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McCormick & Company, Incorporated (MKC) CEO Lawrence Kurzius on Q3 2019 Results - Earnings Call Transcript

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Q3: 10-01-19 Earnings Summary

Press Release SEC *10-Q* *Slides*

EPS of $1.46 beats by $0.17 | Revenue of $1.33B (-1.20% Y/Y) misses by $-13.59M

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McCormick & Company, Incorporated (NYSE:MKC) Q3 2019 Results Conference Call
October 1, 2019 9:00 AM ET

Company Participants

Kasey Jenkins - VP of IR

Lawrence Kurzius - Chairman, President and CEO

Mike Smith - Executive Vice President and CFO

Conference Call Participants

Andrew Lazar - Barclays

Ken Goldman - JP Morgan

Alexia Howard - Bernstein

Robert Moskow - Credit Suisse

Chris Growe - Stifel

Steven Strycula - UBS

Adam Samuelson - Goldman Sachs

Kasey Jenkins

Good morning. This is Kasey Jenkins, Vice President of McCormick Investor Relations. Thank you for joining today's Third Quarter Earnings Call. To accompany this call, we have posted a set of slides at ir.mccormick.com. Currently, all participants are in a listen-only mode. Following our remarks, we will begin a question-and-answer session. [Operator Instructions] We'll begin with remarks from Lawrence Kurzius, Chairman, President and CEO and Mike Smith, Executive Vice President and CFO.

During our remarks, we will refer to certain non-GAAP financial measures. These include information in constant currency, as well as adjusted operating income, adjusted income tax rate and adjusted earnings per share that exclude the impact of special charges, as well as the net non-recurring income tax benefit associated with the December 2017 U.S. tax reform legislation and for 2018 transaction and intervention expenses related to the acquisition of our Frank's and French's brand. Reconciliations to GAAP results are included in this morning's press release and slides. In our comments, certain percentages are rounded. Please refer to our presentation, which includes the complete information.

In addition, 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 statement, whether because 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 is now my pleasure to turn the discussion over to Lawrence.

Lawrence Kurzius

Thank you, Kasey. Good morning everyone. Thanks for joining us. Our solid third quarter and year-to-date results reflect the successful execution of our strategies and engagement of employees around the world. We've driven strong sales, operating profit and adjusted EPS growth, as well as operating margin expansions, while continuing to make targeted investments and fuel future growth. As we enter the last quarter of our fiscal year, we're confident in our growth trajectory and that we're well positioned to deliver strong results in 2019.

Starting on Slide 4, our broad and advantaged global flavor portfolio continues to position us to meet the demand for flavor around the world to grow our business. The breadth and reach of our portfolio across segments, geographies, channels, customers and product offerings, creates a balanced portfolio to drive consistency in our performance in a volatile environment. This quarter, our particularly strong consumer sales growth in the Americas and Asia Pacific regions outweighed flavor solution softness in those same regions.

Within our Consumer segment, our third quarter highlights include broad based U.S. and China growth, with strong contributions from both base business and new products. In our Flavor Solutions segment, our EMEA region drove growth in flavors, branded food service and condiments, driven by new products and the base business. We're confident our breath and reach will also continue to differentiate McCormick, and be the foundation of our sales growth as consumers' demand for flavor continues to rise.

Now let me go into more detail on our third quarter performance as seen on Slide 5, as well as provide some business comments before turning it over to Mike who will go in more depth on the quarter end results and discuss our 2019 financial guidance. Starting with our top line for the third quarter. Third quarter sales increased 1% from the year ago period, and constant currency sales grew 2% for the total company, led by our Consumer segment with growth attributable to higher volume and product mix, driven by both base business and new products.

In our consumer segment, sales increased 3%, including 1% unfavorable impact from currency. In constant currency, sales grew 4%, representing an acceleration from the first half trends. In our Flavor Solutions segment, sales decreased 2%. In constant currency, sales were flat following the strong first half growth of 5%. Those who follow us closely know that the Flavor Solutions segment tends to have some quarter-to-quarter volatility, largely attributable to customer activity.

In addition to our top line growth, we grew adjusted operating income and expanded our adjusted operating margin. With our higher sales, cost savings led by our Comprehensive Continuous Improvement program, CCI and favorable product mix, we grew the third quarter's adjusted operating income 9% or 10% in constant currency and expanded our adjusted operating margin 160 basis points.

At the bottom-line, our third quarter adjusted earnings per share of $1.46, was 14% higher than $1.28 in the third quarter of 2018, driven primarily by our adjusted operating income growth and the lower adjusted tax rate. And this 14% adjusted earnings per share growth includes an unfavorable impact from currency.

