

McCormick & Company (MKC)

\$199.05 (As of 08/06/20)

Price Target (6-12 Months): **\$209.00**

Long Term: 6-12 Months

Zacks Recommendation:
Neutral

(Since: 02/27/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:C

Value: D

Growth: B

Momentum: D

Summary

McCormick has outperformed the industry in the past three months. The company has been gaining from demand due to the coronavirus-led higher at-home consumption. This boosted its second-quarter fiscal 2020 results, wherein the top and the bottom line increased year over year and beat the consensus mark. Sales were mainly backed by strength in Consumer segment. Apart from these, the company is gaining from its focus on cost savings and productivity enhancement through ongoing CCI program. Notably, cost savings from CCI boosted gross margin, which expanded 230 bps in second-quarter. Also, focus on product launches and marketing efforts bode well. However, COVID-19 marred the company's Flavor Solution unit. During second-quarter, sales in the segment fell 18%, thanks to weakness across all regions. Also, adverse currency rates were a drag.

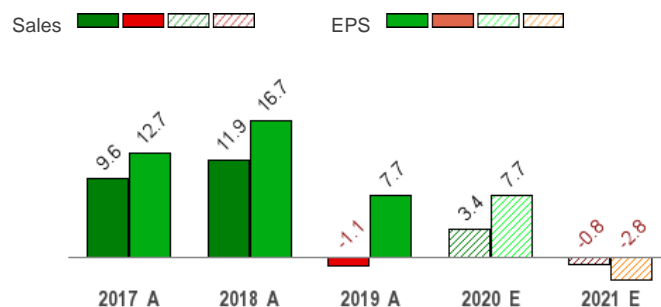
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$199.80 - \$112.23
20 Day Average Volume (sh)	464,073
Market Cap	\$26.5 B
YTD Price Change	17.3%
Beta	0.39
Dividend / Div Yld	\$2.48 / 1.2%
Industry	Food - Miscellaneous
Zacks Industry Rank	Bottom 49% (129 out of 252)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	26.7%
Last Sales Surprise	1.5%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	10/06/2020
Earnings ESP	0.0%
P/E TTM	35.4
P/E F1	34.6
PEG F1	4.3
P/S TTM	4.9

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	1,255 E	1,330 E	1,377 E	1,541 E	5,485 E
2020	1,212 A	1,401 A	1,394 E	1,521 E	5,528 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	\$1.10 E	\$1.23 E	\$1.45 E	\$1.77 E	\$5.60 E
2020	\$1.08 A	\$1.47 A	\$1.52 E	\$1.73 E	\$5.76 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 08/06/2020. The reports text is as of 08/07/2020.

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.

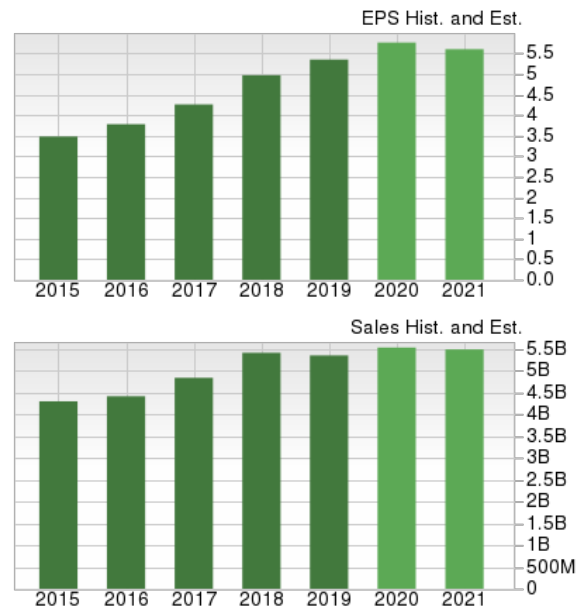
The **Consumer Business** segment offers spices, herbs, extracts, seasoning blends, sauces, marinades, and specialty foods to the consumer food market. This segment primarily caters to retail outlets like grocery, mass merchandise, warehouse clubs and discount and drug stores.

