MCCORMICK & CO INC
Form 10-Q
October 04, 2016
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 August 31, 2016
Commission File Number 001-14920

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

MARYLAND	52-0408290
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

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

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

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

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

	Shares Outstanding August 31, 2016
Common Stock	11,508,652
Common Stock Non-Voting	114,563,850

TABLE OF CONTENTS

Table of Contents

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 August 31,		Nine months ended August 31,	
	2016	2015	2016	2015
Net sales	$1,091.0	$1,059.9	$3,184.5	$3,094.4
Cost of goods sold	637.1	638.0	1,892.8	1,878.8
Gross profit	453.9	421.9	1,291.7	1,215.6
Selling, general and administrative expense	281.8	271.5	860.0	820.3
Special charges	4.3	11.7	9.8	59.1
Operating income	167.8	138.7	421.9	336.2
Interest expense	14.1	13.6	41.7	39.5
Other income, net	0.2	0.2	2.0	0.6
Income from consolidated operations before income taxes	153.9	125.3	382.2	297.3
Income taxes	34.3	37.4	91.5	71.9
Net income from consolidated operations	119.6	87.9	290.7	225.4
Income from unconsolidated operations	8.1	9.7	24.2	27.0
Net income	$127.7	$97.6	$314.9	$252.4
Earnings per share – basic	$1.01	$0.76	$2.48	$1.97
Average shares outstanding – basic	126.4	128.0	126.8	128.1
Earnings per share – diluted	$1.00	$0.76	$2.46	$1.95
Average shares outstanding – diluted	127.9	129.2	128.2	129.2
Cash dividends paid per share	$0.43	$0.40	$1.29	$1.20
Cash dividends declared per share	$0.43	$0.40	$0.86	$0.80

See notes to condensed consolidated financial statements (unaudited).

Table of Contents

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

	Three months ended August 31,		Nine months ended August 31,	
	2016	2015	2016	2015
Net income	$127.7	$97.6	$314.9	$252.4
Net income (loss) attributable to non-controlling interest	0.1	(1.9)	0.8	0.5
Other comprehensive income (loss):				
Unrealized components of pension plans	8.3	7.3	17.8	23.1
Currency translation adjustments	(20.8)	(33.9)	(7.8)	(184.5)
Change in derivative financial instruments	1.9	(0.8)	0.3	(0.3)
Deferred taxes	(1.9)	(1.5)	(4.4)	(5.9)
Comprehensive income	$115.3	$66.8	$321.6	$85.3

See notes to condensed consolidated financial statements (unaudited).

Table of Contents

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

	August 31, 2016 (unaudited)	August 31, 2015 (unaudited)	November 30, 2015
ASSETS			
Current Assets			
Cash and cash equivalents	$ 134.2	$ 108.4	$ 112.6
Trade accounts receivables, net	445.3	422.9	455.2
Inventories, net			
Finished products	366.0	333.3	319.9
Raw materials and work-in-process	394.3	393.9	390.9
	760.3	727.2	710.8
Prepaid expenses and other current assets	128.2	116.0	127.9
Total current assets	1,468.0	1,374.5	1,406.5
Property, plant and equipment	1,604.9	1,491.4	1,531.3
Less: accumulated depreciation	(963.8)	(902.3)	(912.9)
Property, plant and equipment, net	641.1	589.1	618.4
Goodwill	1,813.3	1,802.4	1,759.3
Intangible assets, net	433.6	376.1	372.1
Investments and other assets	360.5	348.6	351.5
Total assets	$ 4,716.5	$ 4,490.7	$ 4,507.8
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current Liabilities			
Short-term borrowings	$ 559.3	$ 481.2	$ 139.5
Current portion of long-term debt	0.6	203.6	203.5
Trade accounts payable	361.0	336.1	411.9
Other accrued liabilities	420.3	383.7	485.3
Total current liabilities	1,341.2	1,404.6	1,240.2
Long-term debt	1,057.9	807.2	1,052.7
Other long-term liabilities	542.8	516.7	528.0
Total liabilities	2,941.9	2,728.5	2,820.9
Shareholders' Equity			
Common stock	406.6	380.8	384.5
Common stock non-voting	676.3	653.0	655.1
Retained earnings	1,074.7	1,065.1	1,036.7
Accumulated other comprehensive loss	(400.2)	(353.6)	(406.1)
Non-controlling interests	17.2	16.9	16.7
Total shareholders' equity	1,774.6	1,762.2	1,686.9
Total liabilities and shareholders' equity	$ 4,716.5	$ 4,490.7	$ 4,507.8

See notes to condensed consolidated financial statements (unaudited).