Our strong third quarter performance is a continuation of the results we achieved in the first half of 2019. Year-to-date, through the third quarter, we've grown ourselves 1%, which is 3% in constant currency and adjusted operating income 6%, or 8% in constant currency. We continue to expect another year of strong performance in 2019.

With one quarter remaining in the fiscal year, we've increased our adjusted earnings per share guidance to $5.30 to $5.35 from our previous guidance of $5.20 to $5.30. This updated guidance reflects a 7% to 8% growth rate and importantly, includes continued investments to drive growth. We are confident in our updated 2019 outlook, which Mike will provide more details on in a few moments. I’d like to now turn to some highlights from our Consumer and Flavor Solutions segments.

Starting on Slide 6 with our Consumer segment. As I just mentioned, we grew constant currency sales 4%, driven by the strong performance in the Americas and Asia-Pacific regions. In the Americas, we grew constant currency sales 4%. This growth was entirely organic and attributable to higher volume and product mix, driven by both our base business and new products. Our category management initiatives, effective marketing support and merchandising execution, expanded distribution and new products, all contributed to drive consumption growth across our Americas consumer portfolio.

For the third quarter, our IRI data indicates our McCormick U.S. branded spices and seasoning scanner sales grew in line with category, and we again had double-digit growth in unmeasured channels. And our McCormick branded dry recipe mixes continued their momentum of consumption and share growth. Our new products, including One Dish and Street Tacos dry recipe mixes, co-branded tasty products and Zatarain's frozen entrees bowls continues to gain momentum and contribute to growth.

We won with our grilling season despite the delayed start with our strong merchandising execution, driving significant consumption growth on Grill Mates, Stubb's barbecue sauce, Frank's hot sauce and French's Mustard. As we continue to accelerate our condiment leadership, Stubb's barbecue consumption continues to outpace the barbecue category. Frank's hot sauce continues to outperformance with distribution gains and record high household penetration.

Broadening to the entire Frank's portfolio, including frozen wings, seasoning blends and dry recipe mixes, we drove double-digit consumption growth as we continue to find opportunities to expand this brand. And French's mustard again grew consumption and share. In fact, the mustard category has returned to growth and year-to-date, we have driven 100% of that growth through our category management initiatives and focused marketing support.

Our French's National Mustard Day campaign is a great example of how our marketing excellence organization continues to optimize our brand marketing spending and get more value out of each marketing dollar. The campaign earned 15 times more media value than our actual investment and created quite a buzz around mustard flavored ice cream with over 1 billion impressions. We're making brand marketing investments like this across our entire portfolio, and their effectiveness was particularly evident in our third quarter consumption and sales growth.

Now turning to Europe, Middle-East and Africa, the EMEA region. Growth was tampered by unusually warm weather in Europe, particularly in France and Italy, which unfavorably impacted consumption. Extreme high temperatures were recorded during the first half of the quarter. And as they moderated, our second half performance also improved. Our success with the new products has continued, particularly in the UK, where they with our other initiatives, drove growth.

In Asia-Pacific region, our sales growth rate has accelerated from the first half of the year, driven by our effective merchandising execution, as well as new products and expanded distribution. Last quarter, I mentioned recent macroeconomic pressures in China were impacting growth in this region. And although, there is still pressure, we delivered strong third quarter growth. As evidenced by our overall sales growth this quarter, our fundamentals across the region remain strong.

Across all regions, our strength in e-commerce is again evident with third quarter double-digit e-commerce growth. Our investments in content development, resources to support acceleration, as well as programs and items tailored to the e-commerce channel are paying off. Our digital presence includes not only e-commerce but advertising as well, which is beating the ROI norms in consumer products. And as I mentioned earlier, as we continue to optimize our brand marketing spend, we're increasing our digital effectiveness.

We're not only winning through our growth, but our digital leadership was again recognized in 2019 by Gartner L2 research. McCormick has ranked number one on their Digital IQ Index for food released in late August, and the only food brand to earn the title of genius, their top distinction. This marked our sixth consecutive year in the top five ranking of over a 100 food and beverage brands on the effectiveness of our Web site, digital, social media, e-commerce and mobile platforms.

Turning now to Slide 7. In our Flavor Solutions segment, our constant currency sales were comparable to last year with strengths in EMEA being offset by declining sales in Americas and Asia-Pacific regions. In the Americas, our third quarter sales declined compared to last year. We experienced planned decline this quarter from the timing of our customers' promotional activities and new products, following a strong first half.

Additionally, due to the significant demand we've seen in this business and continue to project, we needed to increase our warehouse capacity. During the third quarter, we began a transition to a larger raw material warehouse and this briefly constrained our growth. Our growth momentum in snack seasonings has continued, as well as our strong performance in branded food service. Overall, the demand from our Americas flavor solution customers remained strong.

