



McCormick & Company (MKC)

Updated September 29th, 2020 by Nathan Parsh

Key Metrics

Current Price:	\$190	5 Year CAGR Estimate:	0.2%	Market Cap:	\$25.2 billion
Fair Value Price:	\$119	5 Year Growth Estimate:	8.0%	Ex-Dividend Date:	10/2/2020
% Fair Value:	159%	5 Year Valuation Multiple Estimate:	-8.9%	Dividend Payment Date:	10/19/2020
Dividend Yield:	1.3%	5 Year Price Target	\$175	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 announced third quarter earnings result on 9/29/20. Revenue improved 7.5% to \$1.4 billion, topping estimates by \$40 million. Currency headwinds reduced revenue results by 1%. Adjusted earnings-per-share increased \$0.07, or 5%, to \$1.53, which was a penny better than expected.

Revenues for the Consumer segment were higher by 14.7%, due mostly to a 13.6% improvement in volume and mix, though pricing was also a tailwind. The Americas region benefited from customers staying home more often to cook. Revenue was higher by 17.2% for this region. The company saw strength across its portfolio as volumes were up more than 15%. The Europe/Middle East/Asia region posted another 20%+ increase in net sales, due almost entirely to a 23% increase in volumes. Spices, seasonings, dry recipe mixes and homemade desserts were the categories that performed the best. Asia/Pacific sales were down 8.7%, which was a deceleration from the prior quarter. Foodservice remained weak, but China and Australia performed well. Flavor Solutions had a 2.9% decrease in sales. A 2.1% increase in pricing was more than offset by a 3.2% decrease in volumes and mix and a 1.8% headwind from currency. This decline compares favorably to the 18%+ decrease this segment had in the second quarter. Foodservice was weak in the Americas, but was offset with a price increase and growth from packaged food companies. EMEA declined 1% due to lower sales to foodservice and quick service restaurants. Prices were up more than 3%. Asia/Pacific returned to growth during the quarter as volumes were up 7.6%. Products were in demand once more from quick service restaurant customers following the easing of social distancing restrictions in the region. Gross margins were up 70 basis points for the quarter to 41.3%, but SG&A expenses were higher by 130 basis points to 22.2%. The company also announced a 2-for-1 stock split for shareholders of record on November 20, 2020.

McCormick did resume guidance for the rest of the year. Revenue growth is expected to be close to 5% for the year with EPS in a range of \$5.64 to \$5.72. Achieving the midpoint of EPS guidance would be a 6.2% increase from 2019.

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	\$5.68	\$8.35
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. 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.

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	33.5	21.0
Avg. Yld.	2.6%	2.3%	2.2%	2.0%	2.1%	2.0%	1.8%	1.9%	1.6%	1.3%	1.3%	2.2%

Shares of McCormick have increased \$14 since our 6/27/2020 update. Based off revised earnings estimates for 2020, the stock trades with a price-to-earnings ratio of 33.5. Due to strength of RB Foods and the company's ability to capture market share during the pandemic, we maintain our 2025 price-to-earnings target of 21. If the stock reverted to our target P/E by 2025, then valuation would be an 8.9% 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%	44%	46%

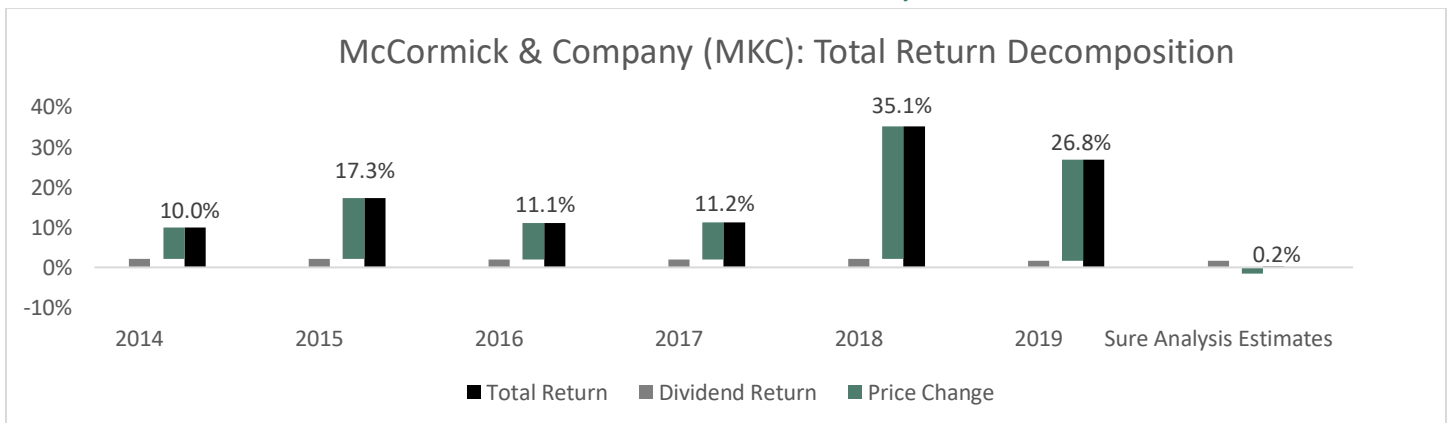
McCormick's competitive advantage stems from its 20% market share of the global market for seasonings and spices. McCormick is four times as large as its nearest competitor, which gives it unmatched size and scale. With a portfolio of popular products, the company has the ability to negotiate with retailers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

Following third quarter results, McCormick & Company is expected to return just 0.2% through 2025, matching our estimate from our last report. Momentum for the Consumer segment continued into the third quarter. Food service business remained weak overall, but this segment had very high-volume growth. Flavor Solutions was still down from the previous year, but the decline wasn't as severe as the second quarter. McCormick also reinstated guidance that was at the high end of its previous forecast. Shares have returned more than 21% over the last year, vastly outperforming the S&P 500 during this period of time. The stock trades with a multiple above 30, which could lead to a steep multiple reversion. We have raised our 2025 price target \$13 to \$175 due to revised EPS estimates, but investors could consider selling all or part of their position to lock in gains.

Total Return Breakdown by Year



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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	551	603	548	655	749	916	964
Operating Margin	15.3%	14.6%	14.4%	13.4%	14.2%	12.8%	14.8%	15.8%	17.3%	18.0%
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	3420	4088	4165	4450	4414	4473	4636	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.

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