Table of Contents

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

	Nine months ended August 31,	
	2016	2015
Operating activities		
Net income	$314.9	$252.4
Adjustments to reconcile net income to net cash flow provided by operating activities:		
Depreciation and amortization	82.3	78.7
Stock-based compensation	19.8	17.0
Brand name impairment included in special charges	—	9.6
Income from unconsolidated operations	(24.2)	(27.0)
Changes in operating assets and liabilities	(93.4)	(31.8)
Dividends from unconsolidated affiliates	23.0	17.7
Net cash flow provided by operating activities	322.4	316.6
Investing activities		
Acquisition of businesses (net of cash acquired)	(116.2)	(210.9)
Capital expenditures	(87.9)	(70.0)
Proceeds from sale of property, plant and equipment	0.9	0.3
Other	1.4	—
Net cash flow used in investing activities	(201.8)	(280.6)
Financing activities		
Short-term borrowings, net	419.9	214.1
Long-term debt borrowings	—	0.5
Long-term debt repayments	(202.0)	(1.4)
Proceeds from exercised stock options	32.4	26.1
Common stock acquired by purchase	(178.9)	(72.3)
Dividends paid	(163.6)	(153.7)
Net cash flow (used in) provided by financing activities	(92.2)	13.3
Effect of exchange rate changes on cash and cash equivalents	(6.8)	(18.2)
Increase in cash and cash equivalents	21.6	31.1
Cash and cash equivalents at beginning of period	112.6	77.3
Cash and cash equivalents at end of period	$134.2	$108.4

See notes to condensed consolidated financial statements (unaudited).

Table of Contents

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

1. ACCOUNTING POLICIES

Basis of Presentation

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

The results of consolidated operations for the three and nine month periods ended August 31, 2016 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, 2015.

Recently Issued Accounting Pronouncements

In September 2015, the FASB issued Accounting Standards Update No. 2015-16 Simplifying the Accounting for Measurement-Period Adjustments (Topic 805). This guidance eliminates the requirement to retrospectively adjust the financial statements for measurement-period adjustments that occur in periods after a business combination is consummated. As described in note 2, we elected to adopt ASU No. 2015-16 during the quarter ended August 31, 2016 with the completion of our final valuation related to the purchase of 100% of the shares of One World Foods, Inc.

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2016-15 Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments. The standard is intended to eliminate diversity in practice in how certain cash receipts and cash payments are presented and classified in the statement of cash flows. The new standard will be effective for the first quarter of our fiscal year ending November 30, 2019. Early adoption is permitted for all entities. We have not yet determined the impact from adoption of this new accounting pronouncement on the classifications within our cash flow statement.

In March 2016, the FASB issued Accounting Standards Update No. 2016-09 Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting. The standard is intended to simplify several areas of accounting for share-based compensation arrangements, including the income tax consequences, classification of awards as either equity or liabilities and classification on the statement of cash flows. The new standard will be effective for the first quarter of our fiscal year ending November 30, 2018. Early adoption is permitted for all entities. We have not yet determined the impact from adoption of this new accounting pronouncement on our financial statements.

In February 2016, the FASB issued Accounting Standards Update No. 2016-02 Leases (Topic 842). This guidance revises existing practice related to accounting for leases under Accounting Standards Codification Topic 840 Leases (ASC 840) for both lessees and lessors. The new guidance in ASU 2016-02 requires lessees to recognize a right-of-use asset and a lease liability for virtually all of their leases (other than leases that meet the definition of a short-term lease). The lease liability will be equal to the present value of lease payments and the right-of-use asset will be based on the lease liability, subject to adjustment such as for initial direct costs. For income statement purposes, the new standard retains a dual model similar to ASC 840, requiring leases to be classified as either operating or finance. For lessees, operating leases will result in straight-line expense (similar to current accounting by lessees for operating leases under ASC 840) while finance leases will result in a front-loaded expense pattern (similar to current accounting by lessees for capital leases under ASC 840). While the new standard maintains similar accounting for lessors as under ASC 840, the new standard reflects updates to, among other things, align with certain changes to the lessee model. The new standard will be effective for the first quarter of our fiscal year ending November 30, 2020. Early adoption is permitted for all entities. We have not yet determined the impact from adoption of this new accounting pronouncement on our financial statements.