Now turning to EMEA. We drove strong constant currency sales growth. We grew sales to quick service restaurants, partially driven by their strong promotional activities and new products, and to packaged food companies attributable to both new products and base business growth. We're continuing to win with our customers through new products, expanded distribution and promotional activity.

And finally, in the Asia-Pacific region, our sales were impacted by both the timing of our customers' initiatives, including a lower level of limited time offers in this year's third quarter, as well as the exit of some low margin business in the region. As I already mentioned, sales in our Flavor Solutions segment can be volatile from quarter-to-quarter, and we've seen this in our quarterly results so far this year. Our third quarter performance was impacted by several factors, which we anticipate will not impact us as significantly in future quarters. In constant currency, we've driven 3% total Flavor Solutions sales growth year-to-date and are confidence in our expectations for fourth quarter growth.

Now, I would like to provide a few summary comments as seen on Slide 8 before turning it over to Mike. At the foundation of our sales growth is the rising consumer demand for flavor. We're aligned with the consumers' continued interest to bolder flavors, demand for convenience and focus on fresh natural ingredients, as well as with emerging purchase drivers, such as greater transparency around the sourcing and quality of food. With this increased interest, flavor continues to be an advantaged global category, which combined with our execution against effective strategies, will drive strong results.

We have a solid foundation. And in an environment that continues to be dynamic and fast paced, we're ensuring we remain agile, relevant and focused on sustainable growth. Our experienced leaders and employees are executing against their strategies, which are designed to build long term value for our shareholders. Our strong third quarter financial results were a continuation of the great results we achieved in the first half of 2019.

Our fundamentals are strong. And we're confident the initiatives we have underway position us to continue our growth trajectory. We're balancing our resources and efforts to drive sales with our work to lower cost to build fuel for growth and higher margin, while we're making investments in our future. We have confidence in our updated fiscal year outlook and are well positioned to deliver another strong year in 2019. Around the world, McCormick employees are driving our momentum and success, and I thank them for their efforts and engagement.

Thank you for your attention. And it's now my pleasure to turn it over to Mike for additional remarks on our third quarter financial results and our updated 2019 outlook.

Mike Smith

Thanks, Lawrence, and good morning everyone. As Lawrence indicated, we delivered strong growth in the third quarter. I'll begin with the discussion of our results followed with details on our updated full year 2019 financial outlook. Turning at Slide 10. We grew sales 2% in constant currency. This growth was driven by the base business and new products, and was led by our consumer segment. The Consumer segment sales rose 4% in constant currency. This growth was driven by the Americas and Asia-Pacific regions, and was attributable to higher volume and product mix of both base business and new products.

Turning to Slide 11. We grew consumer segment sales in the Americas to 4% in constant currency versus the third quarter of 2018 due to higher volume and product mix. New products, category management and strong brand marketing drove broad based growth across the portfolio, both from a brand and a product category perspective with private label also contributing to the growth.

Constant currency consumer sales in EMEA were down 2% from a year ago. Sales growth in the region was impacted by extreme high temperatures as Lawrence's already mentioned, as well as a decline in private label sales and unfavorable pricing actions related to planned trade promotional activity for new products.

In the Asia-Pacific region, we grew constant currency sales 15% led by China, higher volume and product mix, as well as pricing drove the increase with strength in herbs and spices, world flavor sauces and chicken bouillon. The earlier timing of a China national holiday versus last year partially contributed to the third quarter's increased sales volume.

Turning to our Flavor Solutions segment on Slide 14, third quarter constant currency sales were comparable to the year ago period with growth in EMEA, offset by declines in the Americas and Asia-Pacific regions. In the Americas, Flavor Solutions' constant currency sales declined 2%. As Lawrence mentioned, this decline was driven primarily by the timing of our customer promotions and new products, which was stronger in the first half of the year, as well as warehouse transition activities, which temporarily constrained growth. These declines were partially offset by growth in snacks seasonings and branded foodservice.

In EMEA, we grew Flavors Solutions sales 4% in constant currency. This growth was driven by new products, pricing and base business volume growth. In the Asia-Pacific region, Flavors Solutions sales in constant currency were down 1% versus the year ago period driven by both timing of customer activities versus the year ago period, as well as the exit of some low margin business.

Adjusted operating income, which excludes special charges, increased 9% in the third quarter versus the year ago period. And excluding the impact of unfavorable currency rose 10%. Adjusted operating income in the consumer segment rose $177 million, a 16% increase. And in the constant currency, the increase was 17%. In the Flavor Solutions segment, adjusted operating income declined 2% to $85 million, which in constant currency was 1% decline.

Growth in our Consumer segment was primarily driven by higher sales, while the decline in our Flavor Solutions segment was primarily driven by lower sales. Both segments were favorably impacted by CCI-led cost savings, a one-time 2019 global benefit plan alignment and favorable product mix with partial offsets from business transformation expenses, driven by ERP replacement and higher planned brand marketing investments. An unfavorable transactional impact of foreign currency exchange rates versus the year ago period also impacted the Flavor Solutions segment.

