



McCormick & Company (MKC)

Updated January 28th, 2022 by Nathan Parsh

Key Metrics

Current Price:	\$98	5 Year CAGR Estimate:	4.7%	Market Cap:	\$26 billion
Fair Value Price:	\$74	5 Year Growth Estimate:	9.0%	Ex-Dividend Date:	4/8/2022 ¹
% Fair Value:	133%	5 Year Valuation Multiple Estimate:	-5.6%	Dividend Payment Date:	4/26/2022 ²
Dividend Yield:	1.5%	5 Year Price Target	\$113	Years Of Dividend Growth:	35
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 fourth quarter and full year earnings result on 1/27/22. For the quarter, revenue grew 11.1% to \$1.73 billion, \$20 million above expectations. This was on top of last year's 4.9% increase. Adjusted earnings-per-share of \$0.84 compared favorably to \$0.79 in the prior year. For the year, revenue grew 13% to a record \$6.3 billion while adjusted earnings-per-share increased 8% to \$3.05.

Revenue for the Consumer segment grew 9.8% for the quarter as volume and mix (4.8%), acquisitions (1.9%), price (2.5%), and currency (0.6%) all added to results. The Americas region grew 12.7% as at-home consumption remains strong. Frank's RedHot and Cholula are now the top two selling hot sauces in the U.S. The EMEA region was lower by 5.2%, mostly due to lower volume on a tough comparable period. Asia/Pacific surged 15.5% as a recovery of branded foodservice in China drove much of the growth. Flavor Solutions was higher by 13.6% as acquisitions (7.3%), volume and mix (2.5%), currency (1.5%) and price (2.3%) were all contributors to results. The Americas grew almost 14%, due to acquisitions, especially Cholula. The EMEA was up 18.6% due to strength in quick service restaurant and branded food service. Asia was up 3.8%, mostly due to favorable currency exchange. Timing of orders impacted results. Every region that McCormick operates in saw at least comparable results to Q4 2019, with most showing at least an 8% gain.

McCormick provided guidance for 2022. The company expects revenue to grow 3% to 5% and adjusted earnings-per-share is projected in a range of \$3.17 to \$3.22. At the midpoint, this would be 4.9% increase from 2021. We have initiated our estimates accordingly.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	\$1.52	\$1.57	\$1.69	\$1.74	\$1.89	\$2.13	\$2.49	\$2.68	\$2.83	\$3.05	\$3.20	\$4.92
DPS	\$0.62	\$0.68	\$0.74	\$0.80	\$0.86	\$0.94	\$1.04	\$1.14	\$1.27	\$1.36	\$1.48	\$2.38
Shares³	265	262	257	255	251	262	264	266	267	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 8.0% per year. The addition of RB Foods and other acquisitions have worked in the company's favor, especially in the area of hot sauce, where McCormick now has the top two brands in the \$5 billion market. In fact, we feel that the company's acquisition over the past few years will help to increase earnings growth going forward as we project that McCormick can now grow earnings at a rate of 9% per year, up from 8% previously.

¹ Estimated ex-dividend date

² Estimated dividend payment date

³ Share count in millions

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-five 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 1/10/2022. The new annualized dividend is \$1.48 per share. Due to a low payout ratio, we assume dividends will grow by 10% annually through 2027.

Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	18.7	22.0	20.6	22.5	25.1	22.9	23.3	28.3	33.8	31.7	30.6	23.0
Avg. Yld.	2.2%	2.0%	2.1%	2.0%	1.8%	1.9%	1.6%	1.3%	1.3%	1.4%	1.5%	2.1%

Shares of McCormick have increased \$17, or 21%, since our 10/1/2021 update. Based off earnings estimates for 2022, the stock trades with a price-to-earnings ratio of nearly 31. We are reaffirming our 2027 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 2027, then valuation would be a 5.6% headwind to annual returns over this time period.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	41%	44%	44%	46%	46%	44%	42%	43%	45%	45%	46%	48%

