



Unsuitable



McCormick & Company (MKC)

Updated September 28th, 2018 by Nate Parsh

Key Metrics

Current Price: \$128	5 Year CAGR Estimate: 5.6%	Volatility Percentile: 13.1%
Fair Value Price: \$104	5 Year Growth Estimate: 8.0%	Momentum Percentile: 86.8%
% Fair Value: 123%	5 Year Valuation Multiple Estimate: -4.0%	Total Return Percentile: 21.9%
Dividend Yield: 1.6%	5 Year Price Target \$154	Valuation Percentile: 25.0%

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 third quarter earnings On September 27th. As with the first two quarters of the year, McCormick produced very impressive results. The company earned \$1.28 during the quarter, a \$0.01 beat of estimates and a 14.3% improvement from the third quarter 2017. Revenue grew 13.4% to \$1.35 billion, though this missed estimates by \$10 million. By divisions, Consumer sales rose 13.5% on a constant currency basis while Flavor Solutions, formerly known as Industrial, grew 13.5%. Gross margins improved 280 basis points to 44.2%. The stock did drop nearly 5% during the trading day before finishing down a little more than 1% the day of the earnings release.

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	\$4.98	\$7.32
DPS	\$0.88	\$0.96	\$1.04	\$1.12	\$1.24	\$1.36	\$1.48	\$1.60	\$1.72	\$1.88	\$2.08	\$3.20

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. As stated, the addition of RB Foods has worked very well in the company's favor in the last two quarters. 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. In fact, we feel that this acquisition will help to increase earnings growth going forward as we now project that McCormick can grow EPS at a rate of at least 8% per year, up from our previous estimate of 7%, through 2023.

On the call, McCormick increased its midpoint for earnings per share guidance to \$4.98, up from \$4.90 previously. McCormick's \$4 billion purchase of RB Foods continues to produce growth for the company. Frank's Red Hot and French's brands contributed 10% of the company's sales growth. This is three quarters in a row that these brands added at least 10% to sales. McCormick did lower its expected sales growth for the year to 12% to 14% from 13% to 15% due to slightly less favorable currency rates. This could explain the selloff McCormick's stock experienced in the early part of the September 27th trading session. Still, double digit sales growth for a packaged food company is rare.

McCormick has increased its dividend for thirty-two years while raising its dividend an average of 8.9% over the last ten years. McCormick raised its dividend 10.6% on 11/28/2017. The new annualized dividend is \$2.08 per share. Due to a low payout ratio, we assume dividends will grow by 9% annually through 2023.

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	23.0	25.8	21.0
Avg. Yld.	2.4%	3.0%	2.6%	2.3%	2.2%	2.0%	2.1%	2.0%	1.8%	1.9%	1.6%	2.1%

Disclosure: This analyst has a long position in the security discussed in this research report

Shares of McCormick have increased \$13, or 11.3%, since our June 28th update. Based off of updated EPS guidance, the stock trades with a P/E ratio of 25.8, up from 23.5 previously. This valuation is well above the stock's ten-year average P/E of 19.4. That being said, McCormick's purchase of RB Foods continues to drive sales and EPS growth. Due to this growth, we are increasing our target P/E to 21, up from 20 earlier. If the stock reverted to this target P/E, shares would experience a multiple contraction of 4% annually through 2023.

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%	41.8%	43.7%
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.

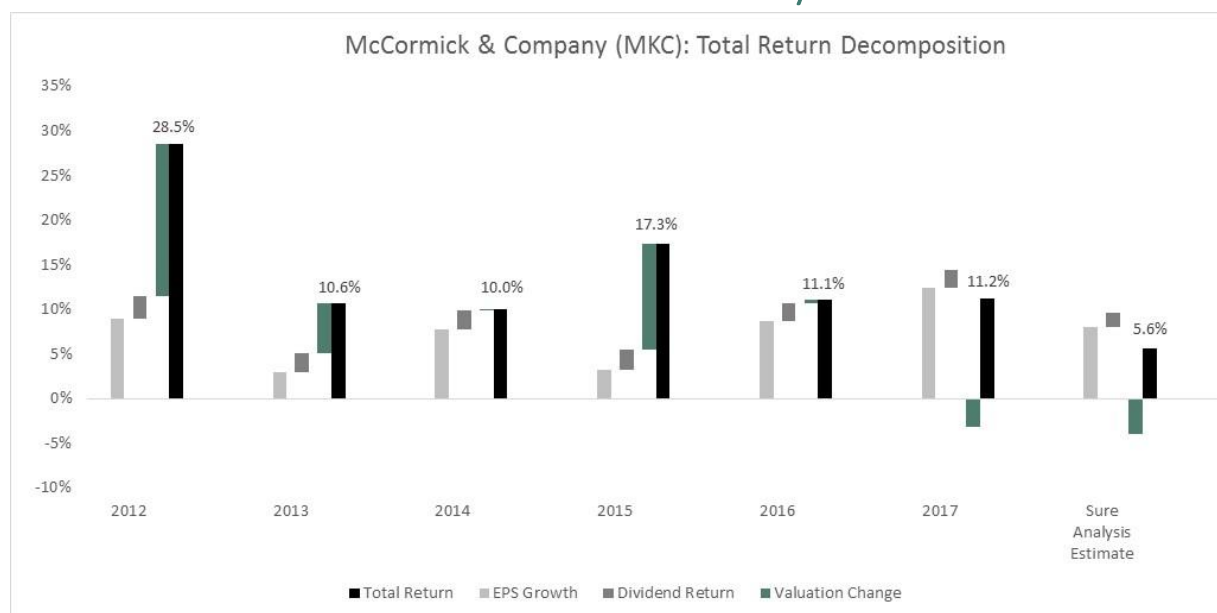
McCormick's competitive advantage stems from its large market share of the seasoning and spice global market. McCormick is four times as large as its nearest competitor, which gives it unmatched size and scale. With a portfolio of popular products, the company has the ability to negotiate with retailers 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. Even with 9% annual dividend increases over the past decade, McCormick's payout ratio is reasonably low. This shows that the company is increasing earnings at a very steady rate.

Final Thoughts & Recommendation

McCormick is the largest player in the \$11 billion seasoning and spice industry. The Frank's Red Hot and French's brands continue to show that the RB Foods acquisition was worth the cost. That being said, the stock is up nearly 26% year to date and 37.5% since the beginning of 2017. We view McCormick as an excellent long-term hold. We have raised our 2023 price target \$10 to \$154 due to EPS guidance and a slight increase in our projected P/E, but we suggest investors wait for a pullback before purchasing McCormick. Lastly, despite having very good dividend safety (the company earns a dividend safety score of B), McCormick earns a retirement safety score of D due entirely to its low yield.

Total Return Breakdown by Year



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