As seen on Slide 19, we expanded our third quarter gross profit margin 100 basis points year-on-year, driven by CCI-led cost savings, as well as favorable product mix. On a year-to-date basis, we expanded 40 basis points. And for the 2019 full year, gross profit margin is expected to be 50 basis points to 75 basis points higher than 2018, which narrows our range from our previous expectations.

Our selling, general and administrative expense, as a percentage of net sales, decreased by 60 basis points from the third quarter of 2018. This decrease was primarily driven by higher sales, as well as the net impact of the other adjusted operating income changes I just mentioned a moment ago. These changes include a 5% increase in our brand marketing versus the third quarter last year.

As a reminder, while our year-to-date brand marketing is lower than last year, we are planning to spend brand marketing comparable to 2018 partially by reinvesting our continued marketing excellence cost savings and non-working spend reductions into working media. Therefore, we are planning further brand marketing increases in the fourth quarter.

And in the fourth quarter, we're projecting further increases in business transformation investments relating to our ERP replacement program, which we expect to continue to ramp up in 2020 correlated to our most essential global deployment activity. The combined impact of the gross margin expansion and SG&A leverage resulted in an adjusted operating margin expansion of 160 basis points in the third quarter of 2018.

Turning to income taxes on Slide 20. Our third quarter adjusted effective income tax rate was 17.6% as compared to 18.8% in the year ago period. Our third quarter adjusted rate was favorably impacted by discrete tax items, with the largest contributor due to stock option exercises. As we have discussed in previous quarters, favorable tax rate impacts of option exercises are partially offset by payroll and social related taxes, which unfavorably impacted operating profit.

Considering the year-to-date favorable impact from discrete items, we now expect our full year 2019 adjusted effective tax rate will be approximately 20%. There can be volatility in that rate quarter-to-quarter due to the unpredictability of discrete items, changes to our forecasted mix of earnings, including currency impacts and interpretation of regulations continuing to be released, clarifying the impacts of the 2017 U.S. Tax Act. Income from unconsolidated operations was $10 million compared to $8 million for the third quarter of 2018, a 14% increase.

At the bottom line, as shown on Slide 22, third quarter 2019 adjusted earnings per share was $1.46, up 14% from $1.28 for the year ago period, primarily due to growth in our operating performance, lower interest expense and lower adjusted income tax rate. And this increase included an unfavorable impact from currency.

The Company continues to generate strong cash flow. On Slide 23, we summarize highlights from cash flow and the quarter end balance sheet. Our cash flow provided from operations was $495 million through the third quarter of 2019 compared to $389 million through the third quarter of 2018. This increase was primarily driven by higher operating income. We continue to see improvements in our cash conversion cycle, finishing the third quarter down nine days versus our fiscal year-end. A portion of this cash was used to pay down $206 million of acquisitions debt as we continue to focus on paying down debt.

And we have now paid down almost 70% of our term notes related to our Frank's and French's acquisition, which along with the lower interest rate environment, has lowered our interest expense versus last year, as well as our debt leverage ratio. We finished the third quarter with a debt to adjusted EBITDA ratio of 3.7 times, which is pacing us ahead of our target of 3.0 times by the end of 2020.

As we have mentioned previously, while our priority is paying down debt with a clear line of sight to our 2020 leverage target, we are continuing to explore acquisition opportunities, which represent a key part of our long-term growth strategy. Through the third quarter of 2019, we returned $226 million of cash to shareholders through dividends and used $107 million for capital expenditures. We expect 2019 to be another year of strong cash flow, driven by profit and working capital initiatives. And our priority is to continue to have a balanced use of cash, making investments to drive growth, returning a significant portion to our shareholders through dividends and to pay down debt.

Let's now move to our current financial outlook for 2019 on Slide 24. We continue to expect another year of strong performance in 2019 with our broad and advantaged flavor portfolio, effective growth strategies and focus on profit realization. We are narrowing our projected growth rate ranges for sales, operating profit and earnings per share and increasing our earnings per share outlook.

We continue to estimate, based on prevailing rates, a 2 percentage point unfavorable impact from currency rate on net sales, adjusted operating income and adjusted earnings per share. At the top line, based on our year-to-date results through the third quarter, we are narrowing our sales guidance range to grow sales 1% to 2%, which in constant currency, is 3% to 4% projected growth rate.

As a reminder, this will be entirely organic growth, driven primarily by higher volume and products mix, as well as the impact of pricing. We're also narrowing our adjusted operating income growth to be 6% to 7% from $930 million in 2018, which in constant currency, is an 8% to 9% projected growth rate and reflects our continued focus on profit realization. Our adjusted operating income growth rate reflects our expected strong performance, while also making investments for growth, as well as our continued focus on profit realization.

