# McCormick & Company (MKC)

*Updated March 31st, 2020 by Nathan Parsh*

## Key Metrics

| | | | | | |
|---|---|---|---|---|---|
| **Current Price:** | $141 | **5 Year CAGR Estimate:** | 4.8% | **Market Cap:** | $19 billion |
| **Fair Value Price:** | $110 | **5 Year Growth Estimate:** | 8.0% | **Ex-Dividend Date:** | 4/6/2020 |
| **% Fair Value:** | 128% | **5 Year Valuation Multiple Estimate:** | -4.8% | **Dividend Payment Date:** | 4/22/2020[1] |
| **Dividend Yield:** | 1.8% | **5 Year Price Target** | $162 | **Years Of Dividend Growth:** | 34 |
| **Dividend Risk Score:** | B | **Retirement Suitability Score:** | D | **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% to McCormick's sales upon completion.

McCormick reported first quarter earnings result on 3/31/20. The company's adjusted earnings-per-share of $1.08 was 3.6% below results for the same period a year ago, but $0.05 higher than expected by the analyst community. Revenue declined 1.6% to $1.2 billion, which was $20 million lower than expected.

The Consumer division declined 6.1% due primarily to a 6.7% drop in volume and product mix. The Americas region was lower by 1.5% as a 3% drop in volumes and mix more than offset a 1.4% increase in price. The EMEA region performed the best as volumes and price added 0.8% to sales, though this was more than offset by a 1.4% currency headwind. The Asia/Pacific region suffered the most severe declines as volumes were down almost 28%, primarily due to the disruption caused by the COVID-19 virus in China. The rest of the region had year-over-year growth. Flavor Solutions was quite strong during the quarter, showing 5.3% growth due mostly to a 4% increase in volumes and mix. The Americas had 5.8% growth due to new products and strong base business as well as higher demand for snack seasonings and branded foodservice. The EMEA region was also this division's best performing business, with nearly 9% growth mostly due to higher volumes. New products and base business were the primary contributor to growth, though pricing was a 1.9% tailwind. Asia/Pacific declined by 3.7%, again, due to COVID-19 disruptions in mainland China. The total impact of COVID-19 outbreak in China reduced total revenue by 3%, and operating income by 10%. However, gross margins improved 90 bps to 38.8% even as SG&A expenses increased 100 bps. Also impacting results was a Q1 adjusted income tax rate of 18.4% versus 13.9% for Q1 2019. McCormick announced that it was pulling its guidance for 2020 due to the uncertainty regarding the impact of the COVID-19 pandemic. For now, we are maintaining our EPS forecast for the year.

## 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 dividend payment date

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

# McCormick & Company (MKC)

*Updated March 31st, 2020 by Nathan Parsh*

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 | ***26.9*** | ***21.0*** |
| **Avg. Yld.** | 2.6% | 2.3% | 2.2% | 2.0% | 2.1% | 2.0% | 1.8% | 1.9% | 1.6% | 1.3% | ***1.8%*** | ***2.4%*** |

Shares of McCormick have decreased $15, or 9%, since our 1/28/2020 update. Based off earnings guidance for 2020, the shares trade with a price-to-earnings ratio of 26.9. 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 4.8% 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%*** |

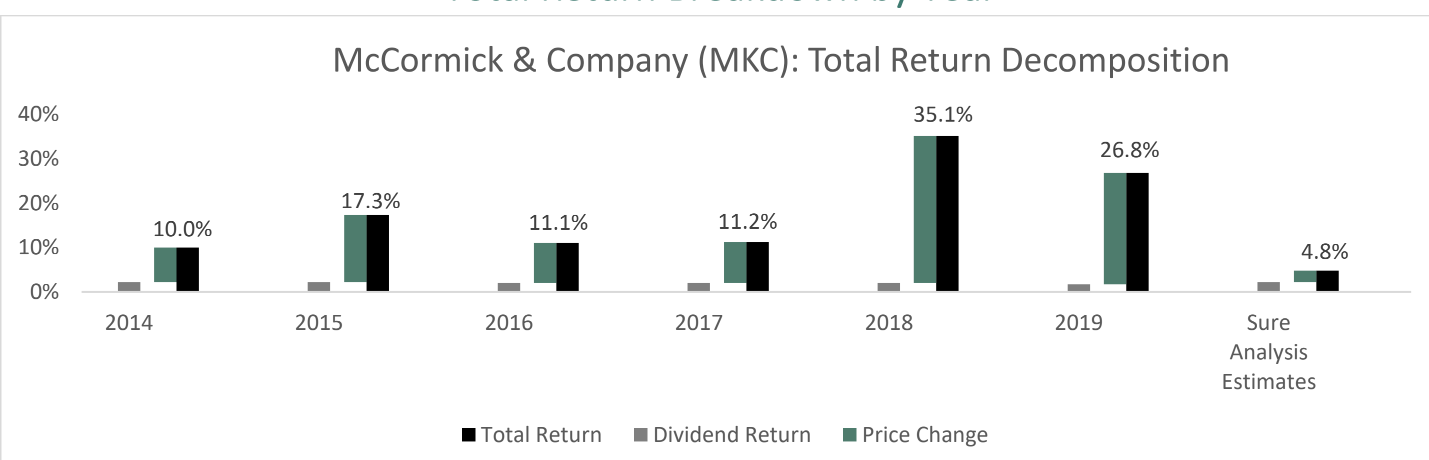
McCormick's competitive advantage stems from its 20% market share of the global market for seasonings and spices. McCormick is four times as large as its nearest competitor, which gives it unmatched size and scale. With a portfolio of popular products, the company has the ability to negotiate with retailers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

