McCormick & Company (MKC)

Updated January 28th, 2020 by Nathan Parsh

Key Metrics

Current Price:	$166	**5 Year CAGR Estimate:**	1.4%	**Market Cap:**	$22.1 billion
Fair Value Price:	$110	**5 Year Growth Estimate:**	8.0%	**Ex-Dividend Date:**	4/6/2020[1]
% Fair Value:	151%	**5 Year Valuation Multiple Estimate:**	-7.9%	**Dividend Payment Date:**	4/22/2020[2]
Dividend Yield:	1.5%	**5 Year Price Target**	$162	**Years Of Dividend Growth:**	34
Dividend Risk Score:	A	**Retirement Suitability Score:**	C	**Last Dividend Increase:**	8.8%

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.

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 fourth quarter and full year earnings results on 1/28/2020. The company's adjusted earnings-per-share of $1.61 was a 3.6% below the previous year, but in-line with estimates. Revenue declined 1% to $1.48 billion, missing estimates by $32 million. Currency remains a headwind for McCormick, reducing sales by 4% in the quarter. Adjusted earnings-per-share for the year grew 8% to $5.35, $0.02 above our estimate, while revenue was higher by 1% to $5.3 billion. Currency reduced full year results by 2%.

The Consumer segment had net sales growth of 0.6% in the quarter as improvements in volume/mix and price were partially offset by currency. The Americas was the best performing region, as sales were up 1.9% due to strong product growth in the U.S. The EMEA region declined 4.7%. Volume/mix was down during the quarter, but currency was the primary headwind, negatively impacting results by 3.7%. In Asia/Pacific, McCormick managed 0.6% gains in volume/mix and a 2.1% improvement in price only for currency exchange to reduce results by 2.7%. Flavor Solutions had net sales growth of 2.3% as higher volume/mix more than made up for a decrease in price and currency translation. Sales for the Americas was up 2.8% and EMEA grew 1.9% as both regions had better base business. New products also contributed to growth in both regions. Asia/Pacific was down 0.1% as currency wiped out gains made in volume/mix. Gross margins grew 120 bps to 42.4% while SG&A expenses declined 80 bps during the fourth quarter.

For 2020, McCormick expects sales in reported currency to grow 2% to 4%. Adjusted earnings-per-share are expected in a range of $5.20 to $5.30.

Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
EPS	$2.65	$2.79	$3.04	$3.13	$3.37	$3.48	$3.78	$4.25	$4.97	$5.35	***$5.25***	***$7.71***
DPS	$1.04	$1.12	$1.24	$1.36	$1.48	$1.60	$1.72	$1.88	$2.08	$2.28	***$2.48***	***$3.82***
Shares	133	133	131	131	128	127	125	131	132	134	***134***	***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 since being acquired. 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.

[1] Estimated date
[2] Estimated dividend payment date

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-four years while raising its dividend an average of 8.9% over the last ten years. McCormick raised its dividend 8.8% for the payment made 1/13/2020. The new annualized dividend is $2.48 per share. Due to a low payout ratio, we assume dividends will grow by 9% annually through 2025.

Valuation Analysis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2025
Avg. P/E	14.8	17.1	18.7	22.0	20.6	22.5	25.1	23.0	25.8	31.7	***31.6***	***21.0***
Avg. Yld.	2.6%	2.3%	2.2%	2.0%	2.1%	2.0%	1.8%	1.9%	1.6%	1.3%	***1.5%***	***2.4%***

Shares of McCormick have decreased $1, or 0.6%, since our 10/1/2019 update. Based off earnings guidance for 2020, the shares trade with a price-to-earnings ratio of 31.6. Due to strength of RB Foods and the company's ability to capture market share, we have a 2025 price-to-earnings target of 21. If the stock reverted to our target P/E by 2025, then valuation would be a 7.9% headwind to annual returns over this time period.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	39%	40%	41%	44%	44%	46%	46%	44%	42%	43%	***47%***	***49%***

