operations to also be down from the year-ago period at least through the third quarter of 2012, bringing our outlook for the full year to a decrease of at least 20%.

At the bottom line, we reported earnings per share of $0.60, a 9% increase from $0.55 in the second quarter of 2011. Higher operating income was the primary factor behind our product growth, as shown on slide 22.

Let's turn next to our cash flow and May 31 balance sheet. Year-to-date cash flow from operations was $144 million compared to $36 million in the first half of 2011. The improvement was mainly due to a much lower increase in inventory this period. It also included the unfavorable impact of a $16 million increase in pension plan contributions made in the first quarter of 2012.

Through the first half we used $69 million of cash to repurchase 1.3 million shares. At quarter end we had $201 million still available on our $400 million authorization. Our balance sheet remains strong; inventory was about even with our November 30 balance and was lower sequentially from $640 million at the end of the first quarter. I am pleased to see it moving in the right direction as we begin to work down some of our strategic inventory and gain traction with our new inventory management processes in North America.

As a final topic I want to review our latest 2012 guidance, as shown on slide 24 and 25. With strong sales results through the first half we reaffirmed our expectation to grow sales 9% to 11% in local currency for the fiscal year. Based on prevailing foreign currency rates we are still estimating an unfavorable currency impact of 2% for the year. I want to point out that this implies a sales headwind of about 3% in the second half given that the currency impact in the first half was a negative 0.9%.

We are increasing our 2012 plans for incremental brand marketing support to our approximately $15 million from our prior guidance of at least $10 million. With our heavier spending in the first half behind new product introductions and other programs, marketing activity in the next two quarters will be more consistent with the second half of 2011.

At the operating income line we are reaffirming a 9% to 11% increase and we continue to project earnings per share of $3.01 to $3.06. Keep in mind that we expect the 2012 increase in earnings per share to be more significant in the fourth quarter than the third quarter. As I indicated, we are expecting another decline in income from unconsolidated operations at least through the third quarter of 2012.

In addition, we anticipate that some items in the year ago comparison will affect our 2012 EPS growth rate for the third and fourth quarters. First, we reported acquisition-related transaction costs in the fourth quarter of 2011 which lowered earnings per share by $0.05; and second, we had an estimated $10 million of customer purchases in advance of our fourth-quarter 2011 price increase shifting sales from the fourth quarter 2011 into the third quarter of 2011. If anyone needs more details on these year-ago items, Joyce can help you after the call.

To summarize, we have good momentum as we head into the second half of our fiscal year. While the global operating environment remains difficult, McCormick employees are up to the challenge and together we are executing effectively in our operations around the world. Let's turn now to your questions. Operator?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Ken Goldman, JPMorgan Chase.

Ken Goldman - *JPMorgan Chase - Analyst*

I jumped on a little late, so forgive me if you addressed this, but can you talk a little bit about the environment in China, both on the consumer and industrial side for you right now?

Alan Wilson - *McCormick & Company, Incorporated - Chairman, President & CEO*

Yes. The environment is still pretty healthy in China. What you saw in the second quarter was -- had looked like a slowdown from first quarter, the reality is we were up against a price increase from last year in the consumer business which kind of impacted it.

As I talk to people about China what I'm hearing from people that are in heavy industry is that they are seeing some slowdown in the Chinese economy, but people in the consumer space are still seeing pretty robust growth and that's what we're seeing.

Ken Goldman - *JPMorgan Chase - Analyst*

Okay. And then in the US -- I mean you were able to maintain volumes despite taking price increases. Do you attribute that more to the category that you're in right now or more towards some actions that you're doing or a combination of both? Because it is unusual in packaged foods to sort of see that environment right now; most companies are reporting volume declines. Just curious how you think about that.

Alan Wilson - *McCormick & Company, Incorporated - Chairman, President & CEO*

We saw a short-term volume decline, as we always do, when we took pricing. And I think what we're seeing now is a little bit of a return to -- as consumers have gotten used to it, and as they've lived out of their pantries for a little while we're starting to see some return to some volume.

We're also continuing to put pressure on with new innovation. We're advertising and have increased our spend. And I think we're fortunate that we're in a good business, there's no question about that. But we're also being proactive as we -- to make sure that we give consumers reason to continue to buy our products. I think another thing that we're seeing is private-label pricing has kind of started to close some of those gaps.