Following an increase in our second quarter earnings call, we are again increasing our guidance for 2019 adjusted earnings per share to be in the range of $5.30 to $5.35, which compares to $4.97 adjusted earnings per share in 2018 and represents a 7% to 8% increase or in constant currency, 9% to 10%. This increase reflects the projected lower adjusted tax rate I mentioned earlier as well as the narrowing of our adjusted operating profit range.

In summary, we are projecting strong growth in our 2019 constant currency outlook for sales, adjusted operating profit and adjusted earnings per share following record double-digit performance across each objective in 2018 and while continuing to invest for future growth. I'd like to now turn it back to Lawrence for some additional remarks before we move to your questions.

Question-and-Answer Session

Operator

Thank you. At this time, we will be conducting a question-and-answer session. [Operator Instructions] Our first question comes from line of Andrew Lazar with Barclays. Please proceed with your question.

Andrew Lazar

I guess first off, when we look at the new full-year guidance on sales and EBIT, I guess they both imply a 4Q that looks a bit below at least where sort of current Street models would be. I'm just curious if there are any sort of discrete issues that you'd point out for that. You did mention some increased marketing investment, which obviously would impact EBIT a bit, but just because also the comparison, obviously, year-over-year gets a quite a bit easier given the inventory issues of last year.

Mike Smith

Andrew, I'll start. And if Lawrence has anything -- I mean year to date, we're really happy with our performance of 3% constant currency growth. And once you start looking at the math, if we would have kept our guidance at the original 3% to 5%, we would have to grow sales growth almost 9%. So we tightened the range a bit on those sales and operating profit. We have some -- you talked about EMEA weather in the third quarter. That's not going to be recovered. There's a few things like that, that happened. But 3% to 4%, we still feel like that's really good net sales performance, and we do see the underlying strength in Americas consumer continuing, which we talked about on the last call.

Andrew Lazar

Thank you for that. Appreciate that. And then I guess one follow-up would just be, it doesn't sound like this was a benefit much at all because you didn't mention it, but the acceleration you saw in consumer Americas, you talked about it being broad-based. And so I just want to make sure there wasn't, didn't seem to be because you talked about takeaway and shipments being in line broadly, but I'm assuming there is no pull forward, if you will, in consumer Americas that would have benefited shipments just given the easier comparison or the fact that with a replenished inventory, if you will, going into fourth quarter it doesn't like sound like that was a benefit, but I just wanted to make sure.

Lawrence Kurzius

No. Andrew, this is Lawrence. There was really, I mean, we really ship to consumption in the third quarter and would expect to ship to consumption again going into the fourth quarter. We signaled that we'd have, on our last call that we'd have an acceleration as we went to the second half of the year, and so we're starting to see that read through in our consumer business.

So we feel very confident in our results, in our outlook for the fourth quarter. One of the reasons that the third quarter might have looked stronger on our shipments than in, I think, some of the scanner data, which was actually pretty good, is that, again, unmeasured channels were really strong for us. And so that was a bit of a benefit in the third quarter. But that's been a consistent thing, where that group of customers has been growing faster than the general market.

But in terms of whether there was any kind of unusual inventory activity or any kind of pull forward, that wasn't the case. If you look at last year third quarter, we grew about 4% in Americas consumer, so roughly about the same. Actually, we feel really good about the third quarter because it's up against a pretty tough comparison a year ago.

Operator

Thank you. Our next question comes from the line of Ken Goldman with JP Morgan. Please proceed with your question.

Ken Goldman

My first question is, in your slide deck, you called out a onetime benefit from the global benefit plan alignment. I don't think you quantified this for us. I'm just curious how much was it? And I don't think it was included in that net special charges of $7.7 million, but I just wanted to make sure for our modeling purposes.

Mike Smith

No, we haven't quantified it, Ken. We've talked about it, I think, pretty much every quarter. But we're not going to quantify that. Every year...

Lawrence Kurzius

We say something like this every year as we've looked at our benefit plans with an eye to cost.

Ken Goldman

That's not going to stop me from asking every quarter though.

Lawrence Kurzius

You got one more -- one quarter left, Ken, one quarter left.

Ken Goldman

When you guys do well, it's hard to find questions, so we got to figure some out here. I guess my next question would be a couple of U.S.-based staples companies that have multinational businesses, they have highlighted maybe some modest softness in demand from emerging markets lately. It doesn't sound like you're experiencing this, but are there any, I don't want to call them red flags, maybe yellow flags that you're seeing that would indicate some consumer slippage in terms of their demand in some developed markets or developing, rather? Or is this not really something that you're experiencing yet?

