McCormick & Company (MKC)

$171.15 (As of 01/21/20)

Price Target (6-12 Months): **$180.00**

Long Term: 6-12 Months	**Zacks Recommendation:** (Since: 05/27/19) Prior Recommendation: Outperform	**Neutral**
Short Term: 1-3 Months	**Zacks Rank:** (1-5)	**3-Hold**
	Zacks Style Scores:	VGM:B
	Value: D | Growth: B | Momentum: A	

Summary

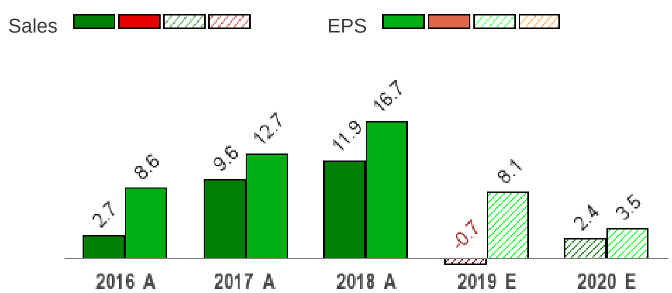
McCormick's shares have outpaced the industry in the past year. The upside was mainly driven by robust-savings initiatives, a strong base business and yielding product launches. Speaking of saving efforts, gains from the CCI program fueled adjusted operating income in third-quarter fiscal 2019. Further, earnings improved year on year and surpassed the Zacks Consensus Estimate. Also, the company's top line remained sturdy driven by growth in Consumer Business unit. Notably, McCormick is on track with product launches, exploring buyout opportunities and boosting marketing support for its brands. On the flip side, we note that adverse currency fluctuations have put pressure on the company's top- and bottom-line performances that was witnessed during the fiscal third quarter. Such headwinds are likely to persist in fiscal 2019.

Price, Consensus & Surprise

Data Overview

52 Week High-Low	$173.31 - $119.00
20 Day Average Volume (sh)	646,420
Market Cap	$22.7 B
YTD Price Change	0.8%
Beta	0.13
Dividend / Div Yld	$2.48 / 1.4%
Industry	Food - Miscellaneous
Zacks Industry Rank	Top 32% (81 out of 255)
Last EPS Surprise	13.2%
Last Sales Surprise	-0.5%
EPS F1 Est- 4 week change	0.2%
Expected Report Date	01/28/2020
Earnings ESP	-1.1%
P/E TTM	31.6
P/E F1	30.8
PEG F1	3.9
P/S TTM	4.2

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2020	1,265 E	1,339 E	1,369 E	1,560 E	5,501 E
2019	1,232 A	1,302 A	1,329 A	1,510 E	5,372 E
2018	1,237 A	1,327 A	1,345 A	1,499 A	5,409 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	$1.10 E	$1.18 E	$1.44 E	$1.78 E	$5.56 E
2019	$1.12 A	$1.16 A	$1.46 A	$1.63 E	$5.37 E
2018	$1.00 A	$1.02 A	$1.28 A	$1.67 A	$4.97 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 01/21/2020. The reports text is as of 01/22/2020.

Overview

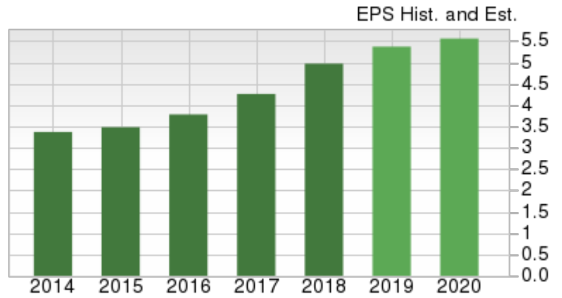
Founded in 1889 and based in Sparks, MD, McCormick & Company, Inc. is a leading manufacturer, marketer and distributor of spices, seasonings, specialty foods and flavors to the entire food industry across the globe.