Ken Goldman - *JPMorgan Chase - Analyst*

And then lastly, is there anything we should be aware of in terms of pepper pricing, or cost rather? Anything that may force you to take your prices up or down in the near term?

Alan Wilson - *McCormick & Company, Incorporated - Chairman, President & CEO*

Yes, we have -- pepper pricing is continuing to flatten, but still is above last year. And so we have taken some additional pricing. But it's a lot more stable than it has been.

Ken Goldman - *JPMorgan Chase - Analyst*

Thanks very much.

Operator

Thilo Wrede, Jefferies & Company.

Thilo Wrede - *Jefferies & Company - Analyst*

You've owned Kamis for three quarters and now I think. Can you give us a little bit more details on how the plans are working to -- for example to introduce more of traditional McCormick product, expanding more into other markets outside of Poland? Just a little bit more detail there.

Alan Wilson - *McCormick & Company, Incorporated - Chairman, President & CEO*

I'm sorry, Thilo, could you just repeat the question. We had a little trouble on the mic.

Thilo Wrede - *Jefferies & Company - Analyst*

So you've owned Kamis for three quarters and I was just hoping for a few more details on how the plans there are progressing with the plans are to introduce traditional McCormick products, expand into other countries and so on.

Alan Wilson - *McCormick & Company, Incorporated - Chairman, President & CEO*

Yes, with the Kamis business what we're doing is, one, we think there's a lot of leverage in the Polish market from good category management. So we're doing that. We're bringing product innovations that are working well in other markets under the Kamis brand in Poland and we're continuing to expand distribution across Russia; in fact, we're very encouraged by what we're seeing with sales growth in Russia.

So we think the Kamis brand -- and we'll continue to market it as Kamis in Poland and Russia at this point. But we see it as offering a lot of opportunity for growth for us. We're very, very pleased with that acquisition.

Thilo Wrede - *Jefferies & Company - Analyst*

What kind of organic growth are you getting from Kamis right now?

Alan Wilson - *McCormick & Company, Incorporated - Chairman, President & CEO*

I don't have those numbers in front of me, but I know that we're right on our acquisition plan. But I don't have the numbers in front of me. I think Joyce can help with that one.

Joyce Brooks - *McCormick & Company, Incorporated - VP of IR*

Yes, historically they've been sort of mid-single-digit range.

Thilo Wrede - *Jefferies & Company - Analyst*

Okay. And then last question, just about your guidance. So you're taking up your marketing spending to -- compared to what you had before. I think your JV income decline is more than what I would have thought previously yet you're EPS guidance is unchanged. Where's that money coming from?

Gordon Stetz - *McCormick & Company, Incorporated - EVP & CFO Management Committee*

Well, we just increased our CCI obviously as well. So we're reinvesting behind our businesses, we're generating more CCI. So that's obviously giving us an opportunity to continue to invest behind our brands.

Thilo Wrede - *Jefferies & Company - Analyst*

Okay, that's all I had. Thank you.

Operator

Alexia Howard, Alliance Bernstein.

Unidentified Participant

Hi, there. This is Gretchen calling in for Alexia. Just a quick question on Kohinoor. You guys mentioned that you have some new product launches that you're hoping to put through at the end of this year. I'm just wondering -- when would you expect that to start benefiting the top-line and how much benefit should we expect.

Alan Wilson - *McCormick & Company, Incorporated - Chairman, President & CEO*

I don't know that we projected a top-line result because that business is growing through a combination of expanded distribution and new products. But the products that we're introducing are products that are similar to Zatarain's rice mixes, we're calling them rice and spice and they're [Brioni] type products that make it easy for Indian consumers to prepare staple kinds of meals. But we -- this is kind of a first foray into those value added products in India and so we're excited about them but I think it's too early project what we think the benefit is going to be.

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Unidentified Participant

Great, I'll pass it on.

Operator

Akshay Jagdale, KeyBanc Capital Markets.

Akshay Jagdale - *KeyBanc Capital Markets - Analyst*

Just one clarification regarding your guidance. So you maintained EPS guidance despite lower unconsolidated income is because you now expect higher operating income for the year, right?