Lawrence Kurzius

Yes. So I think the comparison between us and some of our peer companies might just be the mix of markets that we're in. We're cautious about China. We just had a great quarter in China, but we are aware of the volatile environment that we're in. The consumer results that we've had in China have been pretty good. We had a slow start to the year. We expected a strong second half there as well, and we're experiencing it.

So I'd say that with our international business, if there was an area that was slow for us over the third quarter, it was -- EMEA was a little slow, and that was strictly related to the tremendous heat wave that impacted cooking, and that's where a lot of our consumer products are used. So we don't see anything general in the emerging markets. With that said, we're not taking it for granted. We're one tweet away from more volatility.

Operator

Thank you. Our next question comes from the line of Alexia Howard with Bernstein. Please proceed with your question.

Alexia Howard

Good morning, everyone. So two quick questions, I guess, on the top line guidance I know you trimmed it down a little bit for the full year this quarter, but it still kind of implies that things will get sequentially better next quarter. I'm wondering if that's particularly on the flavor solutions side of things that you've got -- have you got visibility into things picking up on that side? That's my first question. And the second one on a very different topic, you mentioned acquisitions as something that you're keeping a close eye on. Could you talk to us a little bit about where you're fishing at the moment, I guess? Given that the RB Foods deal was very U.S.-centric, is it likely that if you do another deal of scale that, that would be maybe more overseas-focused and that you're likely to be looking at consumer versus flavor solutions? Just any guidance or any thoughts on that front will be helpful.

Lawrence Kurzius

Sure. Well, I'll start on the first one. And yes, we do expect an acceleration in the flavor solutions part of the business. It was impacted in Q3 by some relatively short-term factors. There's some customer activity differences, and we're also comparing to an incredible third quarter a year ago, which you may recall had a 6% growth in the third quarter of last year. So it was up against a particularly strong comparison. And then we had, just as an operating matter, a transition to a new warehouse in the U.S. that also was a very brief constraint on growth in the quarter.

And so I think that as we've got -- so we're confident that the fourth quarter will be strong in flavor solutions. And I think we've been messaging for the last couple of quarters that we expect second half to be good on our consumer business, and our outlook for that remains that way. Mike, do you want to add anything to that?

Mike Smith

No, thank you.

Lawrence Kurzius

I'll say on acquisitions. So we don't want to get overly granular in the discussion of acquisitions. But as we've shared previously as we've deleveraged and you just heard from Mike that we finished Q3 at 3.7 and you know we're going into our highest cash time of the year, so some additional deleveraging would happen as we go through the fourth quarter. We've got very clear line of sight to getting to the 3.0 target that we set for the end of 2020 early.

And as a result, it's just time to start considering -- we've got more financial flexibility now than we had a year ago, and it's time to look at new things. And I'd say that, as you noted, the RB Foods acquisition did skew us more to the Americas than we were, and it also skewed us a bit more to the consumer business than we were pre-acquisition. And we would hope to, over time, balance that.

Operator

Thank you. Our next question comes from the line of Robert Moskow with Credit Suisse. Please proceed with your question.

Robert Moskow

The thing that really stood out to me was the operating leverage in the consumer division. I mean you had high-teens operating income growth in the quarter and, obviously, some strong sales, too. Can you kind of help us break down though like how much of that growth was from operating leverage from the volume, how much of it was from maybe cost reductions related to the special charges?

Mike Smith

Well, I'd say -- this is Mike. It's really not related to special charges at all. We have underlying CCI program which continues to accelerate during the year. However, we have really good product mix and category mix. The brands that did really well such as French's and Frank's, our core business have very high margins. So I think you're getting a bit of product mix, I know you're getting a bit of product mix in there as well.

Lawrence Kurzius

I think, if anything, there may have even been some operating cost headwinds related to our ERP program that would have run through both segments.

Robert Moskow

And then on the fourth quarter -- or actually, just on flavor solutions in general, can you be a little more specific about the constraints you had in the warehousing? Is that for raw materials for spices and seasonings? Or is it for the liquid filled part of your business that was growing so strong? And then a follow-up would be, you mentioned a customer that had some timing issues. Is that in the restaurant sector or the consumer sector? Could you be more specific there?

Lawrence Kurzius

Well, the warehouse, it was a move to raw material -- a new, larger and I would say more functional raw material warehouse. It actually was on the higher-margin side of the business that had a bigger impact on our flavor and seasoning business where we've had a lot of growth. So in addition to our overall growth that you've seen in our flavor solutions business over the last several years, there's also been a shift in the portfolio toward that higher-margin end of the business.

And so the growth in that part has been particularly strong, and we've just outgrown the space and needed to make a move. And so just the logistics of physically transferring the goods and coming up with a new warehouse put short-term constraint on our growth that we'll get -- we're really, at this point in time, almost through. So I think that gives a lot of confidence in the Q4 number over there. Rob, remind what was the second part of the question?