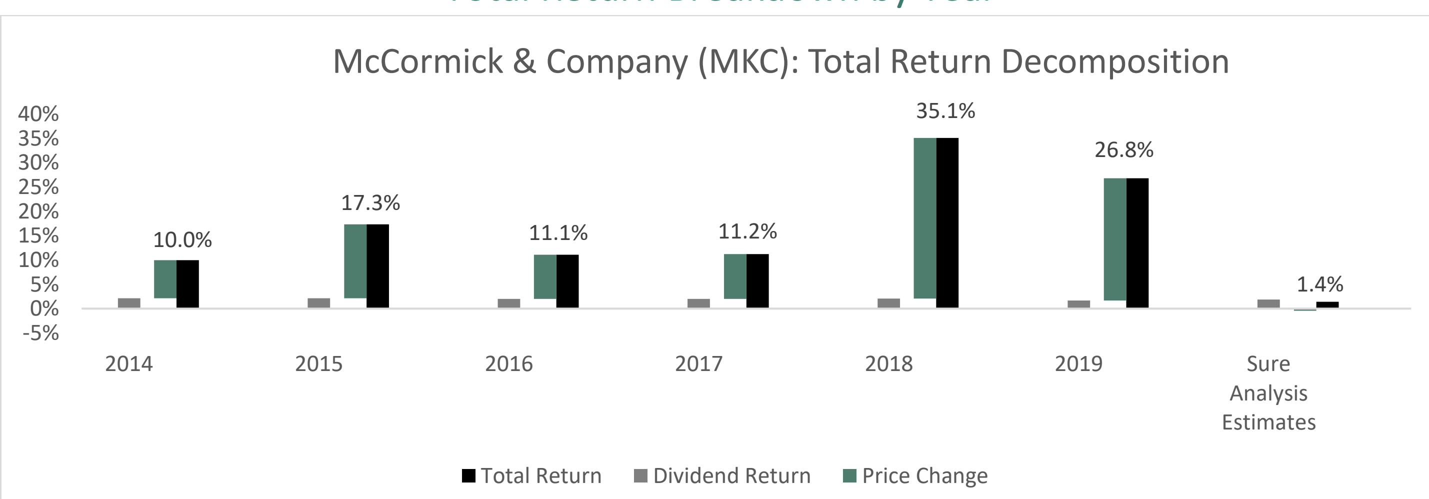
McCormick's competitive advantage stems from its 20% market share of the global market for seasonings and spices. McCormick is four times as large as its nearest competitor, which gives it unmatched size and scale. With a portfolio of popular products, the company has the ability to negotiate with retailers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

Shares of McCormick & Company are expected to return 1.4% annually over the next five years, in-line with our previous estimate. McCormick's stock returned more than 25% in 2019, driving an already elevated price-to-earnings ratio above 31. The company was hindered by currency exchange during the year. Adjusting for this and growth was in the low-single-digits. McCormick's more than three decades of dividend growth is impressive, but we feel investors are better off considering taking profits in the company today. We have lowered our 2025 price target $2 to $164 due to guidance for the current year.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenue	3,192	3,337	3,698	4,014	4,123	4,243	4,296	4,412	4,834	5,409
Gross Profit	1,327	1,418	1,523	1,618	1,666	1,730	1,737	1,832	2,010	2,372
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	1,040	1,090	1,122	1,127	1,175	1,245	1,430
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	3,388	3,420	4,088	4,165	4,450	4,414	4,473	4,636	10,386	10,256
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.	1,717	1,650	2,044	2,019	2,132	2,053	2,131	2,196	7,561	7,401
Total Liabilities	2,044	1,957	2,469	2,465	2,502	2,605	2,786	2,998	7,815	7,074
Accounts Payable	299	303	367	376	387	372	412	451	640	710
Long-Term Debt	991	880	1,252	1,172	1,233	1,285	1,394	1,447	5,027	4,696
Shareholder’s Equity	1,335	1,454	1,602	1,683	1,933	1,792	1,670	1,627	2,560	3,171
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.	132	133	133	131	131	128	127	125	131	132
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.