



McCormick & Company (MKC)

Updated June 30th, 2024 by Nathan Parsh

Key Metrics

Current Price:	\$71	5 Year CAGR Estimate:	9.1%	Market Cap:	\$19 B
Fair Value Price:	\$71	5 Year Growth Estimate:	7.0%	Ex-Dividend Date:	07/08/24
% Fair Value:	100%	5 Year Valuation Multiple Estimate:	-0.1%	Dividend Payment Date:	07/22/24
Dividend Yield:	2.4%	5 Year Price Target	\$99	Years Of Dividend Growth:	38
Dividend Risk Score:	B	Retirement Suitability Score:	B	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 November 28th, 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 June 27th, 2024, McCormick reported second quarter results for the period ending May 31st, 2024. For the quarter, revenue fell 1.2% to \$1.64 billion, but this beat estimates by \$10 million. Adjusted earnings-per-share of \$0.69 compared favorably to \$0.60 in the prior year and was \$0.10 more than expected.

For the quarter, pricing was unchanged and currency exchange had no impact on results. This was offset by a 0.7% decline in volume and mix and a 0.3% headwind related to divestitures. The Consumer segment turned negative for the period, with net sales falling 0.8%. Volume and mix (+0.3) were more than offset by lower pricing (-0.8%) and currency exchange (-0.3%). The Americas were down 1.6% mostly due to lower prices. EMEA continues to perform well, with sales up 5% as volume and mix added 3.7%. Asia/Pacific was lower by 4.8%, though this was a sequential improvement. This region once again had volume gains in areas outside of China. Flavor Solutions was lower by 1.1% for the quarter. Pricing (+1.0%) and currency exchange (+0.3%) were more than offset by volume and mix (-1.0%) and the impact from divestitures (-0.6%). The Americas declined 0.2% as higher prices were not enough to compensate for a decrease in volume and mix. EMEA fell 7.3%, mostly on due to weaker volume. Divestitures also impacted results. Asia/Pacific was higher by 5.9% as price was up 1.1% and volume and mix grew 9.2%. McCormick's gross margin expanded 60 basis points to 37.7% for the period. This was also a 30 basis points improvement sequentially.

McCormick reaffirmed prior 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 maintained our forecast as a result.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	\$1.69	\$1.74	\$1.89	\$2.13	\$2.49	\$2.68	\$2.83	\$3.05	\$2.52	\$2.52	\$2.83	\$3.97
DPS	\$0.74	\$0.80	\$0.86	\$0.94	\$1.04	\$1.14	\$1.27	\$1.36	\$1.48	\$1.56	\$1.68	\$2.36
Shares¹	257	255	251	262	264	266	267	267	270	270	269	265

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.

¹ Share count in millions

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



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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	25.1	25.0
Avg. Yld.	2.1%	2.0%	1.8%	1.9%	1.6%	1.3%	1.3%	1.4%	1.8%	2.4%	2.4%	2.4%

Shares of McCormick have decreased \$1, or 1.4%, since our April 17th, 2024 report. Based off earnings estimates for 2024, the stock trades with a price-to-earnings ratio of 25.1. 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 0.1% 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%

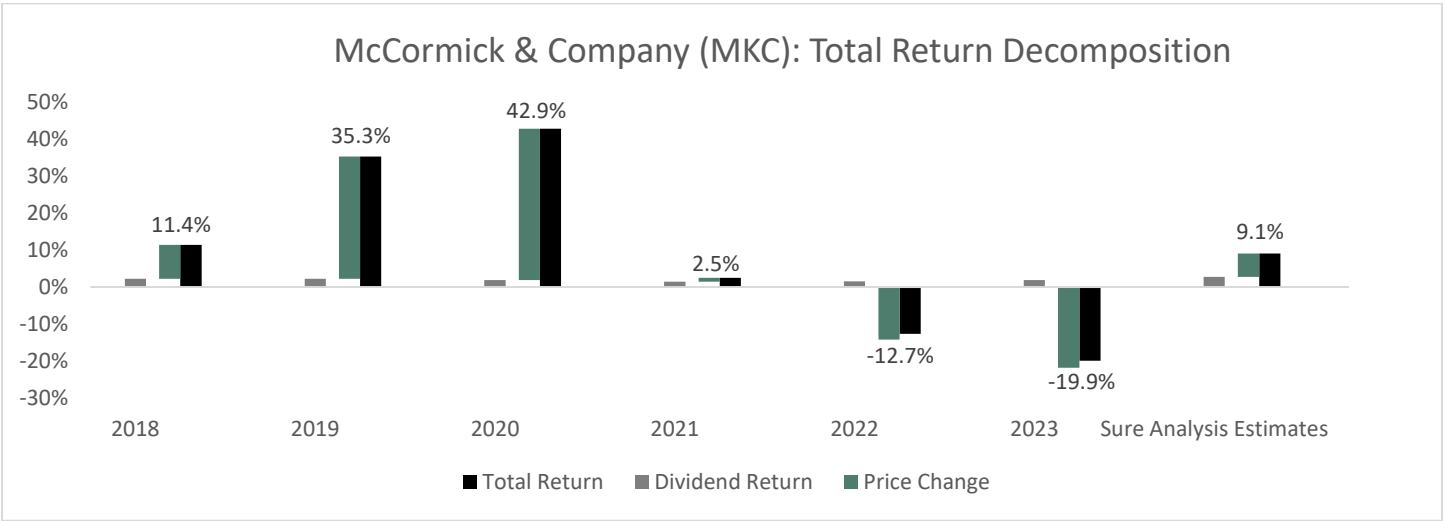
McCormick’s competitive advantage stems from its 20% market share of the global market for seasonings and spices. McCormick is four times as large as its nearest competitor, which gives it unmatched size and scale. With a portfolio of popular products, the company has the ability to negotiate with retailers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