Gordon Stetz - *McCormick & Company, Incorporated - EVP & CFO Management Committee*

Yes, we're still reiterating our operating income guidance at 9% to 11%. We obviously had a little bit of a benefit from the tax rate as well in Q2, as you saw, that helped offset that weakness on unconsolidated. But given the fact that we are maintaining our range, you could imply that perhaps our operating income would trend towards the upper end. But we're still comfortable at that 9% to 11%.

Akshay Jagdale - *KeyBanc Capital Markets - Analyst*

Okay. And then just regarding the US consumer and more generally on your brand marketing spending, you obviously increased your marketing budget for this year, that talks to the confidence that you have in the returns you'll get on that investment. Where -- from a regional basis is it more skewed to one area versus another? And can you talk about what you're seeing in those regions where you're investing that makes you feel confident that investing more will generate at least the same returns you've been getting in the past or more?

Alan Wilson - *McCormick & Company, Incorporated - Chairman, President & CEO*

Yes, we continue to change our marketing mix to work on things that hit, so we're moving more of our money into digital, and some of that digital is a regional where we're working with specific customers on promotions to really hit consumers.

By and large though our marketing spend is national. What we saw in the last quarter and as we're heading into the third quarter is a pretty heavy spend behind our new products -- our new grilling products. We do have some regional promotions; we've got a big Old Bay focus going on right now in the Baltimore area. There's 50 plus restaurants that have special menu items and we've got billboards all over the place to kind of tie in to the 18 -- war of 1812.

We are relaunching our dry seasoning mix products and have a number of new products behind that. So we have a fair amount of activity. Again, as you look at how we've increased our marketing spend, this is a consistent story that we've had over the last five or six years where we look to invest but we continue to manage our mix so that we're getting the highest returns that we can.

Akshay Jagdale - *KeyBanc Capital Markets - Analyst*

Just one last one on gross margins. Longer term, I mean obviously you have this long-term target of increasing gross margins every year, but the last couple of years because of input cost we haven't gotten there. So what's the potential for gross margin longer-term?

Gordon Stetz - *McCormick & Company, Incorporated - EVP & CFO Management Committee*

Well, we still believe on a long-term basis and the key event would be a less volatile commodity cost environment because that's what you just alluded to. In the past two out of four years we've seen commodity costs spike -- two out of five years.

But in the more stable environment we would continue to believe the higher mix of the consumer business would favorably impact that gross margin, and as well as the efforts that we have within the industrial business on focusing on higher value added products should favorably impact that as well.

Alan Wilson - *McCormick & Company, Incorporated - Chairman, President & CEO*

Yes, the stable environment with our CCI efforts, a lot of that CCI will find its way back into margin. In a volatile environment like we've been in we haven't priced to fully recover our cost, so we've used that combination of pricing and CCI to try to moderate the impact on margins.

Akshay Jagdale - *KeyBanc Capital Markets - Analyst*

Okay, great. Thank you. I'll pass it on.

Operator

Chris Growe, Stifel Nicolaus.

Chris Growe - *Stifel Nicolaus - Analyst*

I just wanted to ask you two questions. The first one just in relation to the cost inflation for the year, I think you had indicated it was going to sort of step down sequentially each quarter. I just want to get a sense -- this was the good gross margin performance in relation to that cost inflation. Should we expect the second half gross margin to be up then for the business?

Gordon Stetz - *McCormick & Company, Incorporated - EVP & CFO Management Committee*

Well, we're still looking at stabilization of the gross margin. A lot of things play into that -- product mix, portfolio mix. But we're not looking for a big rebound. I mean you can see slight improvement as we progress through the year. But generally with the way we're looking at it is that it will be comparable to the prior year and be up flattish.

Chris Growe - *Stifel Nicolaus - Analyst*

Okay. And then I just wanted to ask in relation to the US, you've had some pretty solid growth overall just in kind of studying some of the IRI Nielsen trends. It's showing that your branded sales have softened a little bit and private label has picked up a little bit. I know we're looking at just kind of some unique channels; you're not looking at the all channel data. Have you seen that -- any kind of sequential weakening basically between branded and private label in your business?

Alan Wilson - *McCormick & Company, Incorporated - Chairman, President & CEO*

I don't know that sequential weakening -- what we've actually seen is private label growing faster in grocery and our brand growing faster in unmeasured channels. And so, I think the consumer is going to some other places. Certainly we're not happy about the results that we've seen in core grocery and we're working -- we've got a lot of efforts to make sure that we're not losing share there. But what we're seeing is that we're holding share across the board and private label is growing in grocery.

