

# McCormick (NYSE: MKC)

**Sector: Consumer Staples**

**Industry: Food Products**

## Key Financials:

**Intrinsic Value:** \$66.00    **Current Price:** \$64.59

**Market Cap:** \$8.51B    **P/E:** 20.44x

**52 Week High:** \$75.26

**52 Week Low:** \$62.75

**Dividend Yield:** 2.30%

**Price/FCF:** 23.33x

## Industry Trends:

The consumer staples sector underperformed this past year due to macroeconomic headwinds. Slow job growth, rising interest rates, and tightened credit availability led to lower than expected earnings. This past year large consumer staples boosted earnings primarily through improved cost control, acquisitions, diversifying product lines, and expanding distribution in emerging markets. This sector is tremendously competitive, causing companies to frequently turn to product innovation and diversification to edge over competition. A large growth opportunity for the consumer staple sector is in emerging markets that have developing middle classes.

## Investment Overview:

McCormick & Company, Inc. manufactures, markets, and distributes flavor products (including spices, herbs, extracts, seasonings and flavorings) and other specialty food products to the food industry. The Company distributes products in over 125 countries and sells to retail stores, food manufacturers, and food service businesses. The Company operates in two business segments: Consumer (62% revenues) and Industrial (38% revenues). The Americas account for 68% revenues while EMEA produces 21% of revenues and APAC produces 11% of revenues.

## 5-Year Stock Performance:



## Corporate Social Responsibility:

ESG Disclosure Rating	38.02 (Ind. Avg.: 33.28)
Environmental Disclosure Score	27.13 (Ind. Avg.: 30.62)
Carbon Disclosure Score	83.00 (Ind. Avg.: 75.22)
Social Disclosure Score	43.86 (Ind. Avg.: 40.49)
Governance Disclosure Score	57.14 (Ind. Avg.: 52.90)
Equal Opportunity Policy	Yes
Community Spending	\$6.10 mm
Total Energy Consumption	153.48 MWh

Sources: Bloomberg Terminal, Value Line Investment Survey, Google Finance

## Pros:

- Well-positioned with control of 22% of the global herbs and spices market (four times the share of closest competitor).
- Focused on shareholder payouts through dividends and share buybacks. Dividend growth of 10% annually for past 13 years and now yields 2.30%. In 2013, the Company announced a new Shareholder Repurchase Program to buyback \$400 million worth of shares.
- Recent investments in emerging markets present long-term growth opportunities in China (WAPC acquisition in 2013) and India (joint venture with Kohinoor beginning in 2011).

## Cons:

- The Company relies on top two customers for a significant portion of revenues. Wal-Mart delivers 12% of total revenues, and PepsiCo delivers 11% of total revenues.
- Sales decline of 0.8% in industrial segment in 2013.

## External Risks:

- Unusual weather or long-term climate changes.
- Customer consolidation (such as mergers with two food distributors) may reduce profitability and operating margins.
- Slow job growth and reduced consumer spending will reduce sales revenue.

## Value Estimate:

\$68 - \$77 (2014-2016)

## Financial Information:

10 yr. Risk-Free Rate	2.74%
WACC	7.76%
Expected Inflation	1.50%
Est. Revenue Growth	3.98%
Current EPS	\$3.14
Est. 2014 EPS	\$3.30
Credit Rating	A2
ROE	21.52%
ROIC	15.60%
ROA	9.03%
Price/Book	4.38x
Debt/Equity	63.31%
Gross Margin	42.92%
Operating Margin	18.32%
Net Profit Margin	11.10%
FCF Yield	4.01%

## Report Prepared By:

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