Following first quarter results, McCormick & Company is expected to return 4.8% annually over the next five years, up from 1.4% previously. The spread of COVID-19 in China had a significant impact to McCormick's performance in the first quarter. The company pulled its guidance for 2020 due to the further spread of the virus. Still, there is a lot to like. Flavor Solutions was strong outside of China. Consumer was challenged in the Americas, but strong in the Asia/Pacific region outside of China. McCormick remains best of breed in its sector and has more than three decades of dividend growth. Due to projected returns, McCormick receives a hold recommendation from Sure Dividend, up from a sell rating previously. We maintain our 2025 price target of $162.

## 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 31st, 2020 by Nathan Parsh*

## Income Statement Metrics

| Year | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
|---|---|---|---|---|---|---|---|---|---|---|
| Revenue | 3,337 | 3,698 | 4,014 | 4,123 | 4,243 | 4,296 | 4,412 | 4,730 | 5,303 | 5,347 |
| Gross Profit | 1,418 | 1,523 | 1,618 | 1,666 | 1,730 | 1,737 | 1,832 | 1,794 | 2,093 | 2,145 |
| Gross Margin | 42.5% | 41.2% | 40.3% | 40.4% | 40.8% | 40.4% | 41.5% | 37.9% | 39.5% | 40.1% |
| SG&A Exp. | 908 | 982 | 1,040 | 1,090 | 1,122 | 1,127 | 1,175 | 1,031 | 1,163 | 1,167 |
| D&A Exp. | 95 | 98 | 103 | 106 | 103 | 106 | 109 | 125 | 151 | 159 |
| Operating Profit | 510 | 540 | 578 | 576 | 608 | 610 | 657 | 763 | 930 | 979 |
| Operating Margin | 15.3% | 14.6% | 14.4% | 14.0% | 14.3% | 14.2% | 14.9% | 16.1% | 17.5% | 18.3% |
| Net Profit | 370 | 374 | 408 | 389 | 438 | 402 | 472 | 477 | 933 | 703 |
| Net Margin | 11.1% | 10.1% | 10.2% | 9.4% | 10.3% | 9.3% | 10.7% | 10.1% | 17.6% | 13.1% |
| Free Cash Flow | 299 | 243 | 345 | 365 | 371 | 462 | 504 | 633 | 652 | 773 |
| Income Tax | 118 | 143 | 140 | 134 | 146 | 131 | 153 | 151 | (157) | 157 |

## Balance Sheet Metrics

| Year | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
|---|---|---|---|---|---|---|---|---|---|---|
| Total Assets | 3,420 | 4,088 | 4,165 | 4,450 | 4,414 | 4,473 | 4,636 | 10386 | 10256 | 10362 |
| Cash & Equivalents | 51 | 54 | 79 | 63 | 77 | 113 | 118 | 187 | 97 | 155 |
| Accounts Receivable | 387 | 427 | 466 | 496 | 494 | 455 | 465 | 555 | 518 | 503 |
| Inventories | 478 | 614 | 615 | 677 | 714 | 711 | 756 | 793 | 786 | 801 |
| Goodwill & Int. Ass. | 1,650 | 2,044 | 2,019 | 2,132 | 2,053 | 2,131 | 2,196 | 7,561 | 7,445 | 7,429 |
| Total Liabilities | 1,957 | 2,469 | 2,465 | 2,502 | 2,605 | 2,786 | 2,998 | 7,815 | 7,074 | 6,905 |
| Accounts Payable | 303 | 367 | 376 | 387 | 372 | 412 | 451 | 640 | 710 | 847 |
| Long-Term Debt | 880 | 1,252 | 1,172 | 1,233 | 1,285 | 1,394 | 1,447 | 5,027 | 4,696 | 4,324 |
| Shareholder's Equity | 1,454 | 1,602 | 1,683 | 1,933 | 1,792 | 1,670 | 1,627 | 2,560 | 3,171 | 3,444 |
| D/E Ratio | 0.61 | 0.78 | 0.70 | 0.64 | 0.72 | 0.83 | 0.89 | 1.96 | 1.48 | 1.26 |

## Profitability & Per Share Metrics

| Year | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
|---|---|---|---|---|---|---|---|---|---|---|
| Return on Assets | 10.9% | 10.0% | 9.9% | 9.0% | 9.9% | 9.0% | 10.4% | 6.4% | 9.0% | 6.8% |
| Return on Equity | 26.6% | 24.5% | 24.8% | 21.5% | 23.5% | 23.2% | 28.7% | 22.8% | 32.6% | 21.2% |
| ROIC | 15.8% | 14.4% | 14.2% | 12.9% | 14.0% | 13.0% | 15.3% | 8.9% | 12.1% | 9.0% |
| Shares Out. | 133 | 133 | 131 | 131 | 128 | 127 | 125 | 131 | 132 | 134 |
| Revenue/Share | 24.77 | 27.53 | 29.89 | 30.86 | 32.39 | 33.25 | 34.46 | 36.84 | 39.81 | 39.88 |
| FCF/Share | 2.22 | 1.81 | 2.57 | 2.73 | 2.83 | 3.57 | 3.94 | 4.93 | 4.90 | 5.77 |

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