



# McCormick & Company (MKC)

Updated October 3<sup>rd</sup>, 2023 by Nathan Parsh

## Key Metrics

<b>Current Price:</b>	\$68	<b>5 Year CAGR Estimate:</b>	8.9%	<b>Market Cap:</b>	\$19 B
<b>Fair Value Price:</b>	\$61	<b>5 Year Growth Estimate:</b>	9.0%	<b>Ex-Dividend Date:</b>	10/09/23
<b>% Fair Value:</b>	112%	<b>5 Year Valuation Multiple Estimate:</b>	-2.2%	<b>Dividend Payment Date:</b>	10/24/23
<b>Dividend Yield:</b>	2.3%	<b>5 Year Price Target</b>	\$94	<b>Years Of Dividend Growth:</b>	36
<b>Dividend Risk Score:</b>	B	<b>Retirement Suitability Score:</b>	C	<b>Rating:</b>	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 3<sup>rd</sup>, 2023, McCormick announced earnings results for the third quarter for the period ending August 31<sup>st</sup>, 2023. For the quarter, revenue grew 5.7% to \$1.68 billion, which was \$20 million less than expected. Adjusted earnings-per-share of \$0.65 compared unfavorably to \$0.69, but was in-line with estimates.

For the quarter, pricing was a favorable 7.8% while currency was a 0.1% tailwind to results. This was partially offset by a 2.1% decline in volume and mix and a 0.2% decrease related to divestitures. The Consumer segment's return to growth continued, with net sales improving by 1.0%. Pricing (+5.6%) was offset by volume/mix (-4.0%), currency (-0.3%), and divestitures (-0.3%). The Americas improved 1.4%, as pricing made up for weaker demand. EMEA surged 14.2% despite a 2% headwind from the suspension of the company's Russian business. Asia/Pacific declined nearly 16% as a small improvement in pricing did little to offset a 15% decrease in volume and mix. Currency was an issue during the period. This region also faced a difficult comparison in China. Flavor Solutions continues to rebound from the Covid-19 pandemic as sales were up 12.0% for the quarter. Pricing (+10.9%), volume and mix (+0.5%), and currency (+0.6%) all contributed to results. Americas improved 11.3%, mostly due to price increases. Volume was positive for the quarter. EMEA increased 16.7% as a 20.2% improvement in prices was partially offset by a 5.1% decrease in volume. Asia/Pacific was higher by 7.4% as price was up 7.5 and volume grew 5.5%. Currency was a 5.6% headwind. McCormick's gross margin expanded 150 basis points to 37.0% for the period.

McCormick provided 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 \$2.62 to \$2.67, up from \$2.60 to \$2.65, \$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
<b>EPS</b>	\$1.57	\$1.69	\$1.74	\$1.89	\$2.13	\$2.49	\$2.68	\$2.83	\$3.05	\$2.52	<b>\$2.65</b>	<b>\$4.08</b>
<b>DPS</b>	\$0.68	\$0.74	\$0.80	\$0.86	\$0.94	\$1.04	\$1.14	\$1.27	\$1.36	\$1.48	<b>\$1.56</b>	<b>\$2.51</b>
<b>Shares<sup>1</sup></b>	262	257	255	251	262	264	266	267	267	270	<b>270</b>	<b>260</b>

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.

<sup>1</sup> 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 9<sup>th</sup>, 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	25.7	23.0
Avg. Yld.	2.0%	2.1%	2.0%	1.8%	1.9%	1.6%	1.3%	1.3%	1.4%	1.8%	2.3%	2.7%

Shares of McCormick have decreased \$19, or 21.8%, since our July 2<sup>nd</sup>, 2023 report. Based off earnings estimates for 2023, the stock trades with a price-to-earnings ratio of 25.7. 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 2.2% 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%