Table of Contents

In May 2014, the 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. The new standard will be effective for the first quarter of our fiscal year ending November 30, 2019. Early adoption is permitted for all entities, but not before the original effective date for public business entities (i.e., annual reporting periods beginning after December 15, 2016 or our fiscal year ending November 30, 2018). We have not yet determined the impact from adoption of this new accounting pronouncement on our financial statements.
For other recently issued accounting pronouncements that we have not yet adopted, see note 1 to the consolidated financial statements included in our Annual Report on Form 10-K for the year ended November 30, 2015.

2. ACQUISITIONS

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

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 closer-to-fresh 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. At the time of acquisition, annual sales of Gourmet Garden were approximately 70 million Australian dollars. The purchase price was $118.1 million, net of cash acquired of $3.3 million and subject to certain closing adjustments, and was financed with a combination of cash and short-term borrowings. During the third quarter of 2016, we received a refund of $1.9 million for a net working capital adjustment associated with this acquisition that reduced the overall purchase price to $116.2 million. As of August 31. 2016, a preliminary valuation of the acquired net assets of Gourmet Garden resulted in $20.4 million allocated to net tangible assets acquired, $20.3 million allocated to indefinite lived brand asset, $14.2 million allocated to definite lived intangible assets with a weighted-average life of 12.0 years and $61.3 million allocated to goodwill. Goodwill related to the Gourmet Garden acquisition, which is not deductible for tax purposes, primarily represents the intangible assets that do not qualify for separate recognition, such as the value of leveraging our brand building expertise, our insights in demand from consumers for herbs, and our supply chain capabilities, as well as expected synergies from the combined operations and assembled workforce. The preliminary valuation, based on a comparison of acquisitions of similar consumer businesses, provided average percentages of purchase prices assigned to goodwill and other identifiable intangible assets, which we used to initially value the Gourmet Garden acquisition. We expect to finalize the determination of the fair value of the acquired net assets of Gourmet Garden in early 2017. 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. During the three and nine months ended August 31, 2016, we recorded $0.6 million and $3.6 million, respectively, in transaction-related expenses associated with this acquisition. Due to the estimated impact of financing, acquisition and integration costs, we do not expect operating income contribution of Gourmet Garden to be significant to our overall results for 2016.

On August 20, 2015, we completed the purchase of 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 the leading premium barbeque sauce brand in the U.S. In addition to sauces, Stubb's products include marinades, rubs and skillet sauces. Its addition will expand the breadth of value-added products in our consumer segment. At the time of acquisition, annual sales of Stubb's were approximately $30 million. The purchase price for Stubb's was $99.4 million, net of cash acquired of $0.8 million, and was financed with a combination of cash and short-term borrowings. During the third quarter of 2016, we completed the final valuation of the Stubb's acquisition, which resulted in the following changes from the preliminary valuation to the acquired assets and liabilities: (i) the indefinite lived brand asset increased by $13.8 million to $27.1 million; (ii) definite lived intangible assets increased by $11.9 million to $24.4 million (with a weighted average life of 13.9 years); (iii) tangible assets acquired increased by $0.3 million to $5.7 million; (iv) liabilities assumed (including the deferred tax liabilities associated with identified intangible assets) increased by $7.0 million to $19.4 million; and (v) goodwill decreased by $19.0 million to $61.6 million. As a result of these changes in the final valuation, amortization expense of definite lived intangible assets increased by $0.9 million. Goodwill related to the Stubb's acquisition, which is not deductible for tax purposes, primarily represents the intangible assets that do not qualify for separate recognition, such as the value of leveraging our brand building expertise, our insights in demand from consumers for unique and authentic barbeque and grilling flavors, and our supply chain capabilities, as well as expected synergies from the combined operations and assembled workforce. With the completion of the final valuation of Stubb's, we have elected to adopt ASU No. 2015-16, which eliminates the requirement to retrospectively adjust the financial statements for measurement-period adjustments that occur in periods after a business combination is consummated. Stubb's has been included in our consumer segment since its acquisition.