Following second quarter results, McCormick & Company is expected to return 9.1% through 2029, down from our prior estimate of 8.8%. Our projected return stems from an expected annual earnings growth rate of 7% and a starting yield of 2.4%, offset by a small headwind from multiple contraction. McCormick had enjoyed pricing power in recent years, but that wasn’t the case in the most recent quarter as average prices were down in several areas of the company. Still, the company is a leader in its industry. We also note that the current dividend yield is higher than usual for the stock. We reaffirm our five-year price target of \$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
Revenue	4,243	4,296	4,412	4,730	5,303	5,347	5,601	6,318	6,351	6,662
Gross Profit	1,730	1,737	1,832	1,794	2,093	2,145	2,300	2,495	2,275	2,503
Gross Margin	40.8%	40.4%	41.5%	37.9%	39.5%	40.1%	41.1%	39.5%	35.8%	37.6%
SG&A Exp.	1,122	1,127	1,175	1,031	1,163	1,167	1,282	1,404	1,357	1,478
D&A Exp.	103	106	109	125	151	159	165	186	201	199
Operating Profit	608	610	657	763	930	979	1,019	1,091	917	1,024
Operating Margin	14.3%	14.2%	14.9%	16.1%	17.5%	18.3%	18.2%	17.3%	14.4%	15.4%
Net Profit	438	402	472	477	933	703	747	755	682	681
Net Margin	10.3%	9.3%	10.7%	10.1%	17.6%	13.1%	13.3%	12.0%	10.7%	10.2%
Free Cash Flow	371	462	504	633	652	773	816	550	390	973
Income Tax	146	131	153	151	(157)	157	175	193	169	175

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	4,414	4,473	4,636	10,386	10,256	10,362	12,090	12,906	13,125	12,862
Cash & Equivalents	77	113	118	187	97	155	424	352	334	167
Accounts Receivable	494	455	465	555	518	503	529	550	574	588
Inventories	714	711	756	793	786	801	1,033	1,182	1,340	1,127
Goodwill & Int. Ass.	2,053	2,131	2,196	7,561	7,445	7,429	8,342	8,929	8,761	8,777
Total Liabilities	2,605	2,786	2,998	7,815	7,074	6,905	8,150	8,480	8,426	7,779
Accounts Payable	372	412	451	640	710	847	1,032	1,064	1,171	1,119
Long-Term Debt	1,285	1,394	1,447	5,027	4,696	4,324	4,904	5,283	5,150	4,411
Shareholder's Equity	1,792	1,670	1,627	2,560	3,171	3,444	3,926	4,411	4,681	5,061
LTD/E Ratio	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
Return on Assets	9.9%	9.0%	10.4%	6.4%	9.0%	6.8%	6.7%	6.0%	5.2%	5.2%
Return on Equity	23.5%	23.2%	28.7%	22.8%	32.6%	21.2%	20.3%	18.1%	15.0%	14.0%
ROIC	14.0%	13.0%	15.3%	8.9%	12.1%	9.0%	9.0%	8.1%	7.0%	7.0%
Shares Out.	257	255	251	262	264	266	267	267	270	270
Revenue/Share	16.20	16.63	17.23	18.42	19.90	19.95	20.81	23.41	23.50	24.69
FCF/Share	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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