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:

▲ **Robust Q2 Performance:** Shares of McCormick have gained 21.7% in the past three months compared with the industry's growth of 9.2%. The company posted robust second-quarter fiscal 2020 results. Adjusted earnings of \$1.47 per share increased 26.7% on a year-over-year basis, on the back of higher adjusted operating income along with reduced interest expense. Moreover, the metric surpassed the Zacks Consensus Estimate. The company generated sales of \$1,401.1 million, up 7.6% year over year and surpassing the consensus mark. On a constant-currency (cc) basis, sales increased 9.6%. Sales in the quarter were driven by major growth in the Consumer segment.

Speaking on Consumer segment, sales increased 26% year over year on the back of strength in the Americas and EMEA regions. The uptick was primarily caused by higher demand stemming from at home consumption and cooking more at home amid the coronavirus outbreak. In fact, the company is anticipating an overall increase in consumer demand in this segment during periods of greater cooking at home.

▲ **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.

Notably, cost savings from CCI boosted gross margin which expanded 230 basis points (bps) to 41.4% in second-quarter fiscal 2020. Prior to this, the metric expanded 90 bps in the first quarter. Further, savings from CCI also aided adjusted operating income during the second quarter. Cost savings are likely to enhance the company's profits in the future.

▲ **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 and renovated products drove the company's performance during the fiscal second quarter. In the month of June McCormick re-launched its Old Bay hot sauce. Further, the company plans to expand its Frank's brand portfolio to offer frozen appetizers, chicken bites and dips later this year.

McCormick focuses 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 robust marketing support for its products. Apart from this, management 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.

▲ **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 8.8% increase from the year-ago period's figure. Notably, McCormick has a dividend payout of 44.1%, dividend yield of 1.2% and free cash flow yield of 3.4%. With an annual free cash flow return on investment of 10.6%, ahead of the industry's nearly 7%; the dividend payment is likely to be sustainable. Further, the company had cash and cash equivalents of \$185 million as of May 31, 2020 while current debt stands at \$173.4 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.

Reasons To Sell:

- ▼ **Sluggish Flavors Solution Unit:** During second-quarter fiscal 2020, sales in the Flavor Solution segment fell 18% from the prior-year quarter's figure, thanks to weakness across all regions. Sales in the Americas declined 15% due to major decline in sales to branded foodservice consumers as well as quick service restaurant customers. Sales in the EMEA region dropped 34% year over year. Sales in the Asia-Pacific region declined 11% due to coronavirus-induced restrictions across countries other than China.
- ▼ **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 2% during the second 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 33.71X. The trailing 12-month P/E ratio for the industry and the S&P 500 is 17.58X and 20.39X, 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.

Sluggish performance in the Flavor Solution segment along with unfavorable currency rates hurt McCormick's second-quarter fiscal 2020 results.

Last Earnings Report

McCormick Q2 Earnings Beat Estimates, Sales up

McCormick posted robust second-quarter fiscal 2020 results, with the top and the bottom line surpassing the Zacks Consensus Estimate. Moreover, earnings and sales increased on a year-over-year basis. Given the current situation related to the coronavirus outbreak and its unpredictable impact on consumer demand globally, the company refrained from providing fiscal 2020 guidance.

Quarter Ending **05/2020**

Report Date	Jun 25, 2020
Sales Surprise	1.47%
EPS Surprise	26.72%
Quarterly EPS	1.47
Annual EPS (TTM)	5.62

Quarter in Detail

Adjusted earnings of \$1.47 per share increased 26.7% on a year-over-year basis, on the back of higher adjusted operating income along with reduced interest expense. Moreover, the metric surpassed the Zacks Consensus Estimate of \$1.16 per share.

This global leader of flavors and spices generated sales of \$1,401.1 million, up 7.6% year over year and including currency headwinds of 2%. On a constant-currency (cc) basis, sales increased 9.6%. Sales in the quarter were driven by major growth in the consumer segment. Also, sales in the quarter surpassed the Zacks Consensus Estimate of \$1,381 million.

