



McCormick & Company (MKC)

Updated March 27th, 2019 by Nathan Parsh

Key Metrics

Current Price:	\$145	5 Year CAGR Estimate:	4.1%	Volatility Percentile:	22.1%
Fair Value Price:	\$110	5 Year Growth Estimate:	8.0%	Momentum Percentile:	96.3%
% Fair Value:	132%	5 Year Valuation Multiple Estimate:	-5.5%	Growth Percentile:	75.9%
Dividend Yield:	1.6%	5 Year Price Target	\$161	Valuation Percentile:	10.7%
Dividend Risk Score:	A	Retirement Suitability Score:	C	Total Return Percentile:	14.8%

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 and controls ~20% of the global seasoning and spice market. The current market capitalization is \$20 billion, with annual revenues of \$5.4 billion.

McCormick completed its \$4.2 billion acquisition of RB Foods from Reckitt Benckiser Group on 7/18/2017. Brands included in this acquisition included Frank's Red Hot and French's Mustard. Both products are the top selling brand in the world in their respective condiment category. RB Foods added 8% McCormick's sales in 2018.

McCormick reported first quarter financial results on 3/26/2019. The company earned \$1.12 per share, \$0.08 above estimates and a 12% improvement from the previous year. Revenue increased 1% to \$1.24 billion, though this missed estimates by \$10 million. Revenue grew 4% on a currency neutral basis.

Currency exchange was a headwind throughout the company during the quarter. Overall, currency reduced McCormick's revenue results by 2.8%. The Consumer division, which contributes about two-thirds of sales, was flat from the previous year as currency negatively impacted results by 2.7%. Currency exchange and a slight decrease in price offset a 2.8% improvement in volume and mix for this division. The Americas region had net sales of 2.6% due to higher volumes, better mix and price. Spices, seasonings, dry mixes and frozen products were singled out as a source of strength. Net sales for the EMEA region declined 5.5% as a 6.2% negative impact from currency and a 3.5% decline in price due to promotional activity, more than offset a 4.2% increase in volume and mix. The Asia/Pacific region experienced a net sales decline of 2.2%. A 3.3% increase in volume and 0.4% in price due to higher demand for flavors and spices were more than offset by a 5.9% negative impact from currency exchange. Net sales for the Flavor Solution segment increased 3.4% despite a 3% headwind from currency. Volumes improved 6.2% for the Americas, 7.8% for the EMEA and 0.6% for Asia/Pacific. Higher sales to quick service restaurants in each region were the primary contributors to sales growth. McCormick's share of the U.S. spices and seasoning market 4% during the first quarter due to new products. The company's operating income increased 9% from the prior year's first quarter. Gross margins were flat at 37.9% while the company's operating margin improved 110 bps to 16%. Also helping results was a tax rate of 13.9% vs 18.9% from the first quarter of last year. McCormick reiterated its guidance for 2019 and expects adjusted earnings-per-share to fall in a range of \$5.17 to \$5.27.

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	132	133	133	131	131	128	127	125	131	132	132	132

McCormick has increased earnings-per-share every year for the past ten years. Over this time frame, earnings have increased at an average of 7.1% per year. As stated, the addition of RB Foods has worked in the company's favor over the last year. In fact, we feel that this acquisition will help to increase earnings growth going forward as we now project that McCormick can grow earnings at a rate of 8% per year.

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



McCormick & Company (MKC)

Updated March 27th, 2019 by Nathan Parsh

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	27.8	21
Avg. Yld.	3.0%	2.6%	2.3%	2.2%	2.0%	2.1%	2.0%	1.8%	1.9%	1.6%	1.6%	2.2%

Shares of McCormick have increased \$24, or 20%, since our January 26th update. Based off forward earnings guidance, the shares trade with a price-to-earnings ratio of 27.8. Due to strength of RB Foods and the company's ability to capture market share, we have a 2024 price-to-earnings target of 21. If the stock reverted to fair value, total returns would be reduced by 5.5% 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%	40%	41%	44%	44%	46%	46%	44%	42%	44%	46%

