



McCormick & Company (MKC)

Updated March 30th, 2022 by Nathan Parsh

Key Metrics

Current Price:	\$97	5 Year CAGR Estimate:	4.9%	Market Cap:	\$26 B
Fair Value Price:	\$74	5 Year Growth Estimate:	9.0%	Ex-Dividend Date:	04/08/22 ¹
% Fair Value:	132%	5 Year Valuation Multiple Estimate:	-5.4%	Dividend Payment Date:	04/26/22 ²
Dividend Yield:	1.5%	5 Year Price Target	\$113	Years Of Dividend Growth:	35
Dividend Risk Score:	A	Retirement Suitability Score:	C	Rating:	Hold

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.

On 3/29/2022, McCormick reported first quarter earnings result for the period ending on 2/28/2022. Revenue increased 2.7% to \$1.52 billion, which was \$50 million better than expected. Adjusted earnings-per-share of \$0.63 compared unfavorably to \$0.72 in the prior year, but topped estimates by \$0.01.

Revenue for the Consumer segment fell 2.2% as volume and mix (-6.9%) and currency headwinds (-0.7%) more than offset a 4.4% increase in realized prices. The Americas grew 2.3% as higher prices made up for a small decline in volume. EMEA fell 14.2%, mostly due to a double-digit decrease in volume. Currency also negatively impacted results.

Asia/Pacific was lower by 4.3%, again mostly due to demand, partially offset by higher prices. All regions experience elevated demand in the first quarter of last year, helping to explain the decline in each region. Flavor Solutions continues to rebound from the Covid-19 pandemic as sales were up 11.5% in the quarter. Volume and mix (+6.4%), pricing (+5.4%) and acquisitions (+1.9%) more than offset a 2.2% currency headwind. Americas grew more than 12% due to strength in packaged food and beverage and the recovery from low demand levels in the previous year. EMEA improved 15.2% as demand surged even in the face of higher prices. Quick service restaurants and branded foodservice both had much higher demand. Asia/Pacific grew 2.5% due to better performance in quick service restaurants.

McCormick reaffirmed guidance for 2022. The company continues to expect revenue growth of 3% to 5% and adjusted earnings-per-share is projected to be in a range of \$3.17 to \$3.22. At the midpoint, this would be 4.9% increase from 2021.

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

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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	30.3	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 declined \$1, or 1%, since our 1/28/2022 update. Based off earnings estimates for 2022, the stock trades with a price-to-earnings ratio of 30.3. 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 5.4% 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%

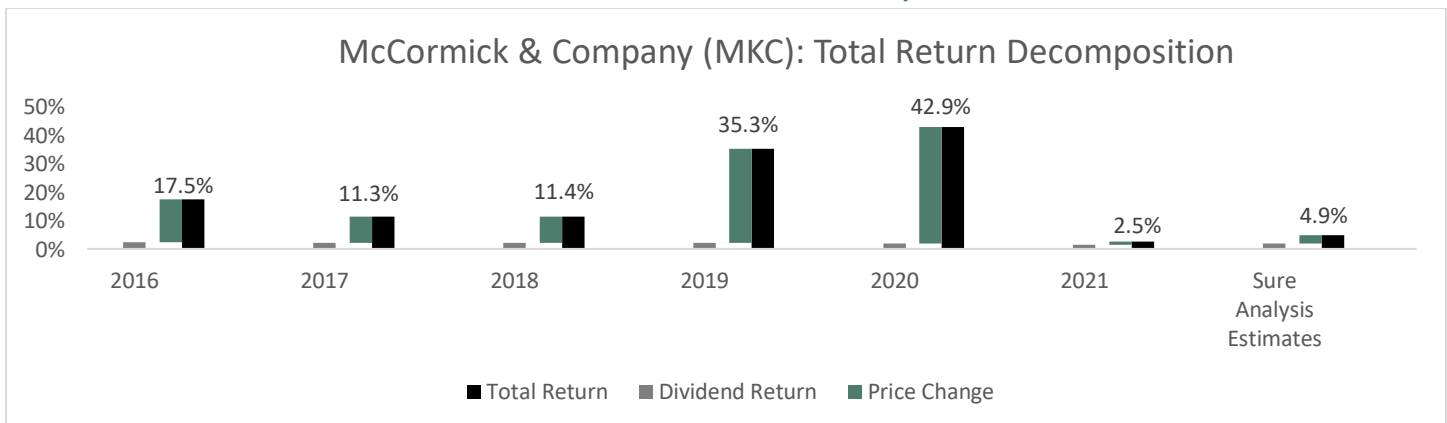
McCormick's competitive advantage stems from its 20% market share of the global market for seasonings and spices. McCormick is four times as large as its nearest competitor, which gives it unmatched size and scale. With a portfolio of popular products, the company has the ability to negotiate with retailers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

After first quarter results, McCormick & Company is expected to return 4.9% through 2027, up from our prior estimate of 4.7%. Our projected return stems from an expected annual earnings growth rate of 9% and a starting yield of 1.5% offset by a mid-single-digit headwind from multiple reversion. McCormick faced a difficult comparable period in its Consumer business and still saw revenue grow overall. The company was able to pass along higher input costs to customers. The Flavor Solutions segment also continues to recover from the Covid-19 pandemic. We maintain our 2027 price target of \$113 as well as 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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