



McCormick & Company (MKC)

Updated July 2nd, 2023 by Nathan Parsh

Key Metrics

Current Price:	\$87	5 Year CAGR Estimate:	3.5%	Market Cap:	\$23 B
Fair Value Price:	\$60	5 Year Growth Estimate:	9.0%	Ex-Dividend Date:	07/07/23
% Fair Value:	144%	5 Year Valuation Multiple Estimate:	-7.0%	Dividend Payment Date:	07/24/23
Dividend Yield:	1.8%	5 Year Price Target	\$93	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 June 29th, 2023, McCormick reported earnings results for the second quarter for the period ending May 31st, 2023. For the quarter, revenue was higher by 7.8% to \$1.66 billion, which was in-line with expectations. Adjusted earnings-per-share of \$0.60 compared favorably to \$0.48 in the prior year and was \$0.03 above estimates.

For the quarter, pricing was a favorable 10.8%, but was partially offset by a 0.9% decrease in volume and mix, a 0.4% decline related to divestitures, and a 1.5% headwind from currency exchange. The Consumer segment returned to growth, with net sales improving by 5.3%. Pricing (+8.5%) was partially offset by volume/mix (-0.7%), currency (-1.7%), and divestitures (-0.8%). The Americas improved 3.6%, mostly due to high single-digit price increases. EMEA grew 7.2% due to broad-based strength amongst the company's categories and markets. Suspended Russian business was responsible for a 2% decline in revenue. Asia/Pacific improved 18.7%, a sharp reversal from a decline of 15.1% in the preceding quarter. China grew 20% during the period, with all other regions higher by 2%. Flavor Solutions continues to rebound from the Covid-19 pandemic as sales were up 11.4% for the period. A small headwind from volume and mix (-1.1%) and currency exchange (-1.3%) were more than offset by pricing (+13.8%). Americas grew 11.9% as pricing action more than offset cost inflation. EMEA was up 8.8% due to a nearly 22% increase in pricing that was partially offset by a 7.2% decline in volume and mix. Asia/Pacific was higher by 13.4% as volume demand surged during the period despite an 8% uptick in pricing. McCormick's gross margin expanded 310 basis points to 37.1% for the period.

McCormick updated guidance for 2023 as well. The company still expects revenue growth of 5% to 7%. Adjusted earnings-per-share is now projected to be in a range of \$2.60 to \$2.65 for the year, up from \$2.56 to \$2.61 and \$2.42 to \$2.47 previously. We have updated 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	\$2.63	\$4.05
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
Shares¹	262	257	255	251	262	264	266	267	267	270	270	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, 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.

¹ 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-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	33.1	23.0
Avg. Yld.	2.0%	2.1%	2.0%	1.8%	1.9%	1.6%	1.3%	1.3%	1.4%	1.8%	1.8%	2.7%

Shares of McCormick have gained \$2, or 2.4%, since our April 10th, 2023 report. Based off earnings estimates for 2023, the stock trades with a price-to-earnings ratio of 33.1. 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 7.0% 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%	59%	62%

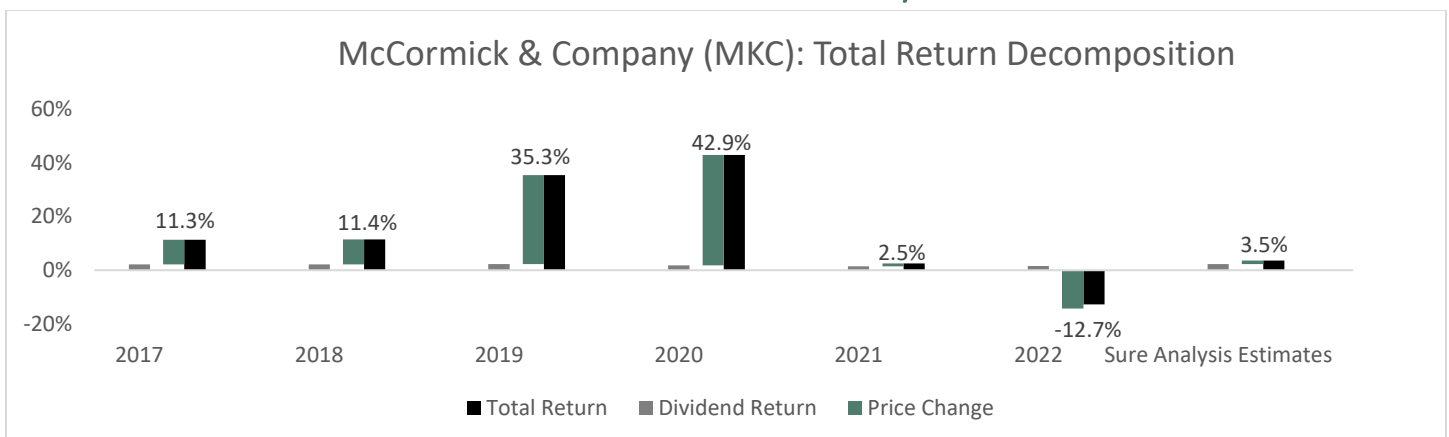
McCormick's competitive advantage stems from its 20% market share of the global market for seasonings and spices. McCormick is four times as large as its nearest competitor, which gives it unmatched size and scale. With a portfolio of popular products, the company has the ability to negotiate with retailers 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 increased its earnings in 2008 and 2009.

Final Thoughts & Recommendation

Following second quarter results, McCormick & Company is expected to return 3.5% through 2028, down from our prior estimate of 3.7%. Our projected return stems from an expected annual earnings growth rate of 9% and a starting yield of 1.8%, offset by a high single-digit headwind from multiple reversion. While we appreciate the company's industry dominance, as well as its long history of dividend growth, we believe that shares are expensive today. We have increased our five-year price target \$1 to \$93, but 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	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.

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