



McCormick & Company (MKC)

Updated February 8th, 2023 by Nathan Parsh

Key Metrics

Current Price:	\$75	5 Year CAGR Estimate:	5.3%	Market Cap:	\$20 B
Fair Value Price:	\$56	5 Year Growth Estimate:	9.0%	Ex-Dividend Date:	04/07/23 ¹
% Fair Value:	133%	5 Year Valuation Multiple Estimate:	-5.6%	Dividend Payment Date:	04/25/23 ²
Dividend Yield:	2.1%	5 Year Price Target	\$87	Years Of Dividend Growth:	36
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 January 26th, 2023, McCormick reported earnings results for fourth quarter and fiscal year 2022 for the period ending November 30th, 2022. For the quarter, revenue declined 2.3% to \$1.69 billion and was \$80 million less than expected. Adjusted earnings-per-share of \$0.73 compared unfavorably to \$0.84 in the prior year and was \$0.14 below estimates. For the fiscal year, revenue improved 0.5% to \$6.35 billion while adjusted earnings-per-share of \$2.52 compared to \$3.05 in 2021.

For the quarter, pricing was a favorable 9.3%, but was offset by a 6.4% decrease in volume, a 0.9% decline related to divestitures, and a 4% headwind from currency exchange. The Consumer segment fell 7.6%. Pricing (+8.7%) was more than offset by volume/mix (-11.6%), currency (-3.3%), and divestitures (-1.4%). The Americas declined 4%, mostly due to a 10.9% decrease in volume. EMEA was lower by 13.4% due to lower volumes and a mid-double-digit headwind from currency exchange. Suspended Russian business was responsible for a 4% decline in revenue. Asia/Pacific suffered a 28.6% decline in sales, due mostly to lower volumes resulting from Covid-19 related disruptions in China and the exit of a low margin business in India. Flavor Solutions continues to rebound from the Covid-19 pandemic as sales were up 8.5% in the quarter. Volume and mix (+3.2%) and pricing (+10.5%) more than offset a currency headwind (-5.2%). Americas grew 12.9% due to continued strength in packaged food and beverage and the recovery from low demand levels in the previous year. Volume grew 2.2% despite an 11% increase in price. A currency headwind of 17.7% more than offset strong pricing and volume activity in the EMEA region as net sales fell 1.8%. Asia/Pacific was flat for the period as currency exchange offset strong pricing and volume growth.

McCormick provided guidance for 2023 as well. The company expects revenue growth of 5% to 7%. Adjusted earnings-per-share is projected to be in a range of \$2.42 to \$2.47, down slightly from the prior year's result. We have initiated our estimates accordingly.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	\$1.57	\$1.69	\$1.74	\$1.89	\$2.13	\$2.49	\$2.68	\$2.83	\$3.05	\$2.52	\$2.45	\$3.77
DPS	\$0.68	\$0.74	\$0.80	\$0.86	\$0.94	\$1.04	\$1.14	\$1.27	\$1.36	\$1.48	\$1.56	\$2.51
Shares³	262	257	255	251	262	264	266	267	267	270	268	260

Prior to 2022, McCormick has increased earnings-per-share every year for the past ten years. Since 2013, earnings have increased at an average of 5.4% 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,

¹ Estimated ex-dividend date

² Estimated dividend date

³ Share count in millions

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



McCormick & Company (MKC)

Updated February 8th, 2023 by Nathan Parsh

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 grow earnings at a rate of 9% per year through 2028.

McCormick has increased its dividend for thirty-six years while raising its dividend an average of 8.5% over the last ten years. McCormick raised its dividend 5.4% for the January 9th, 2023 payment date. The new annualized dividend is \$1.56 per share. Due to a low payout ratio, we assume dividends will grow by 10% annually through 2028.

Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	22.0	20.6	22.5	25.1	22.9	23.3	28.3	33.8	31.7	32.9	30.6	23.0
Avg. Yld.	2.0%	2.1%	2.0%	1.8%	1.9%	1.6%	1.3%	1.3%	1.4%	1.8%	2.1%	2.9%

Shares of McCormick are relatively unchanged since our October 6th, 2022 report. Based off of earnings estimates for 2023, the stock trades with a price-to-earnings ratio of 30.6. We are reaffirming our 2028 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 2028, then valuation would be a 5.6% headwind to annual returns over this time period.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	44%	44%	46%	46%	44%	42%	43%	45%	45%	59%	64%	67%

