



McCormick & Company (MKC)

Updated October 6th, 2022 by Nathan Parsh

Key Metrics

Current Price:	\$74	5 Year CAGR Estimate:	7.1%	Market Cap:	\$20 B
Fair Value Price:	\$61	5 Year Growth Estimate:	9.0%	Ex-Dividend Date:	10/10/22
% Fair Value:	121%	5 Year Valuation Multiple Estimate:	-3.7%	Dividend Payment Date:	10/25/22
Dividend Yield:	2.0%	5 Year Price Target	\$94	Years Of Dividend Growth:	35
Dividend Risk Score:	B	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 October 6th, 2022, McCormick reported third quarter earnings result for the period ending August 31st, 2022.

Revenue grew 3.2% to \$1.6 billion, beating estimates by \$10 million. Adjusted earnings-per-share of \$0.69 compared unfavorably to \$0.80 in the prior year and was \$0.03 less than expected.

For the quarter, pricing was a favorable 9.7%, but was offset by a 3.1% decrease each for volume/mix and currency and a 0.5% decline related to divestitures. The Consumer segment returned to growth as revenue inched higher by 0.7%.

Pricing (+10%) was almost offset by volume/mix (-5.7%), currency (-2.7%), and divestitures (-0.9%). The Americas grew 2.8%, mostly due to strength in pricing. Volume fell 7.5%. EMEA decreased 12.7% due to lower volumes and a double-digit headwind from currency exchange. Suspended Russian business was responsible for a 3% decline in revenue.

Asia/Pacific grew 5.4%, largely due to lessening of Covid-19 lockdowns in China. Flavor Solutions continues to rebound from the Covid-19 pandemic as sales were up 8.4% in the quarter. Volume and mix (+0.8%) and pricing (+9.3%) more than offset a currency headwind (-3.7%). Americas grew 9.2% due to continued strength in packaged food and beverage and the recovery from low demand levels in the previous year. A currency headwind of 12.5% more than offset strong pricing and volume activity in the EMEA as net sales fell 1.3% for the region. Asia/Pacific was up 4.8% as mid-single-digit growth in price and volume offset currency headwinds.

McCormick updated guidance for 2022 as well. The company continues to expect revenue to be flat to up 2% and currency neutral revenue growth of 3% to 5%. Adjusted earnings-per-share is now projected to be in a range of \$2.63 to \$2.68, down from \$3.03 to \$3.08 and \$3.17 to \$3.22 previously. We have updated 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	\$2.66	\$4.09
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
Shares¹	265	262	257	255	251	262	264	266	267	267	268	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.

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 January 10th, 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.

¹ 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	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	27.8	23.0
Avg. Yld.	2.2%	2.0%	2.1%	2.0%	1.8%	1.9%	1.6%	1.3%	1.3%	1.4%	2.0%	2.5%

Shares of McCormick have declined \$12, or 14.0%, since our June 29th, 2022 report. Based off earnings estimates for 2022, the stock trades with a price-to-earnings ratio of 27.8. We are reaffirming our 2027 price-to-earnings target of 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 3.7% 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%	56%	58%

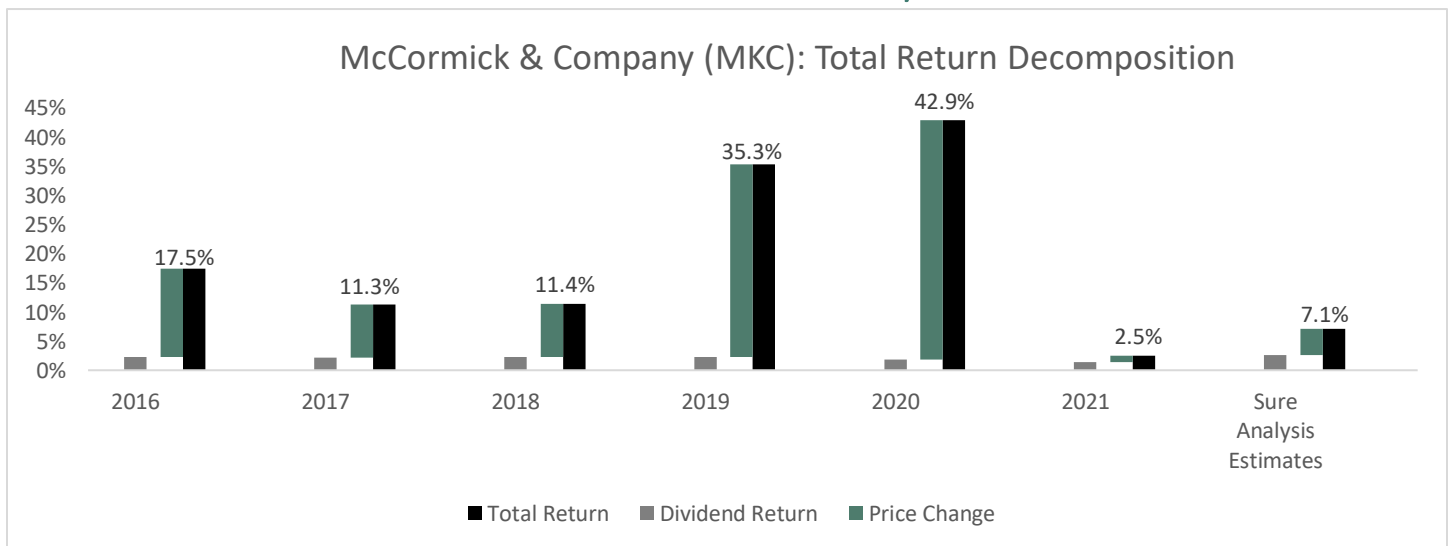
McCormick's competitive advantage stems from its 20% market share of the global market for seasonings and spices. McCormick is four times as large as its nearest competitor, which gives it unmatched size and scale. With a portfolio of popular products, the company has the ability to negotiate with retailers 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 third quarter results, McCormick & Company is expected to return 6.6% through 2027, up from our prior estimate of 6.6%. Our projected return stems from an expected annual earnings growth rate of 9% and a starting yield of 2.0%, offset by a low single-digit headwind from multiple reversion. McCormick continues to face currency headwinds in its business. The positive news is that the company has used price increases to largely offset the impact of inflationary pressures. This has led to demand declines in certain regions. We have lowered our 2027 price target \$14 to \$94 to reflect revised guidance and maintain our hold rating on shares of 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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