

McCormick & Company (MKC)

\$160.21 (As of 05/05/20)

Price Target (6-12 Months): **\$169.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 02/27/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

2-Buy

Zacks Style Scores:

VGM:F

Value: D

Growth: D

Momentum: D

Summary

McCormick's shares have outpaced the industry in the past year. The company has been gaining from its focus on cost savings and productivity enhancement through ongoing CCI program. Notably, cost savings from CCI boosted gross margin which expanded 90 bps in first-quarter fiscal 2020. Also, focus on product launches and marketing efforts bode well. However, during the first quarter, both the top and the bottom line declined year over year. Also, sales in the quarter missed the consensus mark. The impact of the COVID-19 outbreak in China reduced the company's sales growth by 3% during the quarter. Also, given the unpredictable impact of coronavirus outbreak on consumer demand globally, management has withdrawn its fiscal 2020 guidance. Apart from these, adverse currency movements were a drag on McCormick's results during the first quarter.

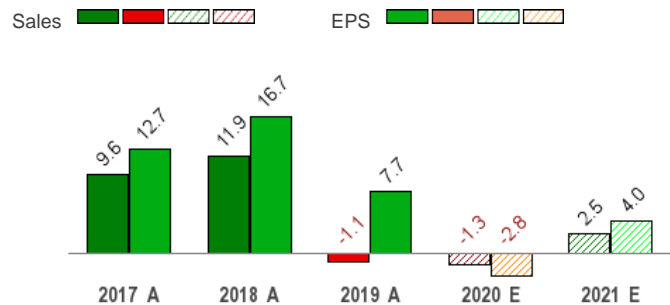
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$174.58 - \$112.23
20 Day Average Volume (sh)	648,762
Market Cap	\$21.3 B
YTD Price Change	-5.6%
Beta	0.33
Dividend / Div Yld	\$2.48 / 1.5%
Industry	Food - Miscellaneous
Zacks Industry Rank	Top 11% (28 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	4.9%
Last Sales Surprise	-1.4%
EPS F1 Est- 4 week change	0.6%
Expected Report Date	06/25/2020
Earnings ESP	5.8%
P/E TTM	30.2
P/E F1	30.8
PEG F1	3.9
P/S TTM	4.0

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	1,258 E	1,259 E	1,346 E	1,534 E	5,409 E
2020	1,212 A	1,281 E	1,295 E	1,488 E	5,276 E
2019	1,232 A	1,302 A	1,329 A	1,485 A	5,347 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$1.12 E	\$1.15 E	\$1.44 E	\$1.74 E	\$5.41 E
2020	\$1.08 A	\$1.11 E	\$1.37 E	\$1.68 E	\$5.20 E
2019	\$1.12 A	\$1.16 A	\$1.46 A	\$1.61 A	\$5.35 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 05/05/2020. The reports text is as of 05/06/2020.

Overview

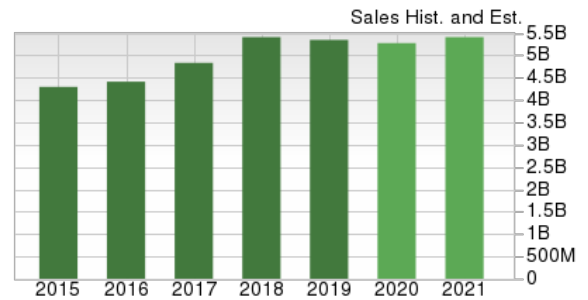
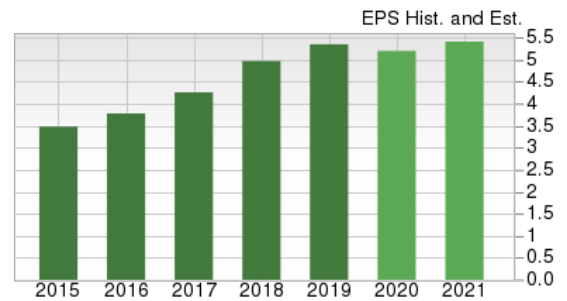
Founded in 1889 and based in Sparks, MD, McCormick & Company, Inc. is a leading manufacturer, marketer and distributor of spices, seasonings, specialty foods and flavors to the entire food industry across the globe.

The company's key sales, distribution and production facilities are located in North America and Europe. Furthermore, the company has facilities in China, Australia, Mexico, India, Singapore, Central America, Thailand and South Africa.

McCormick conducts its business through two segments – Consumer and Flavor Solutions.