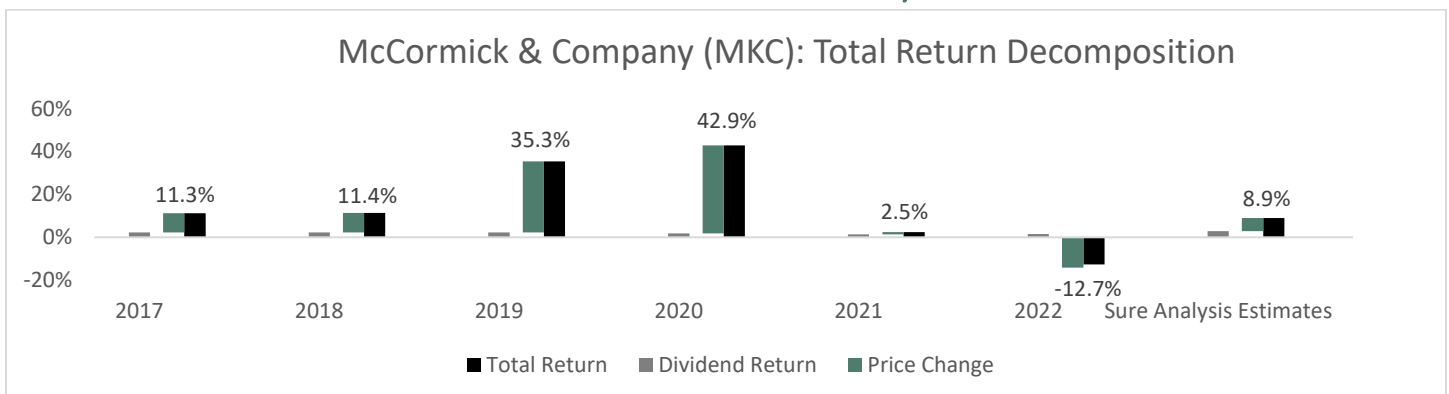
McCormick's competitive advantage stems from its 20% market share of the global market for seasonings and spices. McCormick is four times as large as its nearest competitor, which gives it unmatched size and scale. With a portfolio of popular products, the company has the ability to negotiate with retailers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

After third quarter results, McCormick & Company is expected to return 8.9% through 2028, up from our prior estimate of 3.5%. Our projected return stems from an expected annual earnings growth rate of 9% and a starting yield of 2.3%, offset by a low single-digit headwind from multiple compression. McCormick is demonstrating pricing power, but volume declined in nearly every aspect of the business. However, shares are now much closer to our medium-term valuation estimate following the recent sell-off. We also note that the current dividend yield is higher than usual for the stock. We have increased our five-year price target \$1 to \$94, 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
<b>Revenue</b>	4,123	4,243	4,296	4,412	4,730	5,303	5,347	5,601	6,318	6,351
<b>Gross Profit</b>	1,666	1,730	1,737	1,832	1,794	2,093	2,145	2,300	2,495	2,275
<b>Gross Margin</b>	40.4%	40.8%	40.4%	41.5%	37.9%	39.5%	40.1%	41.1%	39.5%	35.8%
<b>SG&amp;A Exp.</b>	1,090	1,122	1,127	1,175	1,031	1,163	1,167	1,282	1,404	1,357
<b>D&amp;A Exp.</b>	106	103	106	109	125	151	159	165	186	201
<b>Operating Profit</b>	576	608	610	657	763	930	979	1,019	1,091	917
<b>Operating Margin</b>	14.0%	14.3%	14.2%	14.9%	16.1%	17.5%	18.3%	18.2%	17.3%	14.4%
<b>Net Profit</b>	389	438	402	472	477	933	703	747	755	682
<b>Net Margin</b>	9.4%	10.3%	9.3%	10.7%	10.1%	17.6%	13.1%	13.3%	12.0%	10.7%
<b>Free Cash Flow</b>	365	371	462	504	633	652	773	816	550	390
<b>Income Tax</b>	134	146	131	153	151	(157)	157	175	193	169

## Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
<b>Total Assets</b>	4,450	4,414	4,473	4,636	10,386	10,256	10,362	12,090	12,906	13,125
<b>Cash &amp; Equivalents</b>	63	77	113	118	187	97	155	424	352	334
<b>Accounts Receivable</b>	496	494	455	465	555	518	503	529	550	574
<b>Inventories</b>	677	714	711	756	793	786	801	1,033	1,182	1,340
<b>Goodwill &amp; Int. Ass.</b>	2,132	2,053	2,131	2,196	7,561	7,445	7,429	8,342	8,929	8,761
<b>Total Liabilities</b>	2,502	2,605	2,786	2,998	7,815	7,074	6,905	8,150	8,480	8,426
<b>Accounts Payable</b>	387	372	412	451	640	710	847	1,032	1,064	1,171
<b>Long-Term Debt</b>	1,233	1,285	1,394	1,447	5,027	4,696	4,324	4,904	5,283	5,150
<b>Shareholder's Equity</b>	1,933	1,792	1,670	1,627	2,560	3,171	3,444	3,926	4,411	4,681
<b>LTD/E Ratio</b>	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
<b>Return on Assets</b>	9.0%	9.9%	9.0%	10.4%	6.4%	9.0%	6.8%	6.7%	6.0%	5.2%
<b>Return on Equity</b>	21.5%	23.5%	23.2%	28.7%	22.8%	32.6%	21.2%	20.3%	18.1%	15.0%
<b>ROIC</b>	12.9%	14.0%	13.0%	15.3%	8.9%	12.1%	9.0%	9.0%	8.1%	7.0%
<b>Shares Out.</b>	262	257	255	251	262	264	266	267	267	270
<b>Revenue/Share</b>	15.43	16.20	16.63	17.23	18.42	19.90	19.95	20.81	23.41	23.50
<b>FCF/Share</b>	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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