Chris Growe - *Stifel Nicolaus - Analyst*

Okay. And then just the last one -- Gordon, what sort of tax rate should we look at for the year? If you said it, I'm sorry, I missed it. But is it around 30% for the year?

Gordon Stetz - *McCormick & Company, Incorporated - EVP & CFO Management Committee*

The underlying rate we continue to expect to be around 30%. Obviously, as you saw in this quarter, there can be a discrete item that hops up that can either be positive or negative depending on the fact and circumstances. But the underlying rate we're still looking at 30%.

Chris Growe - *Stifel Nicolaus - Analyst*

Okay, that's helpful. Thank you.

Operator

Eric Katzman, Deutsche Bank.

Eric Katzman - *Deutsche Bank - Analyst*

Congratulations, good quarter in a tough environment. I guess we just had our conference in Europe a couple of companies preannounced their worse than expected trends, but you had very respectable results in France, the UK. Maybe you could talk a little bit about why the outperformance and why investors should think that can continue. And then I have a follow-up.

Alan Wilson - *McCormick & Company, Incorporated - Chairman, President & CEO*

Well, what we've seen in this year is good results behind the investments that we've made in the business with a combination of new products and supporting those with pretty solid advertising. Our homemade dessert items, the Vahine brand in France, continue to perform pretty well.

And so, while we recognize -- and I was in Europe last week too, unfortunately not at your conference, Eric -- but there is an underlying sense of a lack of confidence across the board and I think uncertainty. So we're just going to continue to do what we do with our products. But I do absolutely acknowledge that it's a tough environment.

One thing that is helping us is Kamis continues to grow pretty well. And Poland, while the currency is weakening a little bit, seems to continue to be a pretty robust economy for us.

Eric Katzman - *Deutsche Bank - Analyst*

Okay. Well, the invitation to next year's conference is open. But in terms of the M&A environment, obviously this type of landscape makes for winners and losers. You're winning and there's been a lot of companies over the years that are private that you've had your sights on. And I'm just kind of wondering, are you seeing a little bit more interest on their part, whether it's family-run businesses or parts of other larger companies, where there's been an approach and maybe we should expect a little bit more activity?

Alan Wilson - *McCormick & Company, Incorporated - Chairman, President & CEO*

Well, we have an active pipeline and in our business we know the businesses that are attracted to us and we generally know the people that own them and nurture those relationships. I'd say we still have a pretty active pipeline.

Eric Katzman - *Deutsche Bank - Analyst*

Okay. All right, thank you.

Operator

Robert Moskow, Credit Suisse Group.

Robert Moskow - *Credit Suisse - Analyst*

Looking forward to that 1812 promotion. We haven't had one of those in a while. But I wanted to ask around the edges here, the industrial business, you said that there's higher demand for customized seasoning blends and it's across a variety of geographies. Is that one customer introducing a new product across a variety of geographies or what is that specifically?

Alan Wilson - *McCormick & Company, Incorporated - Chairman, President & CEO*

Well, it certainly -- our expertise and focus is on savory seasonings. A lot of those end up in snacks, but a lot of companies are investing behind new product innovation in snacks, but it is not specific to one customer. We are seeing a fair bit of activity from a number of customers.

I'd also say though that while we have a robust pipeline, there's a continued focus from a lot of our industrial customers on productivity initiatives. And in a lot of cases we can help with those with our products and help them deliver great flavor with reduced cost. But where we really like to play is in the new product innovation.

Robert Moskow - *Credit Suisse - Analyst*

So are you doing both of those things right now, is that what you mean [talent]?

Alan Wilson - *McCormick & Company, Incorporated - Chairman, President & CEO*

Yes, I think our efforts are pretty split.

Robert Moskow - *Credit Suisse - Analyst*

Okay, okay. Can you talk a little bit more about Kohinoor? Are you on plan in India as well as Poland? We heard from Hershey saying that they've had troubles there and they aren't the first. What are you finding that's unique about that market? It just seems that selling spice and seasonings in a more value added way would be a challenge particularly in India.