On May 29, 2015, we completed the purchase of 100% of the shares of Drogheria & Alimentari (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, and was financed with a combination of cash and short-term borrowings. In addition, the purchase agreement calls for a potential earn out payment in 2018 of up to €35 million, based upon the performance of the acquired business in 2017. This potential earn out payment had an acquisition-date fair value of $27.7 million (or approximately €25 million), based on estimates of projected performance in 2017, payable in fiscal 2018, and discounted using a probability-weighted approach. At the time of the acquisition, annual sales of D&A were approximately €50 million. During the second quarter of 2016, we completed the final valuation of the D&A acquisition, which resulted in $3.2 million allocated to tangible net assets, $12.6 million allocated to indefinite lived brand assets, $19.8 million allocated to definite lived intangible assets with a weighted-average life of 13.8 years and $41.1 million allocated to goodwill. Goodwill related to the D&A acquisition, which is not deductible for tax purposes, primarily represents the intangible assets that do not qualify for separate recognition, such as the value of leveraging our brand building expertise, our customer insights in demand from consumers for unique and authentic ethnic flavors and our supply chain capabilities, as well as expected synergies from the combined operations and assembled workforce. The completion of the final valuation did not result in material changes to our consolidated income statement or consolidated balance sheet from our preliminary purchase price allocation. D&A has been included in our consumer segment since its acquisition.

On March 9, 2015, we acquired 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 expands 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. At the time of acquisition, annual sales of Brand Aromatics were approximately $30 million. As of November 30, 2015, we completed the final valuation of the Brand Aromatics acquisition, which resulted in $5.2 million allocated to tangible net assets, $4.2 million allocated to a brand name indefinite lived intangible asset, $18.7 million allocated to definite lived intangible assets with a weighted average life of 11.9 years, and $34.3 million allocated to goodwill. Goodwill related to the Brand Aromatics acquisition, which will be deductible for tax purposes, primarily represents the intangible assets that do not qualify for separate recognition, such as the value of leveraging the customer intimacy and value-added flavor solutions we provide to our industrial customers to Brand Aromatics’ relationships with industrial customers of their stocks, marinades and other savory flavors, as well as from expected synergies from the combined operations and assembled workforces, and the future development initiatives of the assembled workforces. The completion of the final valuation did not result in material changes to our consolidated income statement or our consolidated balance sheet from our preliminary purchase price allocation. Brand Aromatics has been included in our industrial segment since its acquisition.

For the third quarter of 2016, Gourmet Garden and Stubb's added $14.1 million and $6.9 million, respectively, to our sales. Gourmet Garden and Stubb's added $21.5 million and $21.6 million, respectively, to our sales in the nine months ended August 31, 2016. For the nine months ended August 31, 2016, incremental sales of D&A and Brand Aromatics were $31.8 million and $7.2 million, respectively, representing sales of the business in the first six months of 2016 and in the first quarter of 2016, respectively. Due to financing, acquisition and integration costs, the aggregate incremental operating income contributed by Gourmet Garden, Stubb's, D&A and Brand Aromatics was not significant to our overall results for the three and nine months ended August 31, 2016. Proforma financial information for these acquisitions has not been presented because the financial impact is not material.

Table of Contents

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 our consolidated income statement, we include a separate line item captioned "special charges" in arriving at our consolidated operating income. Special charges consist of expenses associated with certain actions undertaken by the Company to reduce fixed costs, simplify or improve processes, and improve our competitiveness and are of such significance in terms of both up-front costs and organizational/structural impact to require advance approval by our Management Committee, comprised of our senior management, including our President and Chief Executive Officer. Upon presentation of any such proposed action (generally including details with respect to estimated costs, which typically consist principally of employee severance and related benefits, together with ancillary costs associated with the action that may include a non-cash component or a component which relates to inventory adjustments that are included in cost of goods sold; impacted employees or operations; expected timing; and expected savings) to the Management Committee and the Committee's advance approval, expenses associated with the approved action are classified as special charges upon recognition and monitored on an on-going basis through completion.

The following is a summary of special charges recognized in the three and nine months ended August 31, 2016 and 2015 (in millions):

	Three months ended August 31,		Nine months ended August 31,	
	2016	2015	2016	2015
Special charges included in cost of goods sold	$—	$3.4	$—	$3.4
Other special charges in the income statement (including a non-cash brand impairment charges of $9.6 million for the three and nine months ended August 31, 2015)	4.3	11.7	9.8	59.1
Total special charges	$4.3	$15.1	$9.8	$62.5

During the three months ended August 31, 2016, we recorded $4.3 million of special charges, consisting of $1.8 million related to the planned exit from our current leased manufacturing facilities in Singapore and Thailand upon construction of a new manufacturing facility in Thailand, $1.7 million related to additional organization and streamlining actions associated with our Europe, Middle East and Africa (EMEA) region, and $0.8 million related to the discontinuance of non-profitable product lines of our Kohinoor business in India. The EMEA and Kohinoor actions taken in the third quarter of 2016 are components of actions that commenced in 2015 and are further described below.

