

MCCORMICK & COMPANY, INC.

(NYSE: MKC)



BUY. HOLD. AND PROSPER.®

(as at May 31, 2020)

Business Description:

McCormick & Company, Inc. engages in the manufacture, market and distribution of spices, seasoning mixes, condiments and other flavourful products to retail outlets, food manufacturers and foodservice businesses. It operates through the following segments: Consumer and Flavor Solutions. The company was founded by Willoughby M. McCormick in 1889 and is headquartered in Hunt Valley, MD.

Investment Thesis:

- **McCormick holds a large portfolio of globally industry leading brands.** Some of the company's brands include Frank's Red Hot, Club House, Old Bay and French's. These brands hold the market leader position across key markets in spices & seasonings across the globe.
- **The company has demonstrated strong top-line growth with stable margins.** The company has demonstrated a 5-year annual revenue growth rate of 4.25%, while maintaining stable gross margins around 40% over the period. This shows strict commitment to delivering financial results for shareholders.
- **McCormick has delivered strong e-commerce results showing competitiveness within omni-channels.** In a time where e-commerce and other non-traditional channels are becoming increasingly prevalent, McCormick was able to grow its online presence by 44% in 2019. This positions the company well for future competition within this space.

Industry Drivers/Trend

Consumer Packaged Food Products:

- Population demographics have shifted dramatically and with that, food tastes. The increased millennial population place more emphasis on healthy and sustainably sourced foods.
- The global demand for flavour has also increased. Many consumers are more willing to try new foods and flavours. In addition, there is an increased trend towards authenticity and nostalgic flavours and brands.
- A large portion of sales within the industry are shifting towards emerging markets & channels. With the growth of emerging markets, there is an increasing amount of demand for foreign flavours from emerging geographies across the world.

Competitive Advantages:

- Market leader in herbs, spices and seasonings
- Robust innovation and development with new flavours
- Partner with Instant Pot to deliver convenience with flavour

Competitors:

- Conagra Brands, Inc., Tyson Foods, Inc., The Hain Celestial Group, Inc., B&G Foods, Inc.

Customers:

- **Consumer Segment:** Grocery stores, mass merchandise, warehouse clubs, discount and drug stores, and e-commerce
- **Flavour Solutions:** Multinational food manufacturers and foodservice customers

Barriers to Entry:

- **Branded Portfolio:** Existing brands have a distinct advantage as branded products are sold and recognized worldwide. A new entrant would not likely be able to gain enough market share from brand-loyal consumers to compete and survive.
- **Established Distributor Relationships:** Existing development relationships are key in navigating this industry. Spices and seasonings must be strategically shelved to draw consumer attention. Developing these relationships take time and will be costly for new entrants.
- **Economies of Scale:** Large companies in this space have an operating advantage as they have been able to operate at a large volume for a prolonged period. This operating cost advantage will discourage new entrants.

Officers & Directors:

Lawrence Kurzius, President, Chairman & Chief Executive Officer; **Michael Smith**, EVP & Chief Financial Officer; **Hamed Faridi**, Chief Scientific Officer; **Malcolm Swift**, President – Global Industrial Division; **Brendan Foley**, President – Global Consumer Business & North America.

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Financial Summary:

Income Statement (USD millions, years ended December 31st)

	2015	2016	2017	2018	2019
Revenue	4,296.0	4,412.0	4,834.0	5,303.0	5,347.0
COGS	(2,562.0)	(2,583.0)	(2,804.0)	(3,206.0)	(3,204.0)
Gross Profit	1,734.0	1,829.0	2,030.0	2,097.0	2,143.0
Profit before Tax	496.0	589.0	595.0	741.0	819.0
Net Profit	402.0	472.0	477.0	933.0	703.0
EPS (Diluted)	3.11	3.69	3.72	7.01	5.24
Dividends per Share	1.60	1.72	1.88	2.08	2.28

Balance Sheet

Total assets	4,473.0	4,635.9	10,385.8	10,256.4	10,362.1
Long-term debt	1,051.0	1,054.0	4,443.9	3,914.3	3,494.9
Total equity	1,687.0	1,626.6	2,559.9	3,170.9	3,444.2

Statement of Cash Flow

Cash from operations	590.0	658.1	815.3	821.2	946.8
Cash from investing	(338.9)	(267.1)	(4,508.3)	(158.5)	(171.0)
Cash from financing	(199.6)	(371.5)	3,757.2	(751.1)	(725.8)

Key Ratios and Figures (%)

Gross Margin	40.4%	41.5%	42.0%	39.5%	40.1%
Return on Equity	23.8%	29.0%	18.6%	29.4%	20.4%

Source: McCormick & Company 2019 Annual Report; Wall Street Journal



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