Alan Wilson - *McCormick & Company, Incorporated - Chairman, President & CEO*

We're pretty much on plan with our business in India. Certainly the environment is a little more volatile. And the way we think about India is really as a long-term great growing market. And we know it's not going to be smooth, there will be some bumps along the way. But we're pleased with where we are so far in that business and excited about the prospects as we invest in new products.

Remember, our core business in India isn't selling spices to Indians; we're selling higher value added rice products and we're selling through our joint venture in Southern India more value added blends. So it's less about selling those core spices which are available on every street and more about selling value added products.

Robert Moskow - *Credit Suisse - Analyst*

Okay. All right, and lastly CapEx. Your CapEx spend is flat versus a year ago for the first six months. I think I would expect it to be a little bit higher, I think because now you have those acquisitions. What is your CapEx guidance again for this year? And at some point will you need to increase capacity and CapEx spending for those deals?

Gordon Stetz - *McCormick & Company, Incorporated - EVP & CFO Management Committee*

Yes, actually we are still forecasting $100 million to $110 million in CapEx spending. I know it's not reflected yet at the beginning part of the year, but we're still projecting that. And it does reflect what you just said, Rob. To some extent it's organic growth in some of our emerging markets where we actually are adding capacity because of the growth that we've experienced in places like China, in other cases it is for the integration of our new acquisitions. And just by virtue of the fact that these acquisitions themselves had a CapEx budget that we now have included.

Alan Wilson - *McCormick & Company, Incorporated - Chairman, President & CEO*

Yes, we've got a new technical center and a plant expansion in Guangzhou that will be online later in the year. We're starting to work on plant expansion in Poland. So there's a fairly good investment program and we expect it will be right in line with our capital forecast.

Robert Moskow - *Credit Suisse - Analyst*

Okay, great. Thank you.

Operator

Ann Gurkin, Davenport & Company.

Ann Gurkin - *Davenport & Company - Analyst*

I want to follow up a little bit on a couple items. One, you mentioned strong trends in the QSR channel. Has that changed at all? Has that trend either accelerated or changed?

Alan Wilson - *McCormick & Company, Incorporated - Chairman, President & CEO*

I don't think it's changed very much. I think within QSR there are companies that are doing well, companies that are struggling a little bit. Remember, we're pretty well invested in QSR in most of our major markets in the US and Europe and in China. So we're continuing to see good growth in China.

We had some volume blends in the US which we're seeing that are reflecting, so it's not necessarily that the customers are growing as much as we had some share gains. So I don't think that there's a major change in that trend.

Ann Gurkin - *Davenport & Company - Analyst*

Okay. And then when we attended your Investor Day, I thought the discussion about your global management board was interesting. Are there any new developments coming out of that global management board?

Alan Wilson - *McCormick & Company, Incorporated - Chairman, President & CEO*

Well, we're continuing to invest in -- we really use that as our key source of executive development and we're continuing to invest in that. Our boards are ongoing and they bring us projects that either help us grow our business or reduce our cost. So it really is an ongoing effort and they're working on some of the big strategic projects for the Company.

Ann Gurkin - *Davenport & Company - Analyst*

Okay. And then finally I always ask about the fall bake season, how is it -- how is the sell in going?

Alan Wilson - *McCormick & Company, Incorporated - Chairman, President & CEO*

We're pretty encouraged. We really feel like we're locked for a good fall season. Obviously we need a return to more traditional weather, but I would say that we feel like our plans are well in place.

Ann Gurkin - *Davenport & Company - Analyst*

That is great, congratulations. Thanks so much.

Operator

Mitch Pinheiro, Janney Montgomery Scott.

Mitch Pinheiro - *Janney Montgomery Scott - Analyst*

A couple sort of follow-ups. Just regarding brand marketing support, where is that focused for the upcoming quarter and maybe the second half? And then how does that -- are we talking above the line or below the line or both?

Alan Wilson - *McCormick & Company, Incorporated - Chairman, President & CEO*

Well, it's a little bit of both. I mean we certainly, as we always do, are looking at some value programs. Some of that is what we would call I guess below the line where we're investing in advertising, reminding people of the value of our products. There's some promotional activity, there always is. I wouldn't say the promotional activity is much higher than it is in previous periods.

But the real effort is in making sure that we're communicating about our new products. And as we head into the fall season -- we've got a good campaign on Grill Mates right now, we've got a good campaign on Old Bay, and Zatarain's and the new products with Zatarain's in the US. And then in the fall we'll be emphasizing the baking products and as we head into Christmas more of the holiday meal kind of products.

