



McCormick & Company (MKC)

Updated February 1st, 2021 by Nathan Parsh

Key Metrics

Current Price:	\$89	5 Year CAGR Estimate:	2.3%	Market Cap:	\$23.8 billion
Fair Value Price:	\$62	5 Year Growth Estimate:	8.0%	Ex-Dividend Date:	4/9/2021 ¹
% Fair Value:	144%	5 Year Valuation Multiple Estimate:	-7.1%	Dividend Payment Date:	4/27/2021 ²
Dividend Yield:	1.5%	5 Year Price Target	\$91	Years Of Dividend Growth:	34
Dividend Risk Score:	A	Retirement Suitability Score:	B	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.

On 12/1/2020, McCormick completed a 2-for-1 stock split. Our tables have been updated accordingly.

McCormick released fourth quarter and full year earnings result on 1/28/21. For the quarter, revenue grew 4.9% to \$1.56 billion, coming in just above estimates. Currency was a 1% headwind to results. Adjusted earnings-per-share fell 1.9% to \$0.79 and was \$0.03 lower than expected. For the year, revenue grew 5% to \$5.6 billion and adjusted earnings-per-share increased 6% to \$2.83.

Consumer sales grew 5.9% overall due to a 3.7% improvement in volume and mix, 1% contribution from pricing and favorable currency exchange of 1.2%. U.S. sales were up 5.5%, mostly due to volume and mix. This region saw increased demand throughout its portfolio, including strength in Frank's RedHot, French's Mustard, Simply Asia and Zatarain's. EMEA had net sales growth of 15.2%, primarily driven by an 8.4% improvement in volume and mix and a favorable currency contribution of 5.4%. Spices, seasonings and homemade desserts were areas where McCormick saw strong growth. Asia/Pacific sales fell 6.5% as a 3.4% favorable currency contribution wasn't enough to offset a nearly 10% decline in sales. The company cited lower branded foodservice sales and a shift to a later Chinese New Year as the reasons for the decline. Flavor Solutions grew 3.1% due to an 0.8% improvement in product mix and 2.3% increase in prices. The Americas grew 0.9% as a slight decline in volume and mix wasn't enough to offset 2.4% higher prices. Foodservice was lower, but demand from packaged food companies was improved. EMEA had 6.6% growth in sales, mostly due to 3.7% increase in realized prices. Foodservice was weak again, but this was offset by growth in snack seasonings. Asia/Pacific sales grew 10.8%, as volume and mix added 8.5% to growth and currency was a favorable 3.7% contribution to results. Quick service customer growth led to the double-digit improvement. Gross margins improved 100 basis points to 42.4% for the quarter. Expenses expanded 180 basis points to 23.8%, but this was mostly due to an increase in digital marketing. E-commerce sales were higher by 136%. McCormick has guided towards adjusted earnings-per-share of \$2.91 to \$2.96 for 2021, which would be a 3.9% improvement from the prior year at the midpoint.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	\$1.40	\$1.52	\$1.57	\$1.69	\$1.74	\$1.89	\$2.13	\$2.49	\$2.68	\$2.83	\$2.94	\$4.32
DPS	\$0.56	\$0.62	\$0.68	\$0.74	\$0.80	\$0.86	\$0.94	\$1.04	\$1.14	\$1.27	\$1.36	\$2.09
Shares³	266	265	262	257	255	251	262	264	266	267	267	260

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

¹ Estimated ex-dividend date

² Estimated dividend payment date

³ Share count in millions

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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.

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 1/13/2021. The new annualized dividend is \$1.36 per share. Due to a low payout ratio, we assume dividends will grow by 9% annually through 2026.

Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	17.1	18.7	22.0	20.6	22.5	25.1	22.9	23.3	28.3	33.8	30.3	21.0
Avg. Yld.	2.3%	2.2%	2.0%	2.1%	2.0%	1.8%	1.9%	1.6%	1.3%	1.3%	1.5%	2.3%

Shares of McCormick have declined \$6 since our 9/29/2020 update. Based off earnings estimates for 2021, the stock trades with a price-to-earnings ratio of 30.3. Due to strength of RB Foods and the company's ability to capture market share during the pandemic, we maintain our 2026 price-to-earnings target of 21. If the stock reverted to our target P/E by 2026, then valuation would be an 7.1% headwind to annual returns over this time period.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	40%	41%	44%	44%	46%	46%	44%	42%	43%	45%	46%	48%

