



McCormick & Company (MKC)

Updated January 26th, 2019 by Nathan Parsh

Key Metrics

Current Price:	\$121	5 Year CAGR Estimate:	7.9%	Volatility Percentile:	15.0%
Fair Value Price:	\$110	5 Year Growth Estimate:	8.0%	Momentum Percentile:	89.5%
% Fair Value:	110%	5 Year Valuation Multiple Estimate:	-2.0%	Growth Percentile:	73.3%
Dividend Yield:	1.9%	5 Year Price Target	\$161	Valuation Percentile:	28.7%
Dividend Risk Score:	A	Retirement Suitability Score:	C	Total Return Percentile:	35.0%

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 controls nearly 20% of seasoning and spice industry. The current market cap is nearly \$16 billion.

McCormick released financial results for the fourth quarter and full year 2018 on January 24th. Adjusted earnings-per-share (EPS) grew 8.4% to \$1.67. This was \$0.03 below estimates. Revenue increased 0.7% to \$1.5 billion, but missed estimates by \$50 million. Currency translation was a 1.5% headwind during the fourth quarter. For 2018, adjusted EPS was \$4.97, missing the company's expected midpoint by \$0.01. This result was an improvement of almost 17% from the previous year. Sales for the year grew 12.2%, which was near the bottom of the company's updated guidance from the third quarter, to \$5.4 billion. RB Foods, which includes Frank's Red Hot and French's mustard, added 8% to sales.

The Consumer division, which represents almost two-thirds of sales, grew 1.8% in constant currency. This growth was primarily due to higher sales volumes in international markets. This division saw a reduction in trade inventories in the Americas region, which was offset by higher prices. Volume growth in Europe/Middle East/Asia (up 4.7%) and Asia (up 8.5%) were partially offset by currency translation in both regions. Sales in China were especially strong due to high demands for flavor sauces, chicken bouillon, and herbs and spices. The Flavor Solution segment had sales growth of 2.8%. Revenues from the Americas was higher by 2%, due mostly to higher volumes. While the EMEA region experienced better sales volumes as well as higher prices, growth was more than offset by currency translation. Quick service restaurants in Asia continue to be a source of strength for McCormick, leading to 3.2% sales growth

For 2019, McCormick expects adjusted EPS in a range of \$5.17-\$5.27. Achieving the midpoint of this guidance would represent 5% growth from the previous year. In constant currency, sales are expected to grow 3%-5%. Shares of McCormick dropped 10.5% on the financial release, with guidance likely be the major culprit. The stock had been up more than 37% since the beginning of 2018.

Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
EPS	\$2.34	\$2.65	\$2.79	\$3.04	\$3.13	\$3.37	\$3.48	\$3.78	\$4.25	\$4.97	\$5.22	\$7.67
DPS	\$0.96	\$1.04	\$1.12	\$1.24	\$1.36	\$1.48	\$1.60	\$1.72	\$1.88	\$2.08	\$2.28	\$3.51
Shares	131.8	133.1	133.1	131.2	131.2	128.3	127.3	125.3	131	131.8	132	132

McCormick has increased EPS 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 has added impressive growth to the company in 2018. 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 8% per year.

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



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McCormick has increased its dividend for thirty-three years while raising its dividend an average of 8.9% over the last ten years. McCormick raised its dividend 9.6% for the payment made in mid-January. The new annualized dividend is \$2.28 per share. Due to a low payout ratio, we assume dividends will grow by 9% annually through 2023.

Valuation Analysis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2024
Avg. P/E	13.2	14.8	17.1	18.7	22	20.6	22.5	25.1	23.0	25.8	23.2	21
Avg. Yld.	3.0%	2.6%	2.3%	2.2%	2.0%	2.1%	2.0%	1.8%	1.9%	1.6%	1.9%	2.15

Shares of McCormick have decreased \$7, or 5.5%, since our September 28th update. Based off forward EPS guidance, the shares trade with a P/E ratio of 23.2. We have a 2024 P/E target of 21. If the stock reverted to this target P/E, total returns would be reduced by 2% annually through 2024

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	41%	39.2%	40.1%	40.8%	43.5%	44.0%	46.0%	45.5%	44.2%	41.9%	43.7%	45.8%

