



# McCormick & Company (MKC)

Updated January 26<sup>th</sup>, 2024 by Nathan Parsh

## Key Metrics

<b>Current Price:</b>	\$69	<b>5 Year CAGR Estimate:</b>	9.4%	<b>Market Cap:</b>	\$18.5 B
<b>Fair Value Price:</b>	\$70	<b>5 Year Growth Estimate:</b>	7.0%	<b>Ex-Dividend Date:</b>	04/05/24 <sup>1</sup>
<b>% Fair Value:</b>	99%	<b>5 Year Valuation Multiple Estimate:</b>	0.2%	<b>Dividend Payment Date:</b>	04/24/24 <sup>2</sup>
<b>Dividend Yield:</b>	2.4%	<b>5 Year Price Target</b>	\$98	<b>Years Of Dividend Growth:</b>	38
<b>Dividend Risk Score:</b>	B	<b>Retirement Suitability Score:</b>	B	<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 November 28<sup>th</sup>, 2023, McCormick announced that it was increasing its quarterly dividend 7.7% to \$0.42, extending the company's dividend growth streak to 38 consecutive years.

On January 25<sup>th</sup>, 2024, McCormick reported results for the fourth quarter and full year for the period ending November 30<sup>th</sup>, 2023. For the quarter, revenue improved 3.6% to \$1.75 billion, which was \$50 million below estimates. Adjusted earnings-per-share of \$0.85 compared favorably to \$0.73 in the prior year and was \$0.06 better than expected. For the year, revenue grew 5% to \$3.81 billion while adjusted earnings-per-share of \$2.52 was unchanged.

For the quarter, pricing was a favorable 5.2% while currency was a 1.5% tailwind to results. This was partially offset by a 3.1% 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 once again by 1.0%. Pricing (+3.8%) and a currency benefit (+1.0%) were offset by volume/mix (-3.8%). The Americas declined 4.5%, as pricing was not enough to offset weaker demand. EMEA continues to perform well, with sales higher by 18.5%. Currency was a high single-digit benefit, but pricing also added 12.9%.

Volume was down almost 4%. Asia/Pacific rebounded completely from a weak prior quarter as sales grew 28%. Volume was up more than 25% and pricing acted as a 5.8% tailwind. A recovery in China drove results for this region. Flavor Solutions also continues to rebound from the Covid-19 pandemic as sales were up 7.0% for the quarter. Pricing (+7.4%) and currency (+2.2%) were partially offset by lower volume and mix (-2.0%) and divestitures (-0.6%). The Americas were up 7.1%, mostly due to price increases. Volume was down slightly for the quarter. EMEA improved 8.7% as a 13.5% improvement in prices was offset by an 8.5% drop in volume and mix and a 2.9% headwind from divestitures.

Asia/Pacific was higher by 3.5% as price was up 6.5% and volume declined 1.4%. McCormick's gross margin expanded 320 basis points to 40.0% for the period. This was a 300 basis point improvement sequentially.

McCormick provided guidance for 2024 as well. The company expects revenue to be in a range of down 2% to flat compared to 2023. Adjusted earnings-per-share is projected to be in a range of \$2.76 to \$2.81. We have initiated our estimates accordingly.

## Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
<b>EPS</b>	\$1.69	\$1.74	\$1.89	\$2.13	\$2.49	\$2.68	\$2.83	\$3.05	\$2.52	\$2.52	<b>\$2.79</b>	<b>\$3.91</b>
<b>DPS</b>	\$0.74	\$0.80	\$0.86	\$0.94	\$1.04	\$1.14	\$1.27	\$1.36	\$1.48	\$1.56	<b>\$1.68</b>	<b>\$2.36</b>
<b>Shares<sup>3</sup></b>	257	255	251	262	264	266	267	267	270	270	<b>270</b>	<b>265</b>

<sup>1</sup> Estimated ex-dividend date

<sup>2</sup> Estimated dividend payment date

<sup>3</sup> Share count in millions

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



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Prior to 2022, McCormick had increased earnings-per-share every year for the past ten years. Since 2014, earnings have increased at an average of 4.5% 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 aid earnings growth going forward. However, we have lowered our projected annual earnings growth rate to 7% from 9% through 2029.

The new annualized dividend of \$1.68 per share equates to a 2.4% yield at current prices. We assume dividends will grow by 7% annually through 2029.

## Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	20.6	22.5	25.1	22.9	23.3	28.3	33.8	31.7	32.9	25.7	<b>24.7</b>	<b>25.0</b>
Avg. Yld.	2.1%	2.0%	1.8%	1.9%	1.6%	1.3%	1.3%	1.4%	1.8%	2.4%	<b>2.4%</b>	<b>2.4%</b>

Shares of McCormick have increased \$1, or 1.5%, since our October 3<sup>rd</sup>, 2023 report. Based off earnings estimates for 2024, the stock trades with a price-to-earnings ratio of 24.7. We are raising our 2029 price-to-earnings target to 25 to better reflect 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 2029, then valuation would be a 0.2% tailwind to annual returns over this period.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	44%	46%	46%	44%	42%	43%	45%	45%	59%	62%	<b>60%</b>	<b>60%</b>