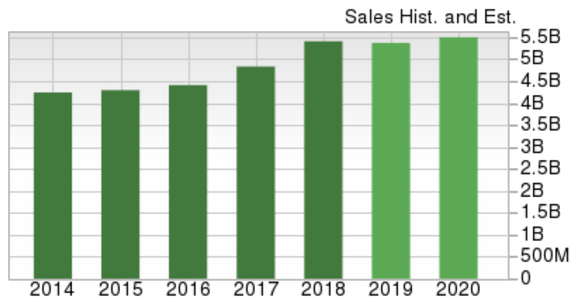
The company's key sales, distribution and production facilities are located in North America and Europe. Furthermore, the company has facilities in China, Australia, Mexico, India, Singapore, Central America, Thailand and South Africa.

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 59.8% of the company's top line in the third quarter of 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 40.2% of the company's top line in the third quarter of fiscal 2019.

Reasons To Buy:

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.

- **CCI Program Boosts Margins & Earnings:** 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. Cost savings through CCI and streamlining actions reached a record of $118 million in fiscal 2018, up from $117 million in fiscal 2017, $109 million in fiscal 2016, $98 million in 2015 and $69 million in 2014. Notably, cost savings from CCI boosted adjusted operating income in the first, the second and the third quarters of fiscal 2019. During the third quarter, the metric advanced nearly 9% year on year (up 10% at constant currency). Further, adjusted operating income margin expanded 160 basis points (bps) in the said quarter. This in turn boosted the bottom line, which improved year on year and surpassed the Zacks Consensus Estimate. This marks the company's third consecutive bottom-line beat. Moreover, the CCI program also supported gross-margin growth in the third quarter, which expanded nearly 100 bps.

  Going ahead, McCormick continues to expect gaining from its savings efforts. In fact, the company projects cost savings worth $110 million in fiscal 2019, which will be utilized for enhancing margins, sponsoring growth-oriented investments and offsetting high costs. Such upsides along with the company's strong base business, adorned by well-known brands, have been boosting investors' optimism. The stock has gained 24.9% in the past year compared with the industry's rise of 15.4%.

- **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, the company's performance in the first, the second and the third quarter of fiscal 2019 gained from new products along with advancement in the base business. In fact, new products are boosting the company's performance across some key market locations of the company, such as the Americas and Asia-Pacific regions.

  Further, McCormick focusses on product launches to boost revenue prospects. We note that in February 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 launched. Health and wellness also continue to drive the innovation agenda. In fact, the company remains well aligned with consumer demand for flavorful healthy eating, and has developed a range of natural and organic offerings. Moreover, the company has relaunched the Flavor Real platform to introduce organic, non-GMO and better-for-you products.

- **Expansion through Acquisitions:** McCormick is strategically increasing its presence through acquisitions in order to grow its spices and seasonings portfolio. McCormick's acquisition of the food division of RB Foods, a British consumer products company, in August 2017, is the largest deal for the company till date. With iconic brands like Frank's RedHot Hot Sauce and French's Mustard, French's Crispy Vegetables and Cattlemen's BBQ Sauce, RB Foods is likely to continue being a profitable asset for McCormick's spices portfolio. Notably, Frank's RedHot and French's Mustard hold noteworthy positions in their respective categories in the United States and Canada. As a result, these brands position the company in the leading U.S. condiments category and place it well for international expansion. Moreover, the company's new products under these banners have been doing well.

  Some of the other noteworthy acquisitions of the company are Italy-based Enrico Giotti SpA (Dec 2016) as well as Australia-based Botanical Food Company (April 2016). These takeovers have also led to augmenting portfolio strength. Going ahead, management expects to continue exploring acquisition opportunity as such moves are a vital part of the company's long-term growth strategies.

- **Focus on Brand Marketing to Enhance Brand Portfolio:** McCormick has a strong brand portfolio and owns more than 250 brands that are sold in the U.S. and international markets. 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.

Reasons To Sell:

Currency volatility is a headwind for McCormick. This put pressure on the company's top- and bottom-line results in the third quarter of fiscal 2019.

- **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 31.64X. The trailing 12-month P/E ratio for the industry and the S&P 500 is 19.34X and 20.83X, respectively.

- **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 and bottom lines in the first, the second and the third quarter of fiscal 2019. Management had earlier predicted such headwinds to adversely impact net sales, adjusted operating income and the bottom line in fiscal 2019. Clearly, volatility in exchange rates is a considerable threat to the company's performance.