The **Consumer Business** segment offers spices, herbs, extracts, seasoning blends, sauces, marinades, and specialty foods to the consumer food market. This segment primarily caters to retail outlets like grocery, mass merchandise, warehouse clubs and discount and drug stores.

The division markets its products under brand names like McCormick, Lawry's, Zatarain's, Thai Kitchen, Simply Asia and Club House in the U.S.; and Ducros, Vahine, Schwartz and Kamis in Europe; and the Middle East and Africa (EMEA). In Asia-Pacific, the primary brand is McCormick, while in India the company has a joint venture with Kohinoor.



Sales from the Consumer Business segment formed nearly 65% of the company's top line in fiscal 2019.

The **Flavor Solutions** segment sells seasoning blends, natural spices and herbs, wet flavors, coating systems, and compound flavors to food manufacturers and food service customers. The products are sold through distributors.

Sales from the Flavor Solutions segment formed nearly 35% of the company's top line in fiscal 2019.



Reasons To Buy:

▲ **CCI Program Boosts Margin:** McCormick focuses on saving costs and enhancing productivity through its ongoing Comprehensive Continuous Improvement (CCI) program. Started in 2009, McCormick's CCI program has helped the company to focus on reducing costs and enhancing productivity. It has used CCI savings to increase investments, thereby leading to higher sales and profits. Notably, McCormick achieved cost-savings of \$119 million in fiscal 2019, courtesy of the CCI program. Taking this into account, the company has realized savings of at least \$463 million since fiscal 2016, exceeding its four-year goal of \$400 million.

McCormick focuses on saving costs and enhancing productivity through its Comprehensive Continuous Improvement program. Also, it has a solid brand portfolio and regularly undertakes innovations.

Notably, cost savings from CCI boosted gross margin which expanded 90 basis points (bps) to 38.8% in first-quarter fiscal 2020. Prior to this, the metric expanded 120 bps in the fourth quarter. Further, savings from CCI also aided adjusted operating income during the first quarter. Cost savings are likely to enhance the company's profits in the future. Such efforts have been aiding the stock that has gained 4.7% in the past year, compared with the industry's decline of 5.9%.

▲ **Product Innovation & Shift toward Healthy Products:** McCormick regularly enhances products through innovation to remain competitive and tap the evolving demand for new flavors, spices and herbs. Aided by a sturdy brand image, McCormick enjoys strong retail acceptance for its new products. Notably, new products along with advancement in the base business aided the company's performance during fiscal first quarter. In fact, new products are supporting the company's performance across various market locations of the company, such as the EMEA and Americas regions.

Further, McCormick focusses on product launches to boost revenue prospects. We note that in Feb 2019, McCormick entered into a partnership with IBM to boost artificial intelligence capabilities surrounding new product development. Additionally, the company is on track to augment marketing support for the new array of products. Apart from this, the company remains well aligned with consumer demand for flavorful healthy eating and has developed a range of natural and organic offerings. In this regard, the company's Flavor Real platform offers organic, non-GMO and gluten free products.

▲ **Expansion through Acquisitions:** McCormick has strategically increased its presence through acquisitions to grow its spices and seasonings portfolio. McCormick's acquisition of the food division of RB Foods (concluded in Aug 2017) is noteworthy in this regard.. With iconic brands like Frank's RedHot, French's and Cattleman's, RB Foods is likely to continue being a profitable asset for McCormick's flavor portfolio. Notably, Frank's RedHot and French's Mustard hold important positions in the company's condiment portfolio. As a result, these brands position the company in the leading U.S. condiments category and place it well for international expansion.

Some of the other noteworthy acquisitions of the company are Italy-based Enrico GiottiSpA (Dec 2016) as well as Australia-based Botanical Food Company (April 2016). These takeovers have led to augmenting portfolio strength.

▲ **Focus on Brand Marketing to Enhance Brand Portfolio:** McCormick has a strong brand portfolio and with its brand presence of more than 150 countries. The company continues to improve brand performances through well-chalked marketing strategies. It has also been raising spending on digital marketing. In fact, through digital marketing, the company tries to connect with consumers in a personalized way to deliver recipes, provide cooking advice and discover new products.

