



McCormick & Company (MKC)

Updated October 1st, 2021 by Nathan Parsh

Key Metrics

Current Price:	\$81	5 Year CAGR Estimate:	6.4%	Market Cap:	\$22.3 billion
Fair Value Price:	\$69	5 Year Growth Estimate:	8.0%	Ex-Dividend Date:	10/8/2021
% Fair Value:	117%	5 Year Valuation Multiple Estimate:	-3.2%	Dividend Payment Date:	10/26/2021
Dividend Yield:	1.7%	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 third quarter earnings result on 9/30/21. Revenue grew 8.4% to \$1.55 billion, \$10 million above expectations. This was on top of last year's 7.6% increase. Currency exchange was a 3% benefit to revenue results. Adjusted earnings-per-share of \$0.80 was a 3.9% improvement from the prior year and \$0.08 above estimates.

Revenues for the Consumer segment grew 1.2% as a benefit from acquisitions and favorably currency exchange more than offset a 3.3% decline in volume and mix and slightly lower prices. Volumes were lower largely on account of elevated demand seen during the prior year period. The Americas region inched higher by 0.2%, mostly due to contributions from acquisitions. EMEA region fell 6% due to a double-digit decrease in volume, again due to higher demand last year. Asia/Pacific improved 20.2%, driven by a 9.9% increase in volumes and a 9.6% tailwind from currency exchange. Gains here came from the recovery of branded foodservice sales. Flavor Solutions was higher by 20.8% as acquisitions (8%), volume and mix (7.5%), currency (4.2%) and price (1.1%) were all contributors to results. This business felt the greatest impact of the COVID-19 pandemic last year as demand from branded food service customers was low. EMEA, the Americas and Asia grew 28.1%, 20.8% and 8.4%, respectively, due to higher demand amongst quick service restaurants. Every region that McCormick operates in saw growth compared to Q3 2019, with almost all showing double-digit improvements.

McCormick again provided updated guidance for 2021. The company now expects revenue to grow 12% to 13% up from 11% to 13% and 8% to 10% previously. Adjusted earnings-per-share is now projected in a range of \$2.97 to \$3.02, down from \$3.00 to \$3.05 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
Shares¹	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 7.3% 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.

¹ Share count in millions

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



McCormick & Company (MKC)

Updated October 1st, 2021 by Nathan Parsh

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	27.0	23.0
Avg. Yld.	2.3%	2.2%	2.0%	2.1%	2.0%	1.8%	1.9%	1.6%	1.3%	1.3%	1.7%	2.1%

Shares of McCormick have decreased \$8, or 9%, since our 7/2/2021 update. Based off earnings estimates for 2021, the stock trades with a price-to-earnings ratio of 27. 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 3.2% 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%

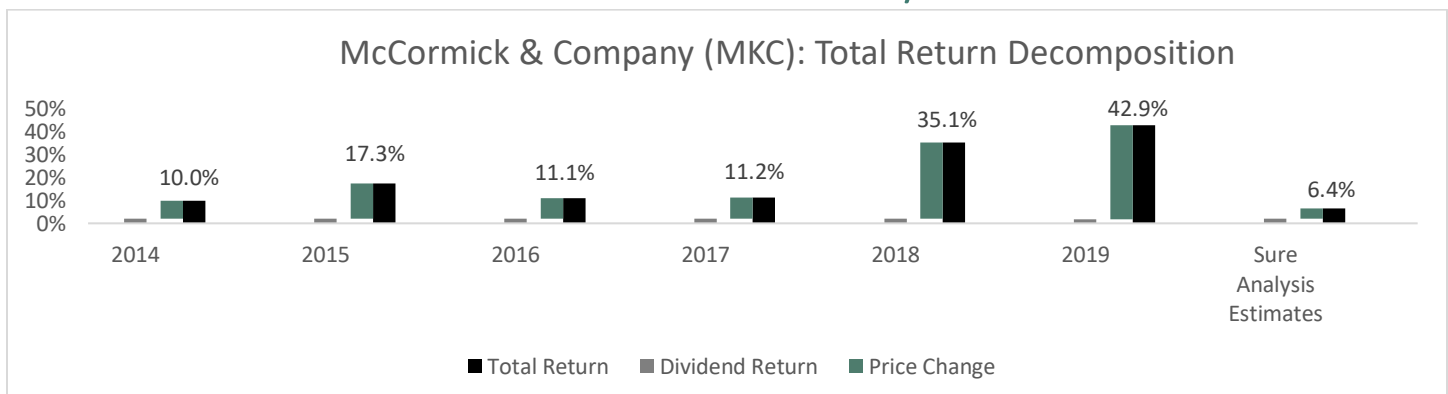
McCormick's competitive advantage stems from its 20% market share of the global market for seasonings and spices. McCormick is four times as large as its nearest competitor, which gives it unmatched size and scale. With a portfolio of popular products, the company has the ability to negotiate with retailers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

Following third quarter results, McCormick & Company is expected to return 6.4% through 2026, up from our prior estimate of 4.6%. Our projected return stems from an expected annual earnings growth rate of 8% and starting yield of 1.7% offset by a low single-digit headwind from multiple reversion. McCormick continues to see a recovery in its Flavor Solutions business and its Consumer segment remains in high demand. Leadership did note that higher input costs are likely to remain in place for the foreseeable future. However, McCormick has proven pretty adept at passing those costs along to customers. We rate shares as a hold due to projected returns and have lowered our five-year price target \$1 to \$101.

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 October 1st, 2021 by Nathan Parsh

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.

Disclaimer

Nothing presented herein is, or is intended to constitute, specific investment advice. Nothing in this research report should be construed as a recommendation to follow any investment strategy or allocation. Any forward-looking statements or forecasts are based on assumptions and actual results are expected to vary from any such statements or forecasts. No reliance should be placed on any such statements or forecasts when making any investment decision. While Sure Dividend has used reasonable efforts to obtain information from reliable sources, we make no representations or warranties as to the accuracy, reliability or completeness of third-party information presented herein. No guarantee of investment performance is being provided and no inference to the contrary should be made. There is a risk of loss from an investment in marketable securities. Past performance is not a guarantee of future performance.