



McCormick & Company (MKC)

Updated October 1st, 2024 by Nathan Parsh

Key Metrics

Current Price:	\$83	5 Year CAGR Estimate:	6.0%	Market Cap:	\$22 B
Fair Value Price:	\$72	5 Year Growth Estimate:	7.0%	Ex-Dividend Date:	10/07/24
% Fair Value:	115%	5 Year Valuation Multiple Estimate:	-2.8%	Dividend Payment Date:	10/21/24
Dividend Yield:	2.0%	5 Year Price Target	\$101	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 October 1st, 2024, McCormick announced third quarter results for the period ending August 31st, 2024. For the quarter, revenue was stable at \$1.68 billion, but this beat estimates by \$10 million. Adjusted earnings-per-share of \$0.83 compared favorably to \$0.65 in the prior year and was \$0.10 more than expected.

For the quarter, volume and mix improved 0.6%. This was offset by a 0.2% decline in price, a 0.3% decrease related to acquisitions and divestitures, and a 0.4% headwind from currency translation. The Consumer segment was flat for the period. Volume and mix (+1.0) were offset by lower pricing (-0.8%) and currency exchange (-0.2%). The Americas were down 0.4% as pricing offset volume and mix improvements. EMEA continues to perform well, with sales higher by 2.9% as volume and mix added 3.5%. Asia/Pacific fell 0.9%, though this was another period of sequential improvement. This region once again had volume gains in areas outside of China. Flavor Solutions was lower by 0.7% for the quarter. Pricing (+0.4%) was offset by currency exchange (-0.5%) and the impact of divestitures (-0.5%). Volume and mix were flat. The Americas grew 1.8% due to better pricing and volume and mix. EMEA decreased 8.4%, due to the divestiture of a canning business and weaker volume demand. Asia/Pacific was down 1.3%, mostly related to currency exchange rates. McCormick's gross margin expanded 170 basis points to 38.7% for the period. This was also a 100 basis points improvement sequentially.

McCormick provided updated guidance for 2024 as well. The company now expects revenue to be in a range of down 1% to up 1% compared to 2023, up from prior guidance of down 2% to flat. Adjusted earnings-per-share are now projected to be in a range of \$2.85 to \$2.90, up from \$2.80 to \$2.85 and \$2.76 to \$2.81. We have updated 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	\$2.88	\$4.04
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	270	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 rate 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.



McCormick & Company (MKC)

Updated October 1st, 2024 by Nathan Parsh

The new annualized dividend of \$1.68 per share equates to a 2% 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	28.8	25.0
Avg. Yld.	2.1%	2.0%	1.8%	1.9%	1.6%	1.3%	1.3%	1.4%	1.8%	2.4%	2.0%	2.3%

Shares of McCormick have increased \$12, or 16.9%, since our June 30th, 2024 report. Based off earnings estimates for 2024, the stock trades with a price-to-earnings ratio of 28.8. 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 2.8% 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%	58%	58%

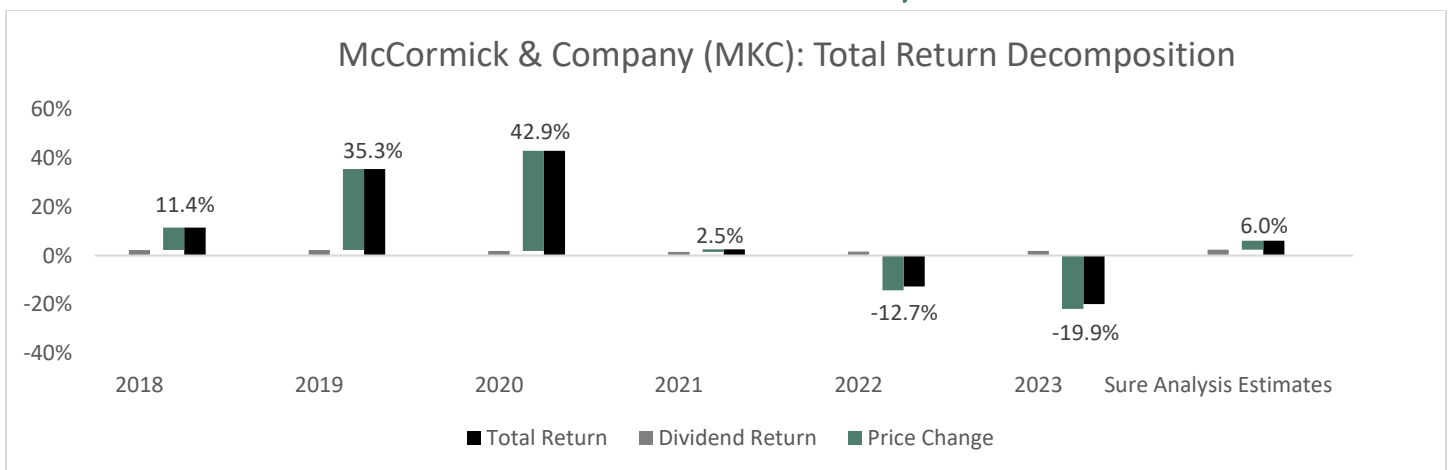
McCormick's competitive advantage stems from its 20% market share of the global market for seasonings and spices. McCormick is four times as large as its nearest competitor, which gives it unmatched size and scale. With a portfolio of popular products, the company has the ability to negotiate with retailers 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 6.0% through 2029, down from our prior estimate of 9.1%. Our projected return stems from an expected annual earnings growth rate of 7% and a starting yield of 2.0%, offset by a small headwind from multiple contraction. McCormick had enjoyed pricing power in recent years, but that was not 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 have raised our five-year price target \$2 to \$101, but maintain our hold rating on shares of McCormick due to projected results.

Total Return Breakdown by Year



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



McCormick & Company (MKC)

Updated October 1st, 2024 by Nathan Parsh

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.

Disclaimer

Nothing presented herein is, or is intended to constitute, specific investment advice. Nothing in this research report should be construed as a recommendation to follow any investment strategy or allocation. Any forward-looking statements or forecasts are based on assumptions and actual results are expected to vary from any such statements or forecasts. No reliance should be placed on any such statements or forecasts when making any investment decision. While Sure Dividend has used reasonable efforts to obtain information from reliable sources, we make no representations or warranties as to the accuracy, reliability or completeness of third-party information presented herein. No guarantee of investment performance is being provided and no inference to the contrary should be made. There is a risk of loss from an investment in marketable securities. Past performance is not a guarantee of future performance.