During the third quarter of 2016, our Management Committee approved a plan to construct a new industrial manufacturing facility in Thailand for our Asia/Pacific region, with anticipated completion in 2018. Upon completion of construction, we will exit two leased manufacturing facilities in Singapore and Thailand. The $1.8 million of special charges recorded in the three and nine months ended August 31, 2016, principally relates to severance and other related costs associated with employees located at the existing leased facility in Singapore. We expect to record additional special charges related to this action of approximately $2.2 million over the next two years associated with other exit costs.

During the nine months ended August 31, 2016, we recorded $9.8 million of special charges, consisting of $4.8 million related to additional organization and streamlining actions associated with our EMEA region, $1.8 million associated with actions associated with our planned exit of two leased manufacturing facilities in Singapore and Thailand, $1.7 million for employee severance actions and related with our North American effectiveness initiative initiated in 2015 and further described below, and $1.5 million for other exist costs related to the discontinuance of non-profitable product lines of our Kohinoor business in India.

As approved by our Management Committee, we reached agreement with our joint venture partner in South Africa during the third quarter of 2016 to exit the joint venture. The transfer agreement, which is subject to customary closing conditions (including regulatory approval that was obtained in September 2016), is expected to close in October 2016. Any loss in connection with execution of the transfer agreement and exit from the joint venture, which is not expected to be material, will be reflected in special charges. Sales of this consolidated joint venture, a component of our industrial segment were $4.5 million and $12.0 million for the three and nine months ended August 31, 2016, respectively, and $6.7 million and $19.4 million for the three and nine months ended August 31, 2015, respectively.

Table of Contents

During the three months ended August 31, 2015, we recorded a total of $15.1 million of special charges, including $3.4 million classified in cost of goods sold. Of that amount, $13.0 million relates to a program, instituted by our Kohinoor consumer business in India and approved by our Management Committee during the third quarter, to improve the profitability of that business. The plan principally relates to the discontinuance of its non-profitable bulk-packaged and broken basmati rice product lines and other ancillary activities, while concentrating the business's focus on both its existing consumer-packaged basmati rice product lines and the launch of consumer-packaged herbs and spices under the Kohinoor brand name.

In the third quarter of 2015, we recorded a non-cash impairment charge of $9.6 million for our Kohinoor brand name due to the anticipated sales reduction associated with the business's discontinuance of its bulk-packaged and broken basmati rice product lines. In addition, as a result of the Kohinoor product line discontinuance approved in the third quarter of 2015, we recognized a $3.4 million charge in cost of goods sold, which represents a provision for the excess of the carrying value of inventories of bulk and broken basmati rice at August 31, 2015, determined on a lower of cost or market basis, over the estimated net realizable value of such inventories upon discontinuance. Also during the third quarter of 2015, we recognized an additional $2.1 million of special charges, consisting of $1.3 million related to employee severance and related costs associated with our North American effectiveness initiative and $0.8 million principally related to other exit costs related to our EMEA reorganization initiated earlier in 2015.

For the nine months ended August 31, 2015, we recorded $62.5 million of special charges as indicated in the above table. In addition to the Kohinoor charges of $13.0 million described in the paragraph above, we have recorded special charges of $27.7 million related to employee severance and related costs, associated with our North American effectiveness initiative, and $23.7 million related to our EMEA reorganization initiated earlier in 2015. Partially offsetting these charges was a credit of $1.9 million for the 2015 reversal of reserves previously accrued as part of the EMEA reorganization plan undertaken in 2013 and 2014, principally as a result of a decision by EMEA management that employee attrition, which occurred and was expected to continue, obviated the need for certain accrued employee severance and related benefits.

