

McCormick & Company (MKC)

Updated March 29th, 2018 by Nate Parsh

Key Metrics

Current Price: \$106	5 Year CAGR Estimate: 8%	Quality Percentile: N/A
Fair Value Price: \$98	5 Year Growth Estimate: 7%	Momentum Percentile: N/A
% Fair Value: 108%	5 Year Valuation Multiple Estimate: -1.5%	Total Return Percentile: N/A
Dividend Yield: 1.96%	5 Year Price Target \$138	Valuation Percentile: N/A

Overview & Current Events

McCormick & Company produces, markets and distributes seasoning mixes, spices, condiments and other products to customers in the food industry. McCormick was founded in 1889 by Willoughby M. McCormick. Today the company has a market cap of \$13.9 billion and had sales in excess of \$4.8 billion in 2017. McCormick has approximately 20% market share of the \$11 billion seasoning and spice industry.

McCormick reported first quarter earnings for 2018 on 3/27/2018. Sales improved 19.2% compared to the first quarter of 2017. Removing a positive impact due to currency exchange rates, sales grew 14.6% in the quarter. Adjusting for a large benefit from U.S. tax reform, earnings per share grew 31.6% from the previous year to \$1.00.

McCormick announced on 7/18/2017 that it had agreed to purchase Frank's Red Hot, French's Mustard and other condiments from Reckitt Benckiser for \$4.2 billion. These products, referred to as RB Foods, contributed 12.4% of the constant currency sales growth in the quarter.

Growth on a Per-Share Basis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
EPS	\$2.14	\$2.34	\$2.65	\$2.79	\$3.04	\$3.13	\$3.37	\$3.48	\$3.78	\$4.25	\$4.90	\$6.90
DPS	\$0.88	\$0.96	\$1.04	\$1.12	\$1.24	\$1.36	\$1.48	\$1.60	\$1.72	\$1.88	\$2.08	\$3.19

McCormick has increased earnings per share every year for the past ten years. Over this time frame, EPS have increased at an average of 7.1% per year. The addition of RB Foods should propel sales and earnings for McCormick in future years. Frank's Red Hot is the #1 hot sauce in the world and French's Mustard holds a top position in its own category. Although shares of McCormick dropped more than 6% the day the acquisition was announced, RB Foods is already accretive to earnings and the products that were acquired should help drive sales and earnings growth in the future. The company recently updated its guidance and now expects to earn between \$4.85-\$4.95 per share in 2018. Applying the EPS growth rate for the past decade (7.1%) to the midpoint of 2018's guidance (\$4.90) McCormick is forecasted to earn \$6.90 per share in 2023. While a lower tax rate and benefit from acquisitions should improve McCormick's bottom line, using the ten-year average growth rate allows us to find a conservative estimate for future price targets.

McCormick has increased its dividend for thirty-two years while raising its dividend an average of 8.9% per year over the same time frame. McCormick raised its dividend 10.6% on 11/28/2017. The new annualized dividend is \$2.08 per share. Using the average increase over the past decade, McCormick's 2023 dividend would be \$3.19 per share. Based on the 2023 price target, shares would yield a 1.88%. This is slightly below the average yield in recent years.

Valuation Analysis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Now	2023
Avg. P/E	17.2	13.2	14.8	17.1	18.7	22	20.6	22.5	25.1	23	21.6	20.0
Avg. Yld.	2.4%	3.0%	2.6%	2.3%	2.2%	2.0%	2.1%	2.0%	1.8%	1.9%	2.0%	1.9%

McCormick has traded with an average price to earnings multiple of 19.4 from 2008-2017. Based off of the company's guidance for 2018, shares trade with a P/E of 21.6. While this means shares are not cheap, they are only a bit above their historical average. RB Foods is expected to contribute sales growth of 8% in 2018 and this portfolio's product margins of 30% are more than twice that of McCormick as a standalone company. If this acquisition can deliver

continued growth, then shares of McCormick likely deserve to trade for a P/E ratio of around 20. If the company reverts to a P/E ratio of 20, shares of McCormick could have annual returns of around 7.5% per year over the next 5 years. These returns come from growth (7%), dividends (2%), and valuation multiple mean reversion (-1.5%).

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
GP/A	40%	39.2%	41.5%	37.2%	38.8%	37.4%	39.2%	38.8%	39.5%	19.4%	22%	35%
Debt/A	67.2%	60.6%	57.5%	60.8%	59.6%	56.6%	59.4%	62.7%	64.9%	75.4%	73%	65%
Int. Cov.	6.96	8.89	10.39	10.60	10.64	10.37	12.15	10.31	11.52	7.22	8.0	10.0
Payout	41.2%	41%	39.2%	40.1%	40.8%	43.5%	44.0%	46.0%	45.5%	44.2%	42%	45%
Std. Dev.	21.7%	16.7%	11.6%	15.2%	9.5%	11.9%	11.7%	12.9%	13.1%	12.9%	13.1%	13.7%

Note: GP/A decreased in 2017 due to large goodwill and intangible assets from the RB Foods acquisition.

McCormick's competitive advantage stems from its large market share of the seasoning and spice global market. McCormick is four times as large as its nearest competitor, which gives it unmatched size and scale. With a portfolio of popular products, the company has the ability to negotiate with retailers on pricing and shelf space.

Shares of McCormick performed remarkably well during the last recession. While many companies saw declining earnings per share during the Great Recession, McCormick actually increased its EPS in 2008 and 2009. One last interesting point is that though McCormick has raised its dividend at 9% per year over the past decade, the payout ratio has remained in the low to mid 40% range. This shows that the company is increasing earnings at a very steady rate.

Final Thoughts & Recommendation

McCormick is the dominate company in the spice industry. The company has grown earnings per share every year for the past decade and is guiding towards further growth for 2018. McCormick proved in the last recession that is fairly resistant to earnings declines even in tough economic climates. McCormick has an impressive dividend growth history as well and has been able to keep its dividend payout low even as it aggressively increases its payments to shareholders. Investors looking for a fairly recession proof company that is able to grow earnings and dividends at high levels should consider investing in McCormick & Company.

Total Return Breakdown by Year