Robert Moskow

You mentioned a customer that had some timing issues.

Lawrence Kurzius

It's not a customer. This is just broad-based ebb and flow in the business. I mean there is some customer concentration, but I wouldn't read into this any particular new customer...

Mike Smith

It was timing of new promotions and things like that. You saw year to date roughly 5% in Americas, so good strong performance through the first half. So good underlying performance still and strong demand.

Robert Moskow

Can I assume that's the restaurant channel or is this ...

Lawrence Kurzius

No, I would not...

Mike Smith

Both sides, yes, do not assume.

Operator

Thank you. Our next question comes from the line of Chris Growe with Stifel. Please proceed with your question.

Chris Growe

Thank you. Good morning. I just had a question for you, if I could. Just to make sure I get it straight around the upcoming fourth quarter. You got that shipment timing factor in the prior year. Have you said what that adds to the fourth quarter this year? And we've talked about this, but have you given some dynamics around what it's likely to be for revenue growth in the fourth quarter?

Mike Smith

We haven't specifically called that out. We know it's a tailwind to us in the fourth quarter, assuming those things don't have, but we knew there's always trade deloading and things like that happen during the year, about 100 basis points. But we haven't quantified the bounce back, but it should be positive to growth and margin.

Chris Growe

And especially in the consumer division, correct, that's the main area where we said we've missed the fourth quarter a year ago?

Mike Smith

Yes.

Chris Growe

And then I just had a question. You had pricing down in two of the consumer segments and two of the flavor solutions segments. I'm just curious, I guess from a higher level, how much inflation was up in the quarter. And did pricing not fully offset the cost inflation? And was this promotional-driven by any chance? Just have you seen any kind of change in promotional dynamic in your categories, I guess, especially in the consumer side?

Mike Smith

No, I think what -- no, that's a good question. What you're saying -- we've said at the beginning of the year cost inflation was low single digits, and we have taken specific pricing in markets. What you're seeing, in some of the markets, such as EMEA or even in the Americas a bit. As we've talked a lot about new products on this call, as you see. As they roll out, there are some promotional activities to drive them, so that has a bit of a negative on price, but we have taken pricing this year. And so we've gotten that through, and we're actually talking to customers now about pricing for next year as some of the tariffs and things become more solid. So we're in those discussions right now.

Operator

Thank you. Our next question comes from the line of Steven Strycula with UBS. Please proceed with your question.

Steven Strycula

So first question, just wanted to kind of drill into the revised guidance and focus in on what you're really implying for the fourth quarter outlook. As I think about the midpoint of what you're saying for organic net sales to be around 5%, then kind of what are the key drivers of that? That would be question 1, and I have a follow-up.

Mike Smith

I mean based on our math, Steve, we're implying about 2% to 5%, so somewhere in the middle there, which is a bit up versus the first three quarters. But we talked about before some of the tailwinds go into the fourth quarter. And that's reported by the way. So continuing strength, as we saw in this quarter and a little bit of acceleration with flavor solutions in the fourth quarter, as Lawrence just discussed.

Lawrence Kurzius

Yes. The change in the guidance for the full year reflects more that we've only got one quarter to go and we've got three in the bag and we know where we are. And the high end of the old range, the previous high end of the range implied a number that you guys would laugh at.

Mike Smith

Which you did last year.

Lawrence Kurzius

And so we wanted to narrow it.

Steven Strycula

It takes a lot to make me laugh, Lawrence, but -- no, just moving along though. What would you say, if anything, not to pick at it, because I know you guys have good results here year to date. But what if anything came in like a touch lighter to kind of like nudge it down, the full-year guidance, a touch on the sales? Is it a reflection of maybe just EMEA weather? Is there anything else you'd kind of like call out for the first nine months or maybe something that you see in line of sight for the fourth quarter?

Mike Smith

Well, definitely EMEA weather. That was not. Back in June, we weren't thinking that it was going to be that hot it impact consumption. I mean the warehouse transition that Lawrence talked about did impact a bit, but I wouldn't call it one big thing specifically.

Lawrence Kurzius

Right. As far as looking ahead, I'd say that our -- I think that we've got a balanced view of our risks and our opportunity. That narrowed range does include all organic growth, and it's primarily volume and mix. So it's pretty strong versus peers, and we understand that.

Now we've got a lot of reasons to be confident that we can deliver that. And the kind of surprise will be something that we just, would be something that we don't know. I think if there was a surprise anywhere, maybe it might be more on the cost side than on the sales side, where there could be some issue. It's possible that we have a little bit more ERP expense in the fourth quarter than we've been guiding...

Mike Smith

Than we've had in the third.

Lawrence Kurzius

Than we had in the third quarter, but I think we would take that in stride, and if that were the case, we would certainly highlight it.

