



# McCormick & Company (MKC)

Updated April 17<sup>th</sup>, 2024 by Nathan Parsh

## Key Metrics

<b>Current Price:</b>	\$72	<b>5 Year CAGR Estimate:</b>	8.8%	<b>Market Cap:</b>	\$19.2 B
<b>Fair Value Price:</b>	\$71	<b>5 Year Growth Estimate:</b>	7.0%	<b>Ex-Dividend Date:</b>	04/05/24
<b>% Fair Value:</b>	102%	<b>5 Year Valuation Multiple Estimate:</b>	-0.3%	<b>Dividend Payment Date:</b>	04/22/24
<b>Dividend Yield:</b>	2.3%	<b>5 Year Price Target</b>	\$99	<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 March 26<sup>th</sup>, 2024, McCormick announced first quarter results for the period ending February 29<sup>th</sup>, 2024. For the quarter, revenue grew 3% to \$1.75 billion, which was \$51 million better than expected. Adjusted earnings-per-share of \$0.63 compared favorably to \$0.59 in the prior year and was \$0.06 above estimates.

For the quarter, pricing was a favorable 2.7% while currency was a 0.9% tailwind to results. This was partially offset by a 1.0% decline in volume and mix and a 0.2% decrease related to divestitures. The Consumer segment's return to growth continued, with net sales growing by 1.3%. This was a 0.3% improvement on a sequential basis as well. Pricing (+2.9%) and a currency benefit (+0.6%) were offset by volume/mix (-2.2%). The Americas were up 0.1%, but this was an improvement from a decline of 4.5% in the fourth quarter of 2023. EMEA continues to perform well, with sales up 13.3%. Currency was a mid-single-digit benefit, but pricing also added 5.3% while volume and mix increased 2.9%. Asia/Pacific was down 7.4%, mostly due to weakness in China. Elsewhere, this region saw broad-based growth. Flavor Solutions also continues to rebound from the Covid-19 pandemic as sales were higher by 3.8% for the quarter. Pricing (+2.4%), volume and mix (+0.7%), and currency (+1.3%) were partially offset by divestitures (-0.6%). The Americas were up 4.7%, due to incremental increases in both price and volume and mix. EMEA grew 1.8% as price offset weakness in volume. Divestitures also impacted results. Asia/Pacific was higher by 1.5% as price was up 3.5% and volume and mix grew 1.0%. McCormick's gross margin expanded 140 basis points to 37.4% for the period. This was, however, a 260 basis points decline sequentially.

McCormick provided revised guidance for 2024 as well. The company still expects revenue to be in a range of down 2% to flat compared to 2023. Adjusted earnings-per-share are now projected to be in a range of \$2.80 to \$2.85, compared to a prior outlook of \$2.76 to \$2.81. We have updated 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>\$2.83</b>	<b>\$3.97</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>1</sup></b>	257	255	251	262	264	266	267	267	270	270	<b>268</b>	<b>265</b>

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,

<sup>1</sup> Share count in millions

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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 2.3% 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	25.4	25.0
Avg. Yld.	2.1%	2.0%	1.8%	1.9%	1.6%	1.3%	1.3%	1.4%	1.8%	2.4%	2.3%	2.4%

Shares of McCormick have increased \$3, or 4.3%, since our January 26<sup>th</sup>, 2024 report. Based off earnings estimates for 2024, the stock trades with a price-to-earnings ratio of 25.4. We are reaffirming our 2029 price-to-earnings ratio target of 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 0.3% headwind 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%	59%	59%

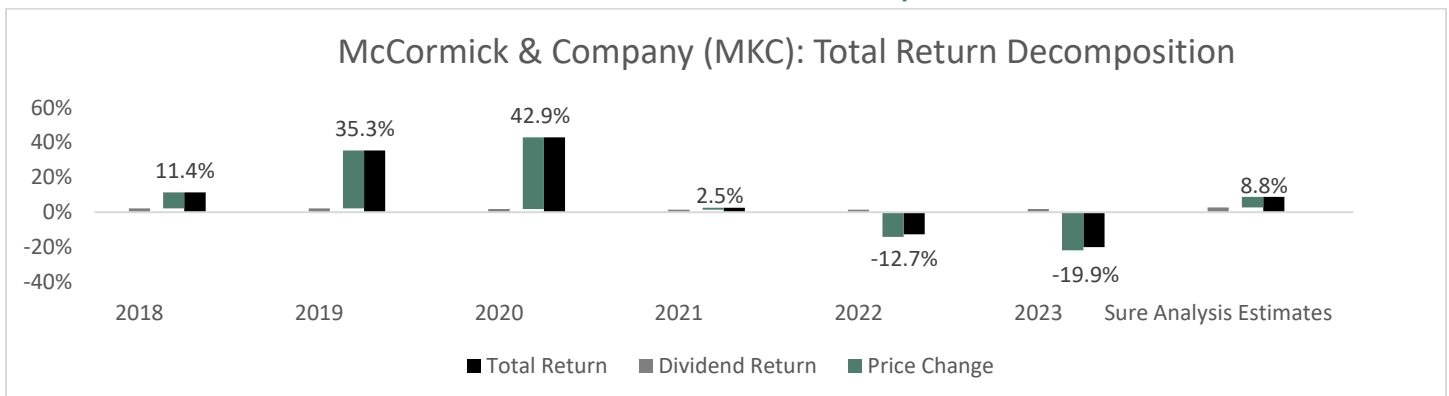
McCormick's competitive advantage stems from its 20% market share of the global market for seasonings and spices. McCormick is four times as large as its nearest competitor, which gives it unmatched size and scale. With a portfolio of popular products, the company has the ability to negotiate with retailers 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 first quarter results, McCormick & Company is expected to return 8.8% through 2029, down from our prior estimate of 9.4%. Our projected return stems from an expected annual earnings growth rate of 7% and a starting yield of 2.3%, offset by a small headwind from multiple contraction. McCormick's pricing power remains on display and the volume declines appear to be softening. 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 \$99, 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	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.

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