



McCormick & Company (MKC)

Updated March 30th, 2021 by Nathan Parsh

Key Metrics

Current Price:	\$90	5 Year CAGR Estimate:	4.1%	Market Cap:	\$24 billion
Fair Value Price:	\$69	5 Year Growth Estimate:	8.0%	Ex-Dividend Date:	4/9/2021 ¹
% Fair Value:	130%	5 Year Valuation Multiple Estimate:	-5.2%	Dividend Payment Date:	4/27/2021 ²
Dividend Yield:	1.5%	5 Year Price Target	\$101	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.

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

McCormick released first quarter earnings result on 3/30/21. Revenue grew 22.3% to \$1.48 billion, beating estimates by \$110 million. Currency was a 2.2% tailwind to results. Adjusted earnings-per-share of \$0.72 was a 33% improvement from the prior year and \$0.14 higher than expected.

Consumer sales were higher by 35.4%, primarily due to a nearly 29% increase in volumes and mix. Higher prices, contributions from acquisitions and currency also positively benefited this segment. U.S. sales were higher by nearly 30%, again mostly due to volume and mix. The recent acquisition of premium hot sauce maker Cholula in November of last year added to results as did the McCormick brand, Frank's RedHot and French's mustard. EMEA sales improved 34.6%, as volumes and mix were up more than 25% due to branded spices and seasonings, dessert products and Thai Kitchen products. Currency added 8.4% to results. Asia/Pacific was the real story, however, as net sales surged almost 65%. This region declined more than 6% as recently as the fourth quarter of the year. This segment benefited from weak comparable results in the prior year and a strong recovery in consumer and branded foodservice demand in China. Revenue for the Flavor Solutions segment improved 4.3% as price increases and acquisitions more than offset a 3% decline in volume and mix. The Americas grew 2.1%, mostly due to recent acquisitions. Volume and mix were down 6.3% due to weaker demand from branded foodservice and restaurant customers. EMEA climbed 1.4% as strength in snack seasonings only partially offset weaker demand from foodservice and restaurant customers. Asia/Pacific was once again the best performer as sales were up almost 26%. Again, weaker numbers in the previous year combined with higher sales to restaurant customers in China and Australia made this growth possible.

McCormick also provided updated guidance for 2021. The company expects sales to grow 8% to 10% in 2021 compared to consensus estimates of 7.5%. Adjusted earnings-per-share is projected in a range of \$2.97 to \$3.02, up from \$2.91 to \$2.96 previously. At the midpoint, this would be 6% increase from the prior year. We have updated our estimates accordingly.

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	\$3.00	\$4.41
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

¹ Estimated ex-dividend date

² Estimated dividend payment date

³ Share count in millions

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McCormick has increased earnings-per-share every year for the past ten years. Over this time frame, earnings have increased at an average of 7.3% per year. The addition of RB Foods and other acquisitions have worked in the company's favor. In fact, we feel that the company's acquisition over the past few years 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 8.5% 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	30.0	23.0
Avg. Yld.	2.3%	2.2%	2.0%	2.1%	2.0%	1.8%	1.9%	1.6%	1.3%	1.3%	1.5%	2.1%

Shares of McCormick have increased \$1 since our 2/1/2021 update. Based off earnings estimates for 2021, the stock trades with a price-to-earnings ratio of 30. We are raising our 2026 price-to-earnings target to 23 from 21 to match the stock's average valuation over the last decade. We believe this multiple is warranted given McCormick's performance during the pandemic as well as the strength of the company's core business and leadership position in its industry. If the stock reverted to our target P/E by 2026, then valuation would be a 5.2% 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%	45%	47%

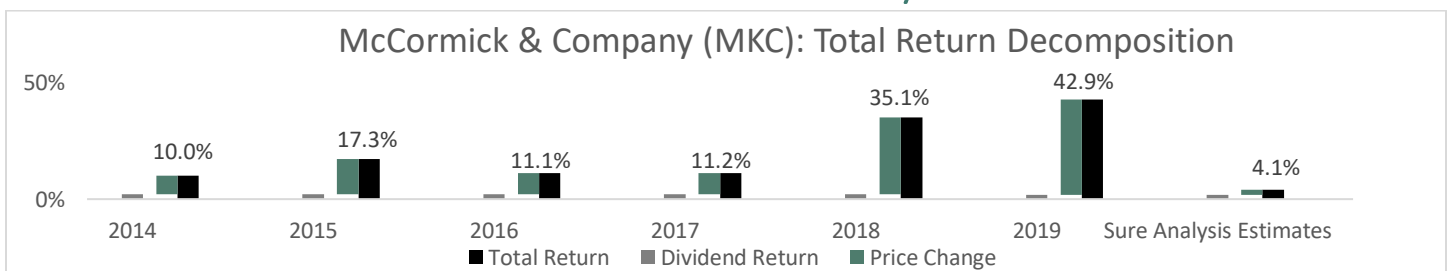
McCormick's competitive advantage stems from its 20% market share of the global market for seasonings and spices. McCormick is four times as large as its nearest competitor, which gives it unmatched size and scale. With a portfolio of popular products, the company has the ability to negotiate with retailers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

After first quarter results, McCormick & Company is expected to return 4.1% through 2026, up from our prior estimate of 2.3%. Our projected return stems from an expected 8% annual earnings growth rate and starting yield of 1.5% offset by a mid-single-digit headwind from multiple reversion. McCormick had an excellent start to the new year. Favorable comparable results, especially in China, plus the benefit of acquisitions drove top and bottom-line growth. The company continues to produce excellent results, which have led to an elevated valuation. We have increased our 2026 price target \$10 to \$101 due to EPS estimates and a higher valuation target, but see shares as a hold due to projected returns.

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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