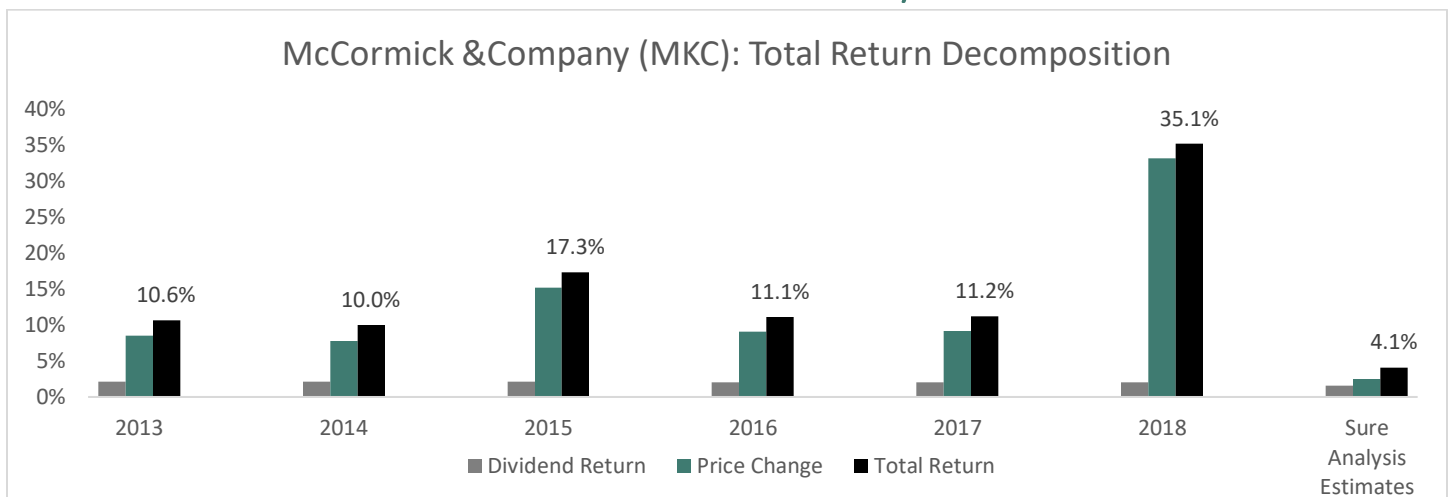
McCormick's competitive advantage stems from its 20% market share of the global market for seasonings and spices. McCormick is four times as large as its nearest competitor, which gives it unmatched size and scale. With a portfolio of popular products, the company has the ability to negotiate with retailers 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 earnings in 2008 and 2009.

Final Thoughts & Recommendation

After factoring in the 20% increase in share price since our last update and the company's most recent quarterly report, McCormick & Company is expected to offer a total annual return of 4.1% over the next five years, down from our previous estimate of 7.9%. Shares of the company declined more than 10% in a single trading session following the release of fourth quarter results. Since then, McCormick's stock has been one of the better performers in the market. This has removed much of the upside in the stock. While we like the company's market share of its sector, McCormick earns a hold recommendation from Sure Dividend at this time due to low projected total return.

Total Return Breakdown by Year



[Click here to rate and review this research report. Your feedback is important to us.](#)

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



McCormick & Company (MKC)

Updated March 27th, 2019 by Nathan Parsh

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.

Disclaimer

Nothing presented herein is, or is intended to constitute, specific investment advice. Nothing in this research report should be construed as a recommendation to follow any investment strategy or allocation. Any forward-looking statements or forecasts are based on assumptions and actual results are expected to vary from any such statements or forecasts. No reliance should be placed on any such statements or forecasts when making any investment decision. While Sure Dividend has used reasonable efforts to obtain information from reliable sources, we make no representations or warranties as to the accuracy, reliability or completeness of third-party information presented herein. No guarantee of investment performance is being provided and no inference to the contrary should be made. There is a risk of loss from an investment in marketable securities. Past performance is not a guarantee of future performance.