▲ **Debt Analysis:** McCormick's long-term debt of \$3.6 billion as of the end of first-quarter fiscal 2020 (Feb 29, 2020) remained almost the same as the prior quarter. The company's debt-to-capitalization ratio of 0.51 showed a slight sequential improvement from 0.52 as of Nov 30, 2019. Apart from this, McCormick's interest expense declined 8.3% to \$35.3 million quarter over quarter. We note that the company's times interest earned ratio (as of the first-quarter end) of 6.2 was better than the previous quarter's ratio of 6. Incidentally, the times-interest-earned ratio is very important for companies, as it measures a company's ability to meet its debt obligations based on its current income. Additionally, McCormick had entered into a revolving credit facility of \$1 billion in Aug 2017, which will expire in Aug 2022.

▲ **Sustainable Shareholder Returns:** McCormick looks well placed on the dividend-payout front. At a juncture where companies are suspending dividends to preserve financial flexibility, McCormick recently paid a quarterly dividend of 62 cents per share. We note that the company's current annualized dividend rate of \$2.48 a share reflects a 9% increase from the year-ago period. Notably, McCormick has a dividend payout of 46.7%, dividend yield of 1.6% and free cash flow yield of 3.3%. With an annual free cash flow return on investment of 9.7%, ahead of the industry's nearly 7%; the dividend payment is likely to be sustainable.

Reasons To Sell:

▼ **Soft Q1 Performance:** McCormick posted first-quarter fiscal 2020 results, with adjusted earnings of \$1.08 per share declining 3.6% on a year-over-year basis. The downside was caused by lower adjusted operating income and increased adjusted income tax rate. The company generated sales of \$1,212 million, down 2% year over year. On a constant-currency (cc) basis, sales declined 1%. The impact of the COVID-19 outbreak in China reduced the company's sales growth by 3% during the quarter. Also, sales in the quarter fell short of the Zacks Consensus Estimate.

Given the unpredictable impact on consumer demand globally due to coronavirus outbreak, McCormick has withdrawn its fiscal 2020 guidance.

▼ **Currency Volatility a Worry:** The company remains exposed to volatile foreign currency translations, as it has a widespread global business and undertakes business expansion efforts frequently. Evidently, adverse currency movements were a drag on McCormick's top line by 1% during the first quarter. Clearly, volatility in exchange rates is a threat to the company's performance.

▼ **Stock Looks Overvalued:** Considering price-to-earnings (P/E) ratio, McCormick looks pretty overvalued when compared with the industry as well as the S&P 500 over a year. The stock has a trailing 12-month P/E ratio of 30.17X. The trailing 12-month P/E ratio for the industry and the S&P 500 is 16.33X and 18.3X, respectively.

▼ **Intense Competition:** McCormick operates in the highly competitive food industry. The company mainly competed with other major players on grounds of pricing, product innovation, brand recognition and loyalty, product quality, effectiveness of marketing and promotional activity, and responsiveness to consumers' changing preferences. Such competitive pressures may compel the company to lower prices, which remains a threat to its profits.

Last Earnings Report

McCormick Q1 Earnings Beat Estimates, Outlook Withdrawn

McCormick & Company, Incorporated posted first-quarter fiscal 2020 results, with the bottom line surpassing the Zacks Consensus Estimate and the top line missing the same. Both earnings and revenues declined year over year. Given the current situation related to the outbreak of coronavirus and its unpredictable impact on consumer demand globally, McCormick is withdrawing its fiscal 2020 guidance that was issued on Jan 28.

Quarter Ending **02/2020**

Report Date	Mar 31, 2020
Sales Surprise	-1.37%
EPS Surprise	4.85%
Quarterly EPS	1.08
Annual EPS (TTM)	5.31

Quarter in Detail

Adjusted earnings of \$1.08 per share dropped 3.6% on a year-over-year basis. The decline was caused by lower adjusted operating income and increased adjusted income tax rate. Fall in interest expenses failed to compensate the decline. Nevertheless, the metric surpassed the Zacks Consensus Estimate of \$1.03 per share.

This global leader of flavors and spices generated sales of \$1,212 million, down 2% year over year and including currency headwinds of 1%. On a constant-currency (cc) basis, sales declined 1%. The impact of the COVID-19 outbreak in China reduced the company's sales growth by 3% during the quarter. Also, sales in the quarter fell short of the Zacks Consensus Estimate of \$1,229 million.

Gross margin expanded 90 basis points (bps) to 38.8% on savings from the Comprehensive Continuous Improvement (CCI) program.

Adjusted operating income declined 1.9% to \$195.2 million and 1.7% at cc. Further, the adjusted operating margin contracted 10 bps to 16.1%. The downside can be attributable to adverse impact from lower China operating income due to the impact of coronavirus outbreak.