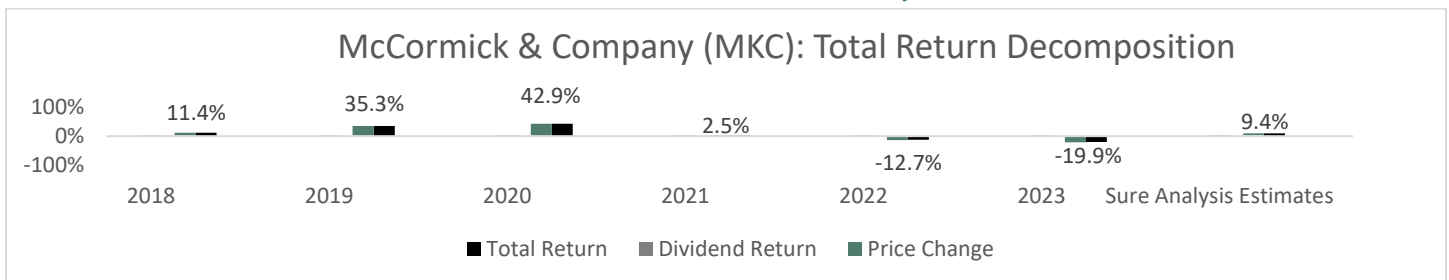
McCormick's competitive advantage stems from its 20% market share of the global market for seasonings and spices. McCormick is four times as large as its nearest competitor, which gives it unmatched size and scale. With a portfolio of popular products, the company has the ability to negotiate with retailers 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 fourth quarter results, McCormick & Company is expected to return 9.4% through 2029, up from our prior estimate of 8.9%. Our projected return stems from an expected annual earnings growth rate of 7%, a starting yield of 2.4%, and a small contribution from multiple expansion. McCormick's pricing power remains on display and guidance for 2024 shows that the company expects earnings growth for the year. We also note that the current dividend yield is higher than usual for the stock. We have increased our five-year price target \$4 to \$98, but maintain our hold rating on shares of McCormick due to projected results. On a further pullback, we would find the stock more attractive.

## Total Return Breakdown by Year



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## Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
<b>Revenue</b>	4,243	4,296	4,412	4,730	5,303	5,347	5,601	6,318	6,351	6,662
<b>Gross Profit</b>	1,730	1,737	1,832	1,794	2,093	2,145	2,300	2,495	2,275	2,503
<b>Gross Margin</b>	40.8%	40.4%	41.5%	37.9%	39.5%	40.1%	41.1%	39.5%	35.8%	37.6%
<b>SG&amp;A Exp.</b>	1,122	1,127	1,175	1,031	1,163	1,167	1,282	1,404	1,357	1,478
<b>D&amp;A Exp.</b>	103	106	109	125	151	159	165	186	201	199
<b>Operating Profit</b>	608	610	657	763	930	979	1,019	1,091	917	1,024
<b>Operating Margin</b>	14.3%	14.2%	14.9%	16.1%	17.5%	18.3%	18.2%	17.3%	14.4%	15.4%
<b>Net Profit</b>	438	402	472	477	933	703	747	755	682	681
<b>Net Margin</b>	10.3%	9.3%	10.7%	10.1%	17.6%	13.1%	13.3%	12.0%	10.7%	10.2%
<b>Free Cash Flow</b>	371	462	504	633	652	773	816	550	390	973
<b>Income Tax</b>	146	131	153	151	(157)	157	175	193	169	175

## Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
<b>Total Assets</b>	4,414	4,473	4,636	10,386	10,256	10,362	12,090	12,906	13,125	12,862
<b>Cash &amp; Equivalents</b>	77	113	118	187	97	155	424	352	334	167
<b>Accounts Receivable</b>	494	455	465	555	518	503	529	550	574	588
<b>Inventories</b>	714	711	756	793	786	801	1,033	1,182	1,340	1,127
<b>Goodwill &amp; Int. Ass.</b>	2,053	2,131	2,196	7,561	7,445	7,429	8,342	8,929	8,761	8,777
<b>Total Liabilities</b>	2,605	2,786	2,998	7,815	7,074	6,905	8,150	8,480	8,426	7,779
<b>Accounts Payable</b>	372	412	451	640	710	847	1,032	1,064	1,171	1,119
<b>Long-Term Debt</b>	1,285	1,394	1,447	5,027	4,696	4,324	4,904	5,283	5,150	4,411
<b>Shareholder's Equity</b>	1,792	1,670	1,627	2,560	3,171	3,444	3,926	4,411	4,681	5,061
<b>LTD/E Ratio</b>	0.72	0.83	0.89	1.96	1.48	1.26	1.25	1.20	1.10	0.87

## Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
<b>Return on Assets</b>	9.9%	9.0%	10.4%	6.4%	9.0%	6.8%	6.7%	6.0%	5.2%	5.2%
<b>Return on Equity</b>	23.5%	23.2%	28.7%	22.8%	32.6%	21.2%	20.3%	18.1%	15.0%	14.0%
<b>ROIC</b>	14.0%	13.0%	15.3%	8.9%	12.1%	9.0%	9.0%	8.1%	7.0%	7.0%
<b>Shares Out.</b>	257	255	251	262	264	266	267	267	270	270
<b>Revenue/Share</b>	16.20	16.63	17.23	18.42	19.90	19.95	20.81	23.41	23.50	24.69
<b>FCF/Share</b>	1.42	1.79	1.97	2.46	2.45	2.88	3.03	2.04	1.44	3.61

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

### Disclaimer

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