



# McCormick & Company (MKC)

Updated July 2<sup>nd</sup>, 2021 by Nathan Parsh

## Key Metrics

<b>Current Price:</b>	\$89	<b>5 Year CAGR Estimate:</b>	4.6%	<b>Market Cap:</b>	\$23.6 billion
<b>Fair Value Price:</b>	\$70	<b>5 Year Growth Estimate:</b>	8.0%	<b>Ex-Dividend Date:</b>	7/9/2021
<b>% Fair Value:</b>	128%	<b>5 Year Valuation Multiple Estimate:</b>	-4.8%	<b>Dividend Payment Date:</b>	7/26/2021
<b>Dividend Yield:</b>	1.5%	<b>5 Year Price Target</b>	\$102	<b>Years Of Dividend Growth:</b>	34
<b>Dividend Risk Score:</b>	A	<b>Retirement Suitability Score:</b>	C	<b>Last Dividend Increase:</b>	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 second quarter earnings result on 7/1/21. Revenue improved 11.1% to \$1.56 billion, \$90 million better than expected. Currency exchange was a 3.5% benefit to revenue results. Adjusted earnings-per-share of \$0.69 was a 5.5% decline from the prior year, but topped estimates by \$0.07.

Revenues for the Consumer segment fell 4.7%, though this compared to 26% growth for this business in Q2 2020 following surge in demand at the onset of the COVID-19 pandemic. The company's addition of hot sauce maker Cholula late last year added 2.2% to results. The Americas fell 6.4%, largely due to lapping of high demand last year. The EMEA grew 3.6% as currency was a nearly 8% tailwind and was only partially offset by volume and mix. Asia/Pacific grew 25.5% as this region was especially weak in the prior year. Compared to Q2 2019, sales were flat. Flavor Solutions grew almost 40%, primarily due to volume and mix improvements and contributions from acquisitions. Americas grew 31.6% due to increased demand from foodservice customers compared to the prior year. EMEA was up 77.7% due to strength in quick service restaurants and foodservice. Asia/Pacific grew 35.5% due to demand in China and Australia.

McCormick also provided updated guidance for 2021. The company now expects revenue to grow 11% to 13% from 2020, up from 8% to 10% previously. Adjusted earnings-per-share is now projected in a range of \$3.00 to \$3.05, up from \$2.97 to \$3.02 previously. At the midpoint, this would be 7% 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
<b>EPS</b>	\$1.40	\$1.52	\$1.57	\$1.69	\$1.74	\$1.89	\$2.13	\$2.49	\$2.68	\$2.83	<b>\$3.03</b>	<b>\$4.45</b>
<b>DPS</b>	\$0.56	\$0.62	\$0.68	\$0.74	\$0.80	\$0.86	\$0.94	\$1.04	\$1.14	\$1.27	<b>\$1.36</b>	<b>\$2.09</b>
<b>Shares<sup>1</sup></b>	266	265	262	257	255	251	262	264	266	267	<b>267</b>	<b>260</b>

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.

<sup>1</sup> Share count in millions

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



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## 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	29.4	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%	2.0%

Shares of McCormick have decreased \$1 since our 3/30/2021 update. Based off earnings estimates for 2021, the stock trades with a price-to-earnings ratio of 29.4. We are reaffirming our 2026 price-to-earnings target to 23 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 4.8% 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%

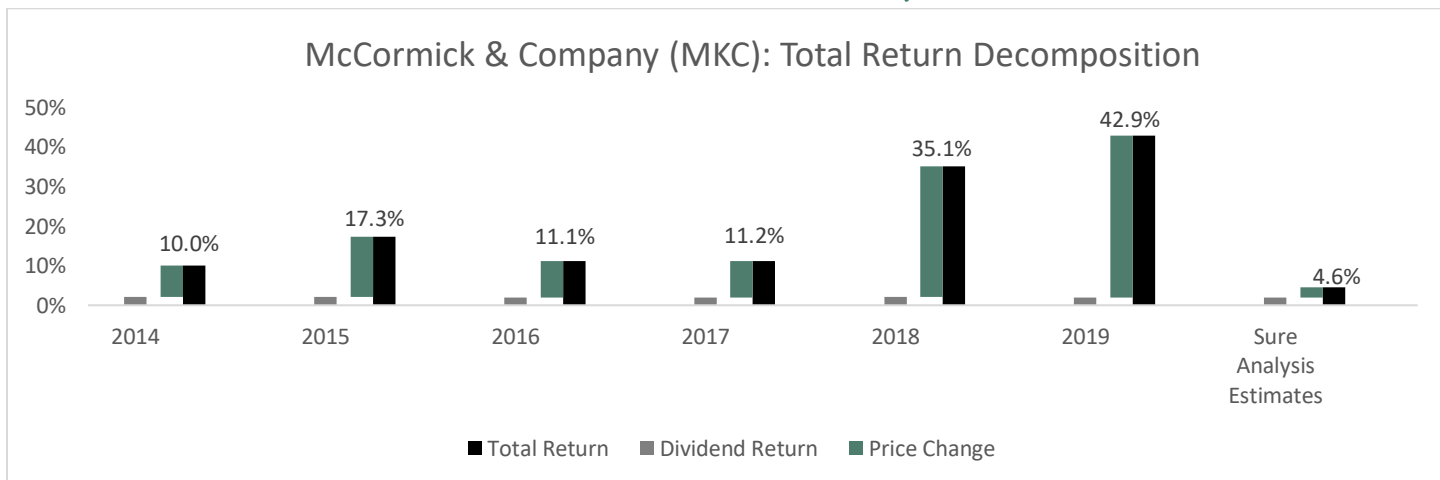
McCormick's competitive advantage stems from its 20% market share of the global market for seasonings and spices. McCormick is four times as large as its nearest competitor, which gives it unmatched size and scale. With a portfolio of popular products, the company has the ability to negotiate with retailers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

Following second quarter results, McCormick & Company is expected to return 4.6% through 2026, up from our prior estimate of 4.1%. 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 saw a significant improvement in its Flavor Solutions business, which was to be expected following the difficult environment this business encountered in the same quarter last year. The Consumer business lapped last year's surge in demand, so a slight decline isn't surprising or very worrisome in our opinion as the Americas and EMEA regions were up at least 20% compared to the same period of 2019 with Asia/Pacific coming in flat. McCormick has also now raised its revenue and earnings guidance twice so far this year. We have lifted our 2026 price target \$1 to \$102 following EPS guidance.

## 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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