- **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's Q3 Earnings Beat Estimates, Sales Rise Y/Y

Quarter Ending	08/2019
Report Date	Oct 01, 2019
Sales Surprise	-0.49%
EPS Surprise	13.18%
Quarterly EPS	1.46
Annual EPS (TTM)	5.41

McCormick posted third-quarter fiscal 2019 results, wherein adjusted earnings of $1.46 per share improved 14% on a year-over-year basis and surpassed the Zacks Consensus Estimate of $1.29. The bottom-line growth was backed by increased adjusted operating income and reduced adjusted tax rate. However, foreign currency rates had an adverse impact on the bottom line.

This global leader of flavors and spices generated sales of $ 1,329.2 million that inched up close to 1% year over year, including currency headwinds of roughly 1%. The top line was mainly driven by growth at the Consumer Business segment. However, sales fell short of the Zacks Consensus Estimate of $1,336 million.

Gross margin expanded 100 basis points (bps) to 40.6% on the back of favorable mix and savings from the Comprehensive Continuous Improvement (CCI) program.

Adjusted operating income increased about 9% to $261 million, while it rose 10% at cc. Further, the adjusted operating margin expanded 160 bps to 19.7%. The upside can be accountable to savings from the CCI program, and improved sales and mix. This was somewhat countered by increased business transformation and brand marketing costs.

Segment Details

Consumer Business: Sales grew 3% to $794.2 million and rose 4% at cc on improvements in the Asia Pacific and the Americas regions. This, in turn, was driven by product introductions, enhanced distribution, and robust marketing and promotional plans. Sales in the Americas rose 4% at cc. This was mainly driven by volume growth and improved product mix. Sales in the Asia-Pacific region grew 15% at cc, mainly owing to solid performance in China. In the EMEA region, sales dipped 2% at cc due to unfavorable weather in Europe, adverse pricing and soft sales of private-label products.

Flavor Solutions: Sales in the segment dropped 2% from the prior-year quarter's figure to $535 million. At cc, sales remained flat year over year as improved performance in EMEA was negated by weakness in Americas and the Asia Pacific. Sales in the EMEA region improved 4% at cc, driven by volume growth and favorable product mix. Sales in the Americas fell 2% at cc due to warehouse transition actions and adverse timing of product launches and promotions. Sales in the Asia-Pacific region edged down by 1% at cc due to unfavorable promotional timings and low-margin business exits.

Financial Update

McCormick exited the quarter with cash and cash equivalents of $162.9 million, long-term debt of $3,843.1 million and shareholders' equity of $3,480.6 million. For the first nine months of fiscal 2019, net cash provided by operating activities was $494.6 million.

McCormick's net debt-to-adjusted EBITDA ratio stood at 3.7x at the end of the reported quarter.

Fiscal 2019 Guidance

Management revised its outlook for fiscal 2019. The company now expects sales growth of 1-2% (up 3-4% at cc) compared with the previous guidance of 1-3% (up 3-5% at cc). It expects to achieve top-line growth completely on an organic basis, as it anticipates no benefits from acquisitions. That said, sales are likely to be driven by efforts like product launches, and expanded distribution and marketing. Also, strong pricing is expected to drive sales and counter elevated costs.

Incidentally, the company anticipates to achieve cost savings of almost $110 million in fiscal 2019, which will be utilized for enhancing margins, sponsoring growth-oriented investments and offsetting high costs.

Moreover, McCormick now projects adjusted operating income to grow 6-7% (8-9% at cc), while it was earlier expected to rise 6-8% (8-10% at cc). Adjusted earnings for fiscal 2019 are now projected to be $5.3-$5.35 per share, up from the previous guidance of $5.2-$5.3. The bottom line is expected to grow 9-10% at cc compared with 7-9% projected earlier.

Recent News

McCormick Announces Dividends – Sep 24, 2019

McCormick's board announced quaterly dividend of 57 cents per share, payable on Oct 21 to shareholders of record as of Oct 7.

Valuation

McCormick shares are up 25.1% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Consumer Staples sector are up 15.9% and 21.4%, respectively in the past year.

The S&P 500 index is up 28.4% in the past year.