Gross margin expanded 230 basis points (bps) to 41.4% on favorable product mix as well as savings from the Comprehensive Continuous Improvement (CCI) program.

Adjusted operating income rallied 21% to \$260 million and 23% at cc. Further, the adjusted operating margin expanded 210 bps to 18.6%.

Segment Details

Consumer Business: Sales increased 26% to \$962.6 million on the back of strength in the Americas and EMEA regions. Sales in the Americas surged 36% due to broad based growth across its portfolio as well as favorable pricing action. In the EMEA region, sales increased 22%. However, sales in the Asia-Pacific region declined 18% due to adverse impact from the COVID-19 outbreak in China.

Flavor Solutions: Sales in the segment fell 18% from the prior-year quarter's figure to \$438.5 million, thanks to weakness across all regions. Sales in the Americas declined 15% due to major decline in sales to branded foodservice consumers as well as quick service restaurant customers. Sales in the EMEA region dropped 34% year over year. Sales in the Asia-Pacific region declined 11% due to coronavirus-induced restrictions across countries other than China.

Financial Update

McCormick exited the quarter with cash and cash equivalents of \$185 million, long-term debt of \$4,113.6 million and total shareholders' equity of \$3,662.3 million. For six months ended May 31, net cash provided by operating activities was \$355.5 million.

Outlook

In the consumer segment, the company is anticipating an overall increase in consumer demand during periods of greater cooking at home. For its flavor segment, McCormick expects demand from packaged food companies to same as the pre COVID-19 levels. Moreover, the company is expecting demand from restaurant and other foodservice customers to gradually recover as coronavirus induced bans are being lifted in the second half of fiscal 2020. Also, the McCormick's long-term financial objectives as well as capital allocation plans remain the same.

Recent News

McCormick Announces Dividend – Jun 24, 2020

McCormick's board announced quarterly dividend of 62 cents per share, payable on Jul 20 to shareholders of record as of Jul 6.

McCormick Extends Incentive Payments - May 29, 2020

McCormick intends to extend its premium pay incentives till June - for its onsite U.S. workers who are required to keep the food supply operations flowing. Management said that the employees will get an additional pay of \$2.00 per hour, and the company continues to keep its hiring process going amid the pandemic-led crisis.

Valuation

McCormick's shares are up 18.2% in the year-to-date period and 24.5% over the trailing 12-month period. Stocks in the Zacks sub-industry are down 2.9% in the year-to-date period, while the Zacks Consumer Staples sector is down 6.4%. Over the past year, the Zacks sub-industry is up 5.4%, while the sector declined 3.5%.

The S&P 500 index is up 4.4% in the year-to-date period and 15.7% in the past year.

The stock is currently trading at 35.21X forward 12-month earnings, which compares to 18.9X for the Zacks sub-industry, 19.94X for the Zacks sector and 22.69X for the S&P 500 index.

Over the past five years, the stock has traded as high as 35.21X and as low as 19.38X, with a 5-year median of 24.13X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$209 price target reflects 36.97X 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	35.21	18.9	19.94	22.69
	5-Year High	35.21	22.9	22.37	22.69
	5-Year Low	19.38	14.82	16.63	15.25
	5-Year Median	24.13	18.54	19.57	17.55
P/S F12M	Current	4.82	1.69	9.44	3.63
	5-Year High	4.82	2.05	11.15	3.63
	5-Year Low	2.21	1.41	8.1	2.53
	5-Year Median	2.75	1.76	9.89	3.04
EV/EBITDA F12M	Current	25.48	13.15	32.76	13.21
	5-Year High	25.48	14.68	37.28	14.2
	5-Year Low	13.9	10.95	25.89	9.15
	5-Year Median	16.61	13.17	33.7	11

As of 08/06/2020

Industry Analysis Zacks Industry Rank: Bottom 49% (129 out of 252)