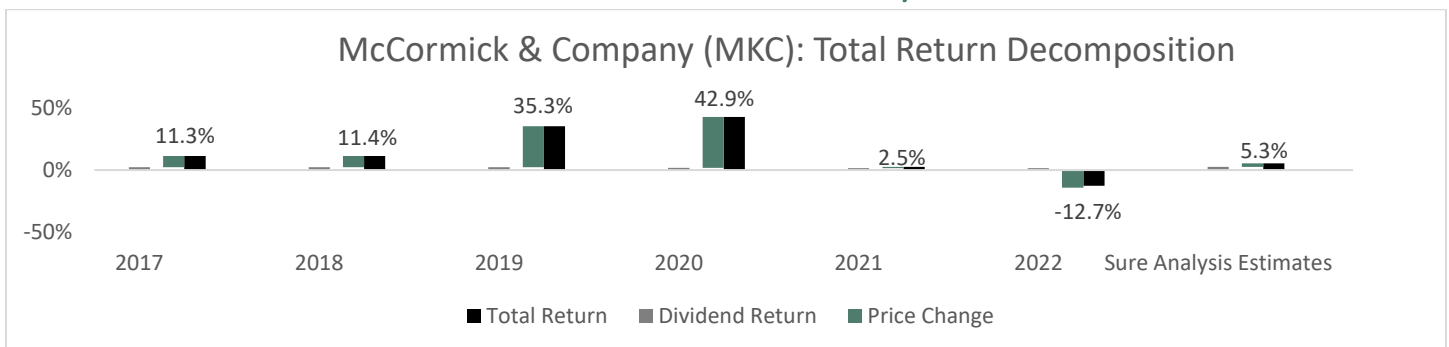
McCormick's competitive advantage stems from its 20% market share of the global market for seasonings and spices. McCormick is four times as large as its nearest competitor, which gives it unmatched size and scale. With a portfolio of popular products, the company has the ability to negotiate with retailers 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 fourth quarter results, McCormick & Company is expected to return 5.3% through 2028, down 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 2.1%, offset by a mid-single-digit headwind from multiple reversion. As with prior quarters, 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 2028 price target \$7 to \$87 to reflect guidance and maintain our hold rating on shares of McCormick due to projected results.

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 February 8th, 2023 by Nathan Parsh

Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	4,123	4,243	4,296	4,412	4,730	5,303	5,347	5,601	6,318	6,351
Gross Profit	1,666	1,730	1,737	1,832	1,794	2,093	2,145	2,300	2,495	2,275
Gross Margin	40.4%	40.8%	40.4%	41.5%	37.9%	39.5%	40.1%	41.1%	39.5%	35.8%
SG&A Exp.	1,090	1,122	1,127	1,175	1,031	1,163	1,167	1,282	1,404	1,357
D&A Exp.	106	103	106	109	125	151	159	165	186	201
Operating Profit	576	608	610	657	763	930	979	1,019	1,091	917
Operating Margin	14.0%	14.3%	14.2%	14.9%	16.1%	17.5%	18.3%	18.2%	17.3%	14.4%
Net Profit	389	438	402	472	477	933	703	747	755	682
Net Margin	9.4%	10.3%	9.3%	10.7%	10.1%	17.6%	13.1%	13.3%	12.0%	10.7%
Free Cash Flow	365	371	462	504	633	652	773	816	550	390
Income Tax	134	146	131	153	151	(157)	157	175	193	169

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	4,450	4,414	4,473	4,636	10,386	10,256	10,362	12,090	12,906	13,125
Cash & Equivalents	63	77	113	118	187	97	155	424	352	334
Accounts Receivable	496	494	455	465	555	518	503	529	550	574
Inventories	677	714	711	756	793	786	801	1,033	1,182	1,340
Goodwill & Int. Ass.	2,132	2,053	2,131	2,196	7,561	7,445	7,429	8,342	8,929	8,761
Total Liabilities	2,502	2,605	2,786	2,998	7,815	7,074	6,905	8,150	8,480	8,426
Accounts Payable	387	372	412	451	640	710	847	1,032	1,064	1,171
Long-Term Debt	1,233	1,285	1,394	1,447	5,027	4,696	4,324	4,904	5,283	5,150
Shareholder's Equity	1,933	1,792	1,670	1,627	2,560	3,171	3,444	3,926	4,411	4,681
LTD/E Ratio	0.64	0.72	0.83	0.89	1.96	1.48	1.26	1.25	1.20	1.10

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	9.0%	9.9%	9.0%	10.4%	6.4%	9.0%	6.8%	6.7%	6.0%	5.2%
Return on Equity	21.5%	23.5%	23.2%	28.7%	22.8%	32.6%	21.2%	20.3%	18.1%	15.0%
ROIC	12.9%	14.0%	13.0%	15.3%	8.9%	12.1%	9.0%	9.0%	8.1%	7.0%
Shares Out.	262	257	255	251	262	264	266	267	267	270
Revenue/Share	15.43	16.20	16.63	17.23	18.42	19.90	19.95	20.81	23.41	23.50
FCF/Share	1.37	1.42	1.79	1.97	2.46	2.45	2.88	3.03	2.04	1.44

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.