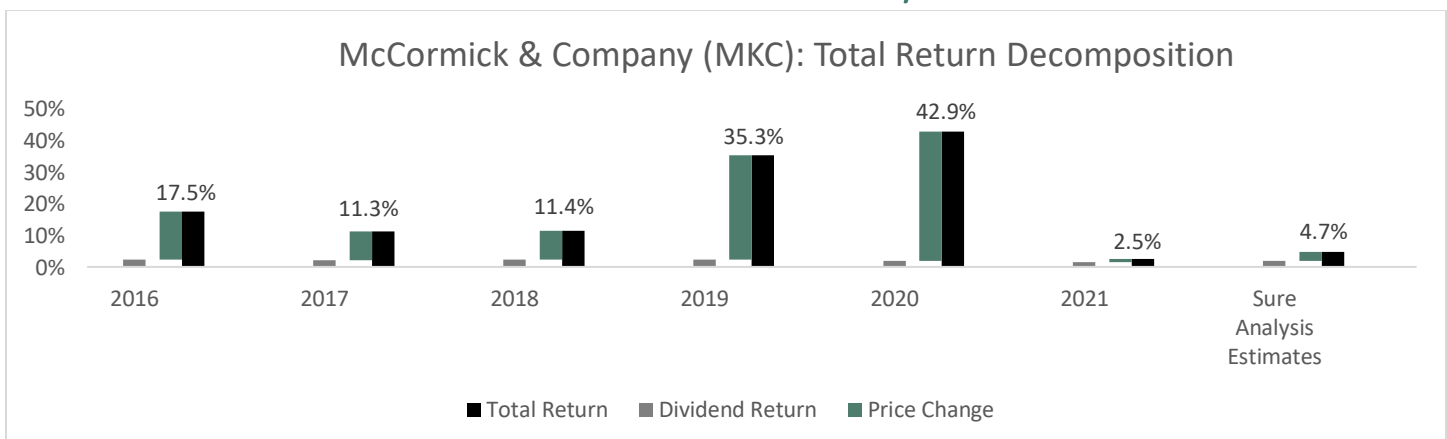
McCormick's competitive advantage stems from its 20% market share of the global market for seasonings and spices. McCormick is four times as large as its nearest competitor, which gives it unmatched size and scale. With a portfolio of popular products, the company has the ability to negotiate with retailers 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 4.7% through 2027, down from our prior estimate of 6.4%. Our projected return stems from an expected annual earnings growth rate of 9% and starting yield of 1.5% offset by a mid-single-digit headwind from multiple reversion. McCormick posted another strong quarter, with results even topping pre-pandemic numbers. This speaks to the company's strength. That said, shares are trading with an elevated multiple. We raise our five-year price target \$12 to \$113, but maintain our hold rating on McCormick due to projected results.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	4,014	4,123	4,243	4,296	4,412	4,730	5,303	5,347	5,601	6,318
Gross Profit	1,618	1,666	1,730	1,737	1,832	1,794	2,093	2,145	2,300	2,495
Gross Margin	40.3%	40.4%	40.8%	40.4%	41.5%	37.9%	39.5%	40.1%	41.1%	39.5%
SG&A Exp.	1,040	1,090	1,122	1,127	1,175	1,031	1,163	1,167	1,282	1,404
D&A Exp.	103	106	103	106	109	125	151	159	165	186
Operating Profit	578	576	608	610	657	763	930	979	1,019	1,091
Operating Margin	14.4%	14.0%	14.3%	14.2%	14.9%	16.1%	17.5%	18.3%	18.2%	17.3%
Net Profit	408	389	438	402	472	477	933	703	747	755
Net Margin	10.2%	9.4%	10.3%	9.3%	10.7%	10.1%	17.6%	13.1%	13.3%	12.0%
Free Cash Flow	345	365	371	462	504	633	652	773	816	550
Income Tax	140	134	146	131	153	151	(157)	157	175	193

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	4,165	4,450	4,414	4,473	4,636	10,386	10,256	10,362	12,090	12,906
Cash & Equivalents	79	63	77	113	118	187	97	155	424	352
Accounts Receivable	466	496	494	455	465	555	518	503	529	550
Inventories	615	677	714	711	756	793	786	801	1,033	1,182
Goodwill & Int. Ass.	2,019	2,132	2,053	2,131	2,196	7,561	7,445	7,429	8,342	8,929
Total Liabilities	2,465	2,502	2,605	2,786	2,998	7,815	7,074	6,905	8,150	8,480
Accounts Payable	376	387	372	412	451	640	710	847	1,032	1,064
Long-Term Debt	1,172	1,233	1,285	1,394	1,447	5,027	4,696	4,324	4,904	5,283
Shareholder's Equity	1,683	1,933	1,792	1,670	1,627	2,560	3,171	3,444	3,926	4,411
LTD/E Ratio	0.70	0.64	0.72	0.83	0.89	1.96	1.48	1.26	1.25	1.20

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	9.9%	9.0%	9.9%	9.0%	10.4%	6.4%	9.0%	6.8%	6.7%	6.0%
Return on Equity	24.8%	21.5%	23.5%	23.2%	28.7%	22.8%	32.6%	21.2%	20.3%	18.1%
ROIC	14.2%	12.9%	14.0%	13.0%	15.3%	8.9%	12.1%	9.0%	9.0%	8.1%
Shares Out.	265	262	257	255	251	262	264	266	267	267
Revenue/Share	14.94	15.43	16.20	16.63	17.23	18.42	19.90	19.95	20.81	23.41
FCF/Share	1.28	1.37	1.42	1.79	1.97	2.46	2.45	2.88	3.03	2.04

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

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