The following is a breakdown of special charges by business segments for the three and nine months ended August 31, 2016 and 2015 (in millions):

	Three months ended August 31,		Nine months ended August 31,	
	2016	2015	2016	2015
Consumer segment	$2.4	$14.7	$7.2	$49.6
Industrial segment	1.9	0.4	2.6	12.9
Total special charges	$4.3	$15.1	$9.8	$62.5

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

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 early in 2015, we accrued special charges of $24.5 million during the first quarter of 2015 (and an additional $3.2 million in the second and third quarters of 2015), consisting primarily of employee severance and related costs that were largely paid in 2015 as substantially all of the affected employees left the company in 2015. The voluntary retirement plan is part of our North American effectiveness initiative.

Our North American effectiveness initiative generated cost savings of approximately $15 million in 2015 and is expected to generate annual cost savings with a full year impact of approximately $27 million beginning in 2016. 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 nine months ended August 31, 2016 and 2015 (in millions):

Table of Contents

	Employee severance and related benefits	Other related costs	Total
Balance as of November 30, 2015	$ 2.3	$ —	$ 2.3
Special charges	1.6	0.1	1.7
Cash paid	(2.7)	(0.1)	(2.8)
Balance as of August 31, 2016	$ 1.2	$ —	$ 1.2
Balance as of November 30, 2014	$ —	$ —	$ —
Special charges	25.6	2.1	27.7
Cash paid	(22.8)	(1.5)	(24.3)
Balance as of August 31, 2015	$ 2.8	$ 0.6	$ 3.4

In the three and nine months ended August 31, 2015, we recorded special charges of $0.8 million and $23.7 million, respectively, 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. For the last quarter of 2015, additional projects were identified in the EMEA region to further enhance organization efficiency and streamline processes in this region to support its competitiveness and long-term growth. These initiatives center on actions intended to reduce fixed costs and improve business processes, as well as continue to drive simplification across the business and supply chain. These actions include the transfer of certain additional activities to the recently established McCormick Shared Services Center in Lodz, Poland. Further actions were approved in the second quarter of 2016. In total, we recorded $24.4 million of special charges for fiscal year 2015 associated with our EMEA reorganization plans undertaken during that year. In addition to the $1.7 million and $4.8 million of special charges recorded for the three and nine months ended August 31, 2016, we expect to record additional special charges in 2016 of approximately $1.0 million, for future actions approved under these EMEA reorganization and streamlining initiatives, which will be settled in cash and reflected in special charges upon recognition in 2016. Related annual cost savings are projected to be approximately $4 million in 2016 and $22 million by the end of 2017.

The following table outlines the major components of accrual balances and activity relating to the special charges associated with the EMEA reorganization plans described above for the nine months ended August 31, 2016 and 2015 (in millions):

	Employee severance and related benefits	Other related costs	Total
Balance as of November 30, 2015	$ 16.2	$ 0.6	$ 16.8
Special charges	1.2	3.6	4.8
Cash paid	(6.1)	(2.7)	(8.8)
Impact of foreign exchange	0.4	—	0.4
Balance as of August 31, 2016	$ 11.7	$ 1.5	$ 13.2
Balance as of November 30, 2014	$ —	$ —	$ —
Special charges	21.5	2.2	23.7
Cash paid	(3.6)	(0.7)	(4.3)
Impairment of fixed assets	—	(1.1)	(1.1)
Impact of foreign exchange	—	0.2	0.2
Balance as of August 31, 2015	$ 17.9	$ 0.6	$ 18.5

In the second half of 2015, we recorded special charges related to initiatives to improve the profitability of our Kohinoor consumer business in India. This action principally related to the discontinuance of Kohinoor's non-profitable bulk-package and broken basmati rice product lines and other ancillary activities to enable the business to focus on both its existing consumer-packaged basmati product lines and the launch of consumer-packaged seasonings under the Kohinoor brand name. In addition to the special charges recognized in the second half of 2015, which are more fully described in Note 3 to the consolidated financial statements included in our Annual Report on Form 10-K for the year ended November 30, 2015, future actions approved with respect to Kohinoor's plan to improve its profitability consisted of costs associated with exiting certain contractual arrangements and other costs directly related to the plan, of which $0.8 million and $1.5 million were recognized

Table of Contents

for the three and nine months ended August 31, 2016, respectively. The estimated cost of future actions, which will be reflected in special charges upon recognition, range from approximately $0.5 million to $2.0 million.

In late 2013, we announced a reorganization in parts of the 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 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.

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 nine months ended August 31, 2016 and 2015 (in millions):

	Employee severance and related benefits	Other related costs	Total
Balance as of November 30, 2015	$ 2.3	$ —	