The stock is currently trading at 30.6X forward 12-month earnings, which compares to 18.45X for the Zacks sub-industry, 19.95X for the Zacks sector and 19.18X 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 23.26X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our $180 price target reflects 32.18X 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	30.6	18.45	19.95	19.18
	5-Year High	31.98	22.9	22.38	19.34
	5-Year Low	19.38	14.82	16.66	15.17
	5-Year Median	23.26	19.19	19.76	17.44
P/S F12M	Current	4.12	1.75	10.27	3.57
	5-Year High	4.26	2.05	11.13	3.57
	5-Year Low	2.11	1.44	8.09	2.54
	5-Year Median	2.66	1.81	9.88	3
EV/EBITDA F12M	Current	21.86	14.08	34.39	12.66
	5-Year High	22.49	16.59	37.23	12.66
	5-Year Low	11.54	11.67	29.38	9.08
	5-Year Median	15.7	13.26	33.53	10.78

As of 01/21/2020

Industry Analysis **Zacks Industry Rank:** Top 32% (81 out of 255)

Top Peers

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

Industry Comparison Industry: Food - Miscellaneous

Industry Peers

	MKC Neutral	X Industry	S&P 500	CPB Neutral	POST Neutral	THS Neutral
VGM Score	B	-	-	C	C	B
Market Cap	22.75 B	4.42 B	24.43 B	14.65 B	7.92 B	2.64 B
# of Analysts	5	3	13	5	3	5
Dividend Yield	1.45%	0.11%	1.75%	2.88%	0.00%	0.00%
Value Score	D	-	-	C	C	B
Cash/Price	0.01	0.04	0.04	0.00	0.13	0.02
EV/EBITDA	24.78	14.47	14.00	14.92	16.18	17.06
PEG Ratio	3.87	2.29	2.06	3.22	3.12	1.79
Price/Book (P/B)	6.54	2.98	3.39	11.73	2.79	1.46
Price/Cash Flow (P/CF)	27.82	13.43	13.69	12.81	10.94	6.87
P/E (F1)	30.97	18.96	19.00	19.15	21.85	17.75
Price/Sales (P/S)	4.24	1.37	2.68	1.65	1.39	0.52
Earnings Yield	3.25%	4.98%	5.26%	5.23%	4.58%	5.63%
Debt/Equity	1.10	0.62	0.72	5.37	2.41	1.29
Cash Flow ($/share)	6.15	2.72	6.94	3.79	10.24	6.83
Growth Score	B	-	-	C	A	C
Hist. EPS Growth (3-5 yrs)	11.05%	5.08%	10.60%	-0.30%	37.17%	-10.27%
Proj. EPS Growth (F1/F0)	3.54%	7.85%	7.57%	10.26%	4.41%	11.16%
Curr. Cash Flow Growth	17.31%	3.82%	14.00%	-12.42%	5.71%	-61.72%
Hist. Cash Flow Growth (3-5 yrs)	9.17%	7.12%	9.00%	0.50%	34.52%	10.92%
Current Ratio	0.78	1.57	1.23	0.60	2.65	1.49
Debt/Capital	52.47%	38.38%	42.99%	84.30%	70.64%	56.27%
Net Margin	13.12%	2.79%	11.15%	2.07%	2.19%	-7.65%
Return on Equity	21.63%	11.60%	17.16%	64.48%	11.90%	5.80%
Sales/Assets	0.52	1.17	0.55	0.66	0.49	0.92
Proj. Sales Growth (F1/F0)	2.40%	2.51%	4.05%	-12.79%	5.41%	1.17%
Momentum Score	A	-	-	D	F	C
Daily Price Chg	1.46%	0.00%	-0.27%	1.12%	-0.05%	-1.05%
1 Week Price Chg	2.71%	1.49%	2.29%	0.61%	4.51%	2.93%
4 Week Price Chg	1.72%	0.30%	2.13%	-1.36%	3.61%	-2.13%
12 Week Price Chg	5.38%	5.21%	6.99%	4.45%	7.25%	-15.36%
52 Week Price Chg	23.31%	15.78%	21.25%	37.21%	11.22%	-18.91%
20 Day Average Volume	646,420	178,509	1,415,064	1,649,030	349,156	262,999
(F1) EPS Est 1 week change	0.58%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	0.23%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 12 week change	-1.57%	-0.86%	-0.34%	0.34%	-3.63%	-6.92%
(Q1) EPS Est Mthly Chg	1.85%	0.00%	0.00%	0.00%	0.00%	0.00%

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	A
VGM Score	B

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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