Segment Details

Consumer Business: Sales declined 6% to \$699.5 million due to weakness in the Asia Pacific region. Sales in the Americas declined 2% due to trade inventory reductions. Sales in the Asia-Pacific region declined 29% due to adverse impact from the COVID-19 outbreak in China. In the EMEA region, sales dipped 1%. In cc, sales inched up 1% mainly driven by improved pricing and timing of promotional activities in the region.

Flavor Solutions: Sales in the segment climbed 5% from the prior-year quarter's figure to \$512.5 million backed by strength in the Americas and EMEA region. Sales in the Americas advanced 6% owing to growth in the base business, contributions from new products and sustained momentum in the snacks seasoning and branded foodservice categories. Also, improved pricing also led the growth in the Americas. Sales in the EMEA region improved 9% year over year, driven by volume growth and favorable product mix. Sales in the Asia-Pacific region declined 4% owing to coronavirus outbreak in China.

Financial Update

McCormick exited the quarter with cash and cash equivalents of \$170.8 million, long-term debt of \$3,627.9 million and shareholders' equity of \$3,574.6 million. For three months ended Feb 29, net cash provided by operating activities was \$44.8 million.

McCormick's net debt-to-adjusted EBITDA ratio stood at 3.5x at the end of first-quarter fiscal 2020.

Outlook

In the consumer segment, the company is anticipating an overall increase in consumer demand during periods of pantry stocking. For its flavor segment, McCormick expects surge in demand from packaged food companies. However, the company is expecting lower demand from restaurant and other foodservice customers in the flavor segment.

To maximize flexibility amid the coronavirus crisis, management decided to moderate the pace of its business transformation investments and postponed its ERP system replacement program. Further, McCormick expects to resume fiscal 2020 guidance when it reports fiscal second-quarter results in June 2020.

Recent News

McCormick Announces Dividends – April 2, 2020

McCormick's board announced quarterly dividend of 62 cents per share, payable on April 27 to shareholders of record as of April 13.

McCormick Offers Extra Pay to Workers Amid Coronavirus – Mar 30, 2020

McCormick's announced that it will increase wages of workers who are working onsite to support the company's operations during coronavirus. The company will increase hourly wages by \$2 along with other paid leave benefits for U.S workers who work on-site. Also, management decided to continue paying salaries in case its spice and flavor production operations are suspended.

Valuation

McCormick's shares are down 5.6% in the year-to-date period and up 4.7% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Consumer Staples sector are down 13.7% and 17%, respectively in the year-to-date period. Over the past year, the Zacks sub-industry is down 5.9%, while the sector declined 12.4%.

The S&P 500 index is down 11.7% in the year-to-date period and 1.7% in the past year.

The stock is currently trading at 30.28X forward 12-month earnings, which compares to 17.69X for the Zacks sub-industry, 18.55X for the Zacks sector and 20.36X for the S&P 500 index.

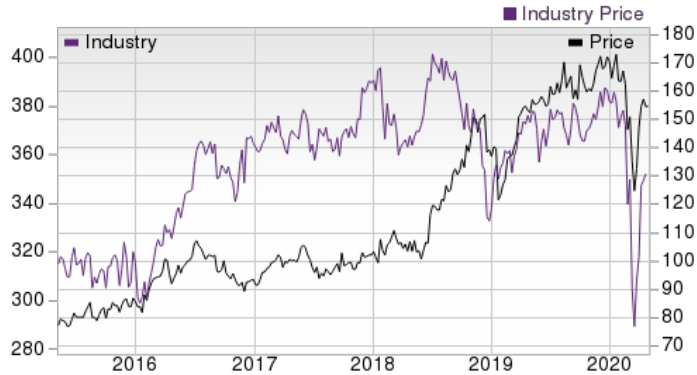
Over the past five years, the stock has traded as high as 31.98X and as low as 19.38X, with a 5-year median of 23.67X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$169 price target reflects 31.94X forward 12-month earnings.