Mike Smith

Yes. And even our underlying guidance implied, reported is 5.5% to 9% almost, so it's good underlying operating profit performance still.

Lawrence Kurzius

Good point. We've got a pretty good idea of customer performance for the holidays. It's all pretty well lined up.

Steven Strycula

Okay, Lawrence. And then one quick strategy question, and then I'll pass it along. On private label, at any given quarter, you guys are -- it's a smaller piece of your business, and the next quarter, it's growing again. How do we think about it strategically? And did the growth that you see in private label in Americas this quarter, is that mainly coming from measured channels, unmeasured channels? How do we think about how you guys think about it within your total customer solution set?

Lawrence Kurzius

Yes. So first of all, generally, private label growth, not just for us but for our category, for herbs and spices, the category has moderated significantly. And we talked about it in the last couple of years that we thought the numbers were inflated by a couple of factors that I'm not going to review. So the growth in private label has moderated.

In the current time frame, the growth that we're seeing in private label is more in the unmeasured channel than in the measured channel. We think about private label in terms of its profitability in terms of the customer relationship and in terms of offering a customer a full solution for the category. And so there aren't any customers that we are just providing private label, it's always in conjunction with a branded program as well. Did I get at your question there?

Operator

Thank you. Our next question comes from the line of Adam Samuelson with Goldman Sachs. Please proceed with your question.

Adam Samuelson

Yes. Thanks. Good morning, everyone. So a question not so much about the quarter but just thinking about the outlook and ramp into 2020 on the flavor solutions side, which, in the last couple of years, has been a really important contributor to the margins and earnings algorithm for the Company. Margins year to date have been basically flat and I'm just trying to think about kind of how drivers of why that margin expansion has slowed down as it has. And I know this quarter the growth, you had some lumpy growth and you had the warehousing expense. So not necessarily this quarter, but thinking about nine months in totality kind of how do we think about that into next year?

Mike Smith

Yes. I think if you kind of step back and think about the progress we've made over the past four, five years, I mean, we've increased, and this is both organic and acquisition based, about 500 basis points in the operating profit line. I mean this year has been a little lumpy. We're up in one quarter, even in another quarter and down in this quarter. Some of the discrete items that happened this quarter really around some really negative FX trends that hit EMEA primarily versus what we were thinking back in June...

Lawrence Kurzius

Probably transactional...

Mike Smith

Which goes through transactional, goes through the cost of goods sold as you reevaluate your balance sheet, so we see those, I mean those are risks that you always have based on world economies and things like that. But we continue to look at taking our portfolio to a higher-margin business. Some of the other things that hit us this year that hopefully will turn next year, you think about APZ where a lot of -- we talked about our flavor solutions business with limited-time offers.

I mean with some of the economies in China and APZ, they really shifted away from limited-time offers and we make higher-margin business to more base business which is lower margin. So that was some of the challenges we've had this year that hopefully, as economies and companies realize they need to drive LTOs to drive consumer traffic, will reverse.

Lawrence Kurzius

We continue to believe that, over time, we have significant runway for margin improvement in our flavor solutions segment.

Adam Samuelson

And then just a clarification. Just any way to quantify how much ERP has been year to date? And do we think that, any way to quantify kind of how big a step up, if any, there is into next year from ERP?

Mike Smith

Look, I mean, we'll talk about that more at our earnings, when we give guidance in January. But we have had some ERP expenses, as Lawrence alluded to. Last call, we said mostly second and third quarter. There's been a little bit of a shift out into the fourth quarter from the expense perspective. But we do see 2020, that's where a lot of our big go-lives are going to be, so there will be a significant step up in ERP. But we'll give you more clarity in January.

Adam Samuelson

I appreciate the color. Thanks very much.

Operator

Thank you. Ladies and gentlemen, that concludes our question-and-answer session. I'll turn the floor back to Mr. Kurzius for any final comments.

Lawrence Kurzius

Great. Thanks, everyone, for your questions and for participating in today's call. McCormick is a global leader in flavor, and we're differentiated by the broad and advantaged portfolio, which continues to drive growth. We have a growing and profitable business and operate in an environment that is changing in an ever faster pace.

We are responding readily to changes in the industry with new ideas, innovation and purpose. With a relentless focus on growth, performance and people, we continue to perform strong globally and build shareholder value. I'm pleased with the strength of our year-to-date results, and as we enter the last quarter of our fiscal year, I'm confident in our fiscal year outlook and are well positioned to deliver another strong year in 2019.

Kasey Jenkins

Thank you, Lawrence. And thanks, everyone, for joining today's call and navigating through some of the technical call issues we've had at the beginning. If you have any further questions regarding today's information, please do not hesitate to reach out to me. This concludes this morning's conference call.