Gordon Stetz - *McCormick & Company, Incorporated - EVP & CFO Management Committee*

Just to add to that, Mitch, you know last year, if you recall, we incrementally [spent] in the fourth quarter against holiday and it was approximately about a $10 million increase versus the prior year in advertising and promotion. And that was a function of the good results that we saw from the holiday programs in prior years. So we're going to be hitting holiday again hard this year.

Mitch Pinheiro - *Janney Montgomery Scott - Analyst*

But will it be sort of at the same rate as last year?

Gordon Stetz - *McCormick & Company, Incorporated - EVP & CFO Management Committee*

Yes, back half will be generally at the same spending levels as last year, up slightly.

Mitch Pinheiro - *Janney Montgomery Scott - Analyst*

Okay. How did -- I mean, you sort of mentioned this earlier, but how did your alternative channels perform versus the traditional food, drug and mass?

Alan Wilson - *McCormick & Company, Incorporated - Chairman, President & CEO*

A little stronger than the traditional grocery.

Mitch Pinheiro - *Janney Montgomery Scott - Analyst*

Okay. And then when you look at within your core spice up business in the US, how did your traditional single spice business do compared to your seasoning blends and those sort of higher value added products?

Alan Wilson - *McCormick & Company, Incorporated - Chairman, President & CEO*

Over the last 13 and 52 weeks volume was down a bit in grocery on core items; dry seasoning mixes were also down a bit. In spices we made that up with the other channels. In dry seasoning mixes, that's a category that we're in the process of refreshing and we believe needs some renewed investment.

Now dry seasoning mixes are coming off a couple years of really strong growth as the economy weakened. So we may be reverting a bit to the mean, but we're continuing to invest, that's an important business for us and we get a lot of great new products and new packaging that we're in the process of introducing.

Mitch Pinheiro - *Janney Montgomery Scott - Analyst*

Okay, last question is also if you could just remind me sort of where -- in your CCI cost savings program where you're focused, where you're seeing incremental savings emanating from?

Gordon Stetz - *McCormick & Company, Incorporated - EVP & CFO Management Committee*

As you may recall, back in March we took it up this year to $45 million. And generally what we're still seeing is about a 60-40 split between consumer and industrial on those. And still about 75% to 80% within the cost of goods sold line and the rest will be hit against G&A.

Mitch Pinheiro - *Janney Montgomery Scott - Analyst*

Okay, thank you very much.

Operator

Andrew Lazar, Barclays Capital.

Andrew Lazar - *Barclays Capital - Analyst*

I know we're up again the time, so just a quick follow-up. You had mentioned already about some of the trends you've seen around alternate channels and your performance there versus private label and others. We all get the expanded outlet coverage data this coming week or Monday basically.

Anything you would basically tell us to sort of look for, insights you think we should be looking for out of that expanded coverage data? And if it's really the same as what you've already said, that's fine, but if there's anything else we should be looking at in general we'd love to hear it.

Alan Wilson - *McCormick & Company, Incorporated - Chairman, President & CEO*

Yes, I think we've been pretty transparent on what we would expect to see. I mean I think for our -- I can't speak to any other category but ours, but I would say that we would see a little stronger performance as you see that expanded data versus what you're currently seeing.

Andrew Lazar - *Barclays Capital - Analyst*

Okay, thank you very much.

Alan Wilson - *McCormick & Company, Incorporated - Chairman, President & CEO*

With no other questions, I want to thank everybody for participating in the call. I'm really confident that we're doing the right things and executing effectively to succeed in a difficult environment. McCormick has a great portfolio of products across both our business segments and our operations around the world where we bring our passion for flavor to customers and consumers. As demonstrated by our financial results, we're delivering higher performance and committed to increasing value for our shareholders. Thanks, everyone.

Joyce Brooks - *McCormick & Company, Incorporated - VP of IR*

And I'd like to add by thanks to those that participated on the call. Through July 4 you can access a telephone replay of the call by dialing 877-660-6853. The account number for this replay is 309 and the ID number is 394563. You can also listen to a replay on our website later today. If anyone has additional questions regarding today's information or any other questions you can reach me at 410-771-7244. This concludes today's call.