The table below shows summary valuation data for MKC

Valuation Multiples - MKC					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	30.28	17.69	18.55	20.36
	5-Year High	31.98	22.9	22.37	20.38
	5-Year Low	19.38	14.82	16.5	15.19
	5-Year Median	23.67	18.87	19.68	17.44
P/S F12M	Current	3.99	1.58	8.7	3.2
	5-Year High	4.26	2.05	11.16	3.44
	5-Year Low	2.21	1.41	8.1	2.54
	5-Year Median	2.7	1.81	9.89	3.01
EV/EBITDA F12M	Current	18.69	13.82	34.16	12.29
	5-Year High	22.49	16.59	37.75	12.64
	5-Year Low	11.54	11.67	29.77	9.09
	5-Year Median	15.98	13.25	34.08	10.82

As of 05/05/2020

Industry Analysis Zacks Industry Rank: Top 11% (28 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
Campbell Soup Company (CPB)	Outperform	2
Flowers Foods, Inc. (FLO)	Outperform	3
The J. M. Smucker Company (SJM)	Outperform	1
Conagra Brands Inc. (CAG)	Neutral	2
General Mills, Inc. (GIS)	Neutral	2
Ingredion Incorporated (INGR)	Neutral	3
Post Holdings, Inc. (POST)	Neutral	3
TreeHouse Foods, Inc. (THS)	Neutral	3

Industry Comparison Industry: Food - Miscellaneous				Industry Peers		
	MKC	X Industry	S&P 500	CPB	POST	THS
Zacks Recommendation (Long Term)	Neutral	-	-	Outperform	Neutral	Neutral
Zacks Rank (Short Term)	2	-	-	2	3	3
VGM Score	F	-	-	B	C	A
Market Cap	21.29 B	3.36 B	19.65 B	15.35 B	6.05 B	2.88 B
# of Analysts	6	3	14	7	4	6
Dividend Yield	1.55%	0.00%	2.18%	2.75%	0.00%	0.00%
Value Score	D	-	-	A	B	B
Cash/Price	0.01	0.05	0.06	0.00	0.13	0.07
EV/EBITDA	21.65	12.63	11.77	14.17	13.49	31.35
PEG Ratio	3.85	3.48	2.49	2.54	NA	3.60
Price/Book (P/B)	5.96	2.07	2.64	6.14	1.87	1.57
Price/Cash Flow (P/CF)	24.30	11.85	10.48	13.42	8.55	8.35
P/E (F1)	30.81	17.70	19.10	18.22	21.80	19.87
Price/Sales (P/S)	4.00	1.13	2.00	1.85	1.06	0.61
Earnings Yield	3.25%	5.07%	4.99%	5.48%	4.59%	5.04%
Debt/Equity	1.01	0.62	0.74	1.97	1.93	1.23
Cash Flow (\$/share)	6.59	2.68	7.01	3.79	10.24	6.13
Growth Score	D	-	-	C	D	A
Hist. EPS Growth (3-5 yrs)	11.68%	5.03%	10.87%	-1.52%	34.78%	-10.02%
Proj. EPS Growth (F1/F0)	-2.77%	-0.31%	-9.07%	21.43%	-18.18%	7.81%
Curr. Cash Flow Growth	7.80%	5.12%	5.88%	-12.42%	5.71%	-1.33%
Hist. Cash Flow Growth (3-5 yrs)	9.99%	5.35%	8.55%	0.50%	34.52%	5.96%
Current Ratio	0.74	1.59	1.24	0.61	2.18	1.50
Debt/Capital	50.37%	38.29%	44.07%	66.31%	65.84%	55.14%
Net Margin	13.13%	4.20%	11.00%	17.46%	1.72%	-7.61%
Return on Equity	20.53%	10.33%	16.39%	50.69%	10.86%	6.26%
Sales/Assets	0.51	1.14	0.55	0.64	0.49	0.87
Proj. Sales Growth (F1/F0)	-1.33%	0.00%	-2.17%	-8.43%	0.69%	-9.63%
Momentum Score	D	-	-	F	B	A
Daily Price Chg	1.79%	0.00%	0.74%	0.20%	0.16%	0.61%
1 Week Price Chg	0.10%	0.00%	0.53%	-0.67%	-3.18%	1.10%
4 Week Price Chg	6.59%	6.59%	6.47%	8.86%	-0.49%	19.60%
12 Week Price Chg	-1.86%	-12.84%	-20.68%	4.41%	-16.41%	10.30%
52 Week Price Chg	4.65%	-11.96%	-10.95%	33.09%	-17.06%	-8.72%
20 Day Average Volume	648,762	228,482	2,492,530	2,304,002	346,366	610,125
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	-1.06%	0.00%	0.00%
(F1) EPS Est 4 week change	0.64%	0.00%	-7.39%	3.38%	-5.41%	2.18%
(F1) EPS Est 12 week change	-1.73%	-7.00%	-14.21%	10.24%	-19.49%	-2.89%
(Q1) EPS Est Mthly Chg	0.73%	0.00%	-13.52%	1.60%	-14.11%	1.69%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	D
Growth Score	D
Momentum Score	D
VGM Score	F

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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