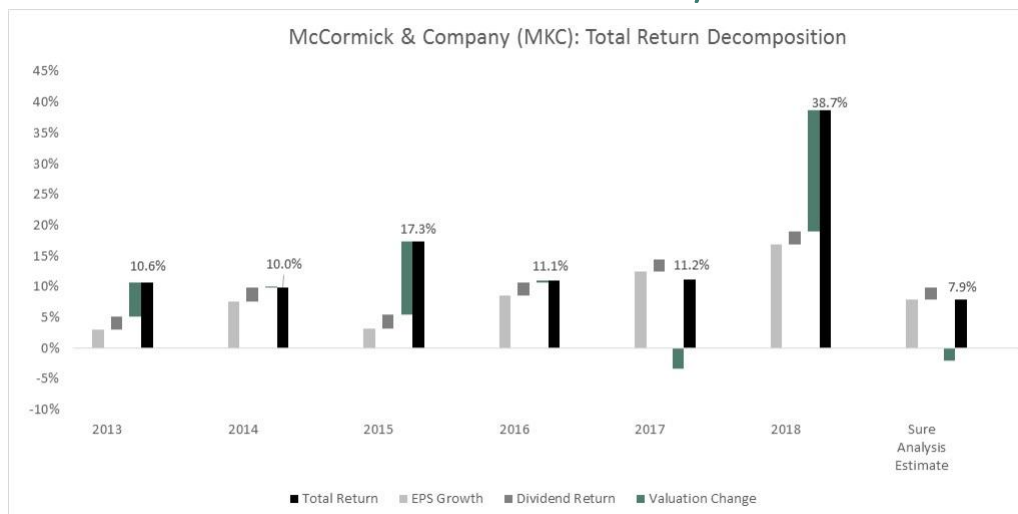
McCormick's competitive advantage stems from its large market share of the seasoning and spice global market. McCormick is four times as large as its nearest competitor, which gives it unmatched size and scale. With a portfolio of popular products, the company has the ability to negotiate with retailers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

Final Thoughts & Recommendation

We expect shares of McCormick & Company to offer a total return of 7.9% through 2024, up from our previous estimate of 5.6%. The market reacted negatively to McCormick's forward guidance and the stock sold off. While we would still wait for a further pullback before buying, shares are much closer to fair value. McCormick's dominance of the spice and seasoning industry make the company a topic pick for investors looking for exposure to this space. The addition of RB Foods should continue to add to the company's growth in future years. We have increased our 2024 price target \$7 to \$161. The company's stock is a hold at current prices.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenue	3192	3337	3698	4014	4123	4243	4296	4412	4834	5409
Gross Profit	1327	1418	1523	1618	1666	1730	1737	1832	2010	2372
Gross Margin	41.6%	42.5%	41.2%	40.3%	40.4%	40.8%	40.4%	41.5%	41.6%	43.8%
SG&A Exp.	847	908	982	1040	1090	1122	1127	1175	1245	1430
D&A Exp.	94	95	98	103	106	103	106	109	125	151
Operating Profit	481	510	540	578	576	608	610	657	765	942
Operating Margin	15.1%	15.3%	14.6%	14.4%	14.0%	14.3%	14.2%	14.9%	15.8%	17.4%
Net Profit	300	370	374	408	389	438	402	472	477	933
Net Margin	9.4%	11.1%	10.1%	10.2%	9.4%	10.3%	9.3%	10.7%	9.9%	17.3%
Free Cash Flow	333	299	243	345	365	371	462	504	633	652
Income Tax	133	118	143	140	134	146	131	153	151	-157

Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Assets	3388	3420	4088	4165	4450	4414	4473	4636	10386	10256
Cash & Equivalents	40	51	54	79	63	77	113	118	187	97
Accounts Receivable	365	387	427	466	496	494	455	465	555	518
Inventories	458	478	614	615	677	714	711	756	793	786
Goodwill & Int. Ass.	1717	1650	2044	2019	2132	2053	2131	2196	7561	7401
Total Liabilities	2044	1957	2469	2465	2502	2605	2786	2998	7815	7074
Accounts Payable	299	303	367	376	387	372	412	451	640	710
Long-Term Debt	991	880	1252	1172	1233	1285	1394	1447	5027	4696
Shareholder's Equity	1335	1454	1602	1683	1933	1792	1670	1627	2560	3171
D/E Ratio	0.74	0.61	0.78	0.70	0.64	0.72	0.83	0.89	1.96	1.48

Profitability & Per Share Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Return on Assets	9.1%	10.9%	10.0%	9.9%	9.0%	9.9%	9.0%	10.4%	6.4%	9.0%
Return on Equity	25.1%	26.6%	24.5%	24.8%	21.5%	23.5%	23.2%	28.7%	22.8%	32.6%
ROIC	13.0%	15.8%	14.4%	14.2%	12.9%	14.0%	13.0%	15.3%	8.9%	12.1%
Shares Out.	131.8	133.1	133.1	131.2	131.2	128.3	127.3	125.3	131	131.8
Revenue/Share	24.13	24.77	27.53	29.89	30.86	32.39	33.25	34.46	37.65	40.61
FCF/Share	2.52	2.22	1.81	2.57	2.73	2.83	3.57	3.94	4.93	4.90

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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