



McCormick & Company (MKC)

Updated June 27th, 2019 by Nathan Parsh

Key Metrics

Current Price:	\$156	5 Year CAGR Estimate:	2.9%	Volatility Percentile:	23.8%
Fair Value Price:	\$111	5 Year Growth Estimate:	8.0%	Momentum Percentile:	97.5%
% Fair Value:	141%	5 Year Valuation Multiple Estimate:	-6.6%	Growth Percentile:	75.9%
Dividend Yield:	1.5%	5 Year Price Target	\$163	Valuation Percentile:	11.0%
Dividend Risk Score:	A	Retirement Suitability Score:	C	Total Return Percentile:	12.6%

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 second quarter financial results on June 27th, 2019. The company's adjusted earnings-per-share increased 14% from the previous year to \$1.16. This was \$0.08 higher than analysts had expected. Revenue was flat year-over-year at \$1.3 billion, which was \$10 million lower than anticipated.

Currency exchange was once again a headwind for the company as exchange rates reduced revenues by 3%. On a constant currency basis, revenues for McCormick were higher by 3%. The Consumer division, which contributes about two-thirds of sales, saw gains from volumes, product mix and price. However, these were more than offset by a 2.6% reduction from currency exchange. In constant currency, this segment produced 2% growth. Growth was driven by new products and expanded distribution. Frank's Red Hot helped drive gains in volumes and product mix. Net sales for Flavor Solutions were 1% during the quarter, including a 3% impairment from currency. In constant currency, sales growth for this segment was 4%. Volumes improved 3.2% due to higher base business and product mix. The Europe/Middle East/Africa region was the major driver of growth for Flavor Solutions as higher demand came from packaged food companies and quick service restaurants. Gross margins increased 30 bps to 39.1% while adjusted operating margin improved 80 bps to 16.5%. Operating income was up 10% to \$208 million in the second quarter. Free cash flow improved 34% to \$314 million, with a portion of this used to pay down debt from acquiring RB Foods.

McCormick now expects adjusted earnings-per-share for 2019 to range from \$5.20 to \$5.33, up from \$5.17 to \$5.27 previously. After initially trending lower, shares of McCormick finished the trading day higher by 3.5%.

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	\$5.27	\$7.74
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.

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.

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



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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	22.0	20.6	22.5	25.1	23.0	25.8	29.6	21.0
Avg. Yld.	3.0%	2.6%	2.3%	2.2%	2.0%	2.1%	2.0%	1.8%	1.9%	1.6%	1.5%	2.2%

Shares of McCormick have increased \$11, or 7.6%, since our March 27th update. Based off updated earnings guidance, the shares trade with a price-to-earnings ratio of 29.6. 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 our target P/E by 2024, then valuation would be a 6.6% headwind to annual returns over this time period.

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%	43%	45%

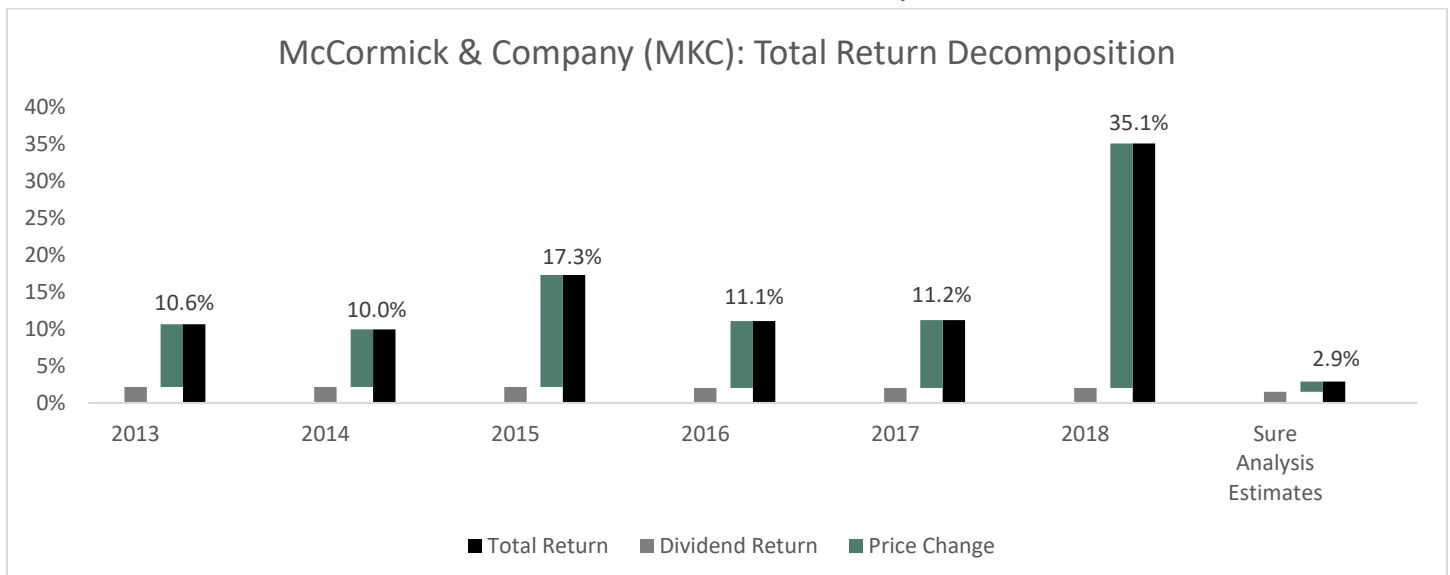
McCormick's competitive advantage stems from its 20% market share of the global market for seasonings and spices. McCormick is four times as large as its nearest competitor, which gives it unmatched size and scale. With a portfolio of popular products, the company has the ability to negotiate with retailers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

Following second quarter results, we now estimate that shares of McCormick & Company will return 2.9% per year through 2024, down from 4.1% previously. The company posted a solid quarter even as currency exchange had a negative impact on results. Both segments of the company showed growth and volumes continue to increase, which is not something many other packaged food companies can claim. Still, the stock has increased more than 47% over the past year. We believe McCormick to be an industry leader in its sector, but the stock receives a sell recommendation from Sure Dividend due to low projected growth. We have increased our 2024 price target \$2 to \$163 due to updated guidance.

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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