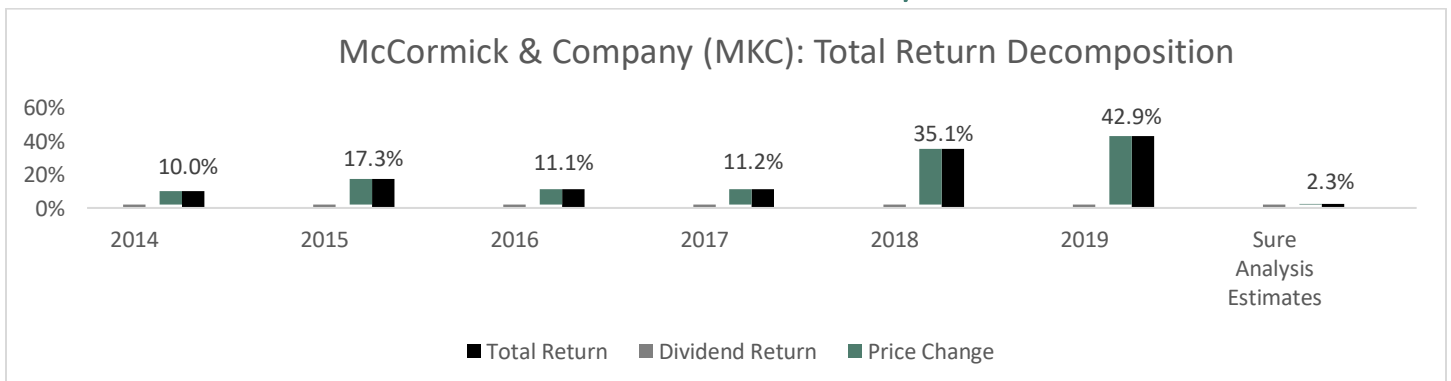
McCormick's competitive advantage stems from its 20% market share of the global market for seasonings and spices. McCormick is four times as large as its nearest competitor, which gives it unmatched size and scale. With a portfolio of popular products, the company has the ability to negotiate with retailers 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 fourth quarter results, McCormick & Company is expected to return 2.3% through 2026, up from our prior estimate of 0.2%. Our projected return stems from an expected 8% annual earnings growth rate and starting yield of 1.5% offset by a high single-digit headwind from multiple reversion. McCormick finished a strong year with a decent fourth quarter. The company saw many of its brands take market share during 2020 and its focus on digital advertising resonated with consumers as demonstrated by its e-commerce growth in the most recent quarter. There is a lot to like about McCormick, but the stock's valuation remains high. We have raised our five-year price target \$3 to \$91, but advise investors to consider taking profits if their positions have become oversized.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	3,698	4,014	4,123	4,243	4,296	4,412	4,730	5,303	5,347	5,601
Gross Profit	1,523	1,618	1,666	1,730	1,737	1,832	1,794	2,093	2,145	2,300
Gross Margin	41.2%	40.3%	40.4%	40.8%	40.4%	41.5%	37.9%	39.5%	40.1%	41.1%
SG&A Exp.	982	1,040	1,090	1,122	1,127	1,175	1,031	1,163	1,167	1,282
D&A Exp.	98	103	106	103	106	109	125	151	159	165
Operating Profit	540	578	576	608	610	657	763	930	979	1,019
Operating Margin	14.6%	14.4%	14.0%	14.3%	14.2%	14.9%	16.1%	17.5%	18.3%	18.2%
Net Profit	374	408	389	438	402	472	477	933	703	747
Net Margin	10.1%	10.2%	9.4%	10.3%	9.3%	10.7%	10.1%	17.6%	13.1%	13.3%
Free Cash Flow	243	345	365	371	462	504	633	652	773	816
Income Tax	143	140	134	146	131	153	151	(157)	157	175

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	4,088	4,165	4,450	4,414	4,473	4,636	10,386	10,256	10,362	12,090
Cash & Equivalents	54	79	63	77	113	118	187	97	155	424
Accounts Receivable	427	466	496	494	455	465	555	518	503	529
Inventories	614	615	677	714	711	756	793	786	801	1,033
Goodwill & Int. Ass.	2,044	2,019	2,132	2,053	2,131	2,196	7,561	7,445	7,429	8,342
Total Liabilities	2,469	2,465	2,502	2,605	2,786	2,998	7,815	7,074	6,905	8,150
Accounts Payable	367	376	387	372	412	451	640	710	847	1,032
Long-Term Debt	1,252	1,172	1,233	1,285	1,394	1,447	5,027	4,696	4,324	4,904
Shareholder's Equity	1,602	1,683	1,933	1,792	1,670	1,627	2,560	3,171	3,444	3,926
D/E Ratio	0.78	0.70	0.64	0.72	0.83	0.89	1.96	1.48	1.26	1.25

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	10.0%	9.9%	9.0%	9.9%	9.0%	10.4%	6.4%	9.0%	6.8%	6.7%
Return on Equity	24.5%	24.8%	21.5%	23.5%	23.2%	28.7%	22.8%	32.6%	21.2%	20.3%
ROIC	14.4%	14.2%	12.9%	14.0%	13.0%	15.3%	8.9%	12.1%	9.0%	9.0%
Shares Out.	266	265	262	257	255	251	262	264	266	267
Revenue/Share	13.77	14.94	15.43	16.20	16.63	17.23	18.42	19.90	19.95	20.81
FCF/Share	0.91	1.28	1.37	1.42	1.79	1.97	2.46	2.45	2.88	3.03

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

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