Top Peers

Company (Ticker)	Rec	Rank
The Kraft Heinz Company (KHC)	Outperform	2
BG Foods, Inc. (BGS)	Neutral	2
Flowers Foods, Inc. (FLO)	Neutral	2
Ingredion Incorporated (INGR)	Neutral	3
Lamb Weston Holdings Inc. (LW)	Neutral	4
Post Holdings, Inc. (POST)	Neutral	4
TateLyle PLC (TATYY)	Neutral	3
TreeHouse Foods, Inc. (THS)	Neutral	2

Industry Comparison Industry: Food - Miscellaneous				Industry Peers		
	MKC	X Industry	S&P 500	BGS	INGR	POST
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	2	3	4
VGM Score	C	-	-	B	C	C
Market Cap	26.52 B	3.81 B	23.20 B	1.88 B	5.22 B	6.25 B
# of Analysts	6	3	14	3	1	4
Dividend Yield	1.25%	0.00%	1.78%	6.48%	3.23%	0.00%
Value Score	D	-	-	B	B	B
Cash/Price	0.01	0.07	0.07	0.10	0.05	0.20
EV/EBITDA	26.63	12.83	13.21	12.99	8.15	14.19
PEG Ratio	4.32	3.70	2.94	NA	NA	NA
Price/Book (P/B)	7.24	2.31	3.12	2.30	1.96	2.21
Price/Cash Flow (P/CF)	30.19	11.97	12.27	10.43	7.79	8.95
P/E (F1)	34.58	18.07	21.69	13.24	12.08	29.94
Price/Sales (P/S)	4.89	1.29	2.48	1.02	0.89	1.07
Earnings Yield	2.89%	4.87%	4.39%	7.57%	8.28%	3.34%
Debt/Equity	1.12	0.57	0.77	2.33	0.85	2.50
Cash Flow (\$/share)	6.59	2.81	6.94	2.81	10.01	10.24
Growth Score	B	-	-	C	D	D
Hist. EPS Growth (3-5 yrs)	12.19%	5.45%	10.46%	-0.35%	2.36%	31.08%
Proj. EPS Growth (F1/F0)	7.73%	4.73%	-6.80%	35.16%	-3.01%	-37.68%
Curr. Cash Flow Growth	7.80%	4.39%	5.39%	-0.56%	-10.22%	5.71%
Hist. Cash Flow Growth (3-5 yrs)	9.99%	6.08%	8.55%	4.81%	2.71%	34.52%
Current Ratio	1.02	1.61	1.33	3.12	2.20	3.23
Debt/Capital	52.90%	37.17%	44.50%	69.95%	45.82%	71.45%
Net Margin	13.74%	2.44%	10.13%	6.22%	5.92%	-2.35%
Return on Equity	21.34%	9.79%	14.39%	15.65%	15.63%	9.54%
Sales/Assets	0.52	1.02	0.51	0.55	0.96	0.49
Proj. Sales Growth (F1/F0)	3.38%	0.00%	-1.51%	16.17%	0.00%	0.99%
Momentum Score	D	-	-	D	B	D
Daily Price Chg	0.91%	0.00%	-0.04%	-3.30%	-0.71%	0.17%
1 Week Price Chg	0.71%	0.32%	0.14%	10.34%	-0.97%	1.42%
4 Week Price Chg	8.27%	5.80%	7.78%	20.00%	-0.61%	6.15%
12 Week Price Chg	13.41%	11.28%	17.48%	23.69%	-0.27%	9.45%
52 Week Price Chg	22.70%	0.59%	0.68%	49.54%	0.59%	-7.89%
20 Day Average Volume	464,073	159,073	2,057,775	1,175,796	437,563	341,069
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	5.06%	0.00%	0.00%
(F1) EPS Est 4 week change	0.00%	0.00%	1.36%	0.76%	0.00%	-1.18%
(F1) EPS Est 12 week change	10.80%	1.99%	1.57%	7.09%	-1.98%	-11.75%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.54%	-6.37%	NA	-3.19%

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	B
Momentum Score	D
VGM Score	C

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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