

McCormick & Co.

4Q23 beat on gross margins; initial FY24 outlook prudent

Maintain Rating: BUY | PO: 80.00 USD | Price: 65.78 USD

4Q23 adj EPS of \$0.85 vs BofAe \$0.80, consensus \$0.79

This morning MKC reported 4Q23 adjusted EPS of \$0.85, above BofA of \$0.80 and Visible Alpha consensus of \$0.79. The beat in the quarter was driven by better gross and operating margin, while sales missed (Consumer constant currency in-line, Flavor Solutions below). MKC also introduced its FY24 financial outlook, including an adj. EPS range of \$2.80-\$2.85 (BofAe \$2.70, street \$2.84) and constant currency sales growth of (1)% to +1% (BofAe +0.5%). We view MKC's initial guide as prudent and think investors will likely focus on details around Americas Consumer outlook, potential Red Sea impact and the gross margin upside in 4Q23 and with implications for FY24. Overall, we think positioning into the quarter was mixed, with shorts playing for the volume miss (which occurred) but not expecting a substantial gross margin beat. Some bulls may have sitting on sidelines waiting to buy a prudent '24 outlook, we think stock reacts positively today.

Key takeaways

Sales of \$1.753bn were \$39mm below our estimate driven by lower sales in both segments. Total company volume/mix and price came in below our model, down -3.1% and up +5.2% respectively (BofAe down -2% and up +5.6% respectively), with a +1.5pt benefit from FX (vs our +2.3pt estimate). In Consumer, flat organic sales growth came in largely in line our +0.5% with MKC reporting slightly lower volume and price. MKC saw volume declines in prepared foods, an impact from low private label price points in mustard, and pressure on recipe mixes from crossing key price points (all not expected) offset by volume growth in spices and seasonings in Americas, recovery in China as it lapped COVID related disruptions (all expected). In Flavor Solutions, organic sales of +5.4% came in below our +8.3% estimate driven by volume softness in flavor customer businesses (we had highlighted slowing in PEP's Frito Business) and slower QSR traffic in EMEA and countries outside China in APAC. 2) Adjusted gross profit of \$701.3mm was \$18.7mm above our estimate, while adjusted operating profit of \$311.3mm was \$13.7mm above our \$297.6mm estimate as SG&A was \$5mm above our model.

FY24 outlook introduced: adj EPS range of \$2.80-\$2.85

1) adj. EPS range of \$2.80-\$2.85 (BofA \$2.70). 2) The company expects reported and constant currency sales growth of -1% to +1% (reported sales growth -2% to 0%), which feels prudent. 3) Gross margin expansion of +50-100bps YoY (BofA +20bps). 4) Adjusted operating income is expected to increase +4% to +6%. 5) Other items: Low single digit cost inflation, HSD increase in brand marketing spend YoY, adjusted income from unconsolidated operations up mid-teens and ~22% tax rate.

Maintain Buy & \$80 PO

We maintain our Buy rating & \$80 PO for MKC shares based on a CY2025e P/E multiple of 28x, within its five-year historical valuation range of 19x-42x and in-line with average of 29.5x. In our view, MKC deserves to trade in-line to its 5 year average multiple given a slower China recovery (though easier volume compares) and improved cost outlook and margin trajectory.

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Stock Data

Price	65.78 USD
Price Objective	80.00 USD
Date Established	10-Jan-2024
Investment Opinion	B-1-7
52-Week Range	59.13 USD - 94.39 USD
Mrkt Val (mn) / Shares Out (mn)	17,747 USD / 269.8
Free Float	99.2%
Average Daily Value (mn)	113.82 USD
BofA Ticker / Exchange	MKC / NYS
Bloomberg / Reuters	MKC US / MKCN
ROE (2023E)	14.4%
Net Dbt to Eqty (Nov-2022A)	102.5%
ESGMeter™	High

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Variance table

Exhibit 1: MKC 4Q23 variance table

Adj. EPS of \$0.85 came in above BofAe \$0.80

Variance	4Q23	4Q23E	A vs. E	Per Share	4Q22	% Chg	Source of EPS Upside
Sales	\$1,752.8	\$1,791.7	(\$38.9)	(\$0.11)	\$1,695.7	3.4%	Sales (\$0.11)
Cost of Goods Sold	\$1,051.5	\$1,109.0	(\$57.5)	\$0.17	\$1,071.3	-1.8%	Gross Profit \$0.05
Gross Profit	\$701.3	\$682.6	\$18.7	\$0.05	\$624.4	12.3%	SG&A (\$0.01)
Gross Margin	40.0%	38.1%	191bps		36.8%	319bps	Operating Profit \$0.04
SG&A	\$390.0	\$385.0	\$5.0	(\$0.01)	\$346.5	12.6%	Interest Expense (\$0.01)
Operating Income	\$311.3	\$297.6	\$13.7	\$0.04	\$277.9	12.0%	Other, net \$0.00
Operating Margin	17.8%	16.6%	115bps		16.4%	137bps	Tax Rate (\$0.00)
Adjusted EBITDA	\$408.2	\$387.5	\$20.7		\$360.5	13.2%	JV income \$0.02
Adjusted EBITDA Margin	23.3%	21.6%	166bps		21.3%	203bps	Share count \$0.00
Interest expense	\$52.7	\$49.5	\$3.2	(\$0.01)	\$44.4	18.7%	Above the Line \$0.04
Other income (expense), net	\$13.2	\$11.5	\$1.7	\$0.00	\$8.4	57.1%	Below the Line \$0.01
Pre-Tax Income	\$271.8	\$259.6	\$12.2	\$0.04	\$241.9	12.4%	Total \$0.05
Income Tax Expense	\$60.6	\$57.1	\$3.5	(\$0.00)	\$55.8	8.6%	
Tax Rate	22.3%	22.0%	30bps		23.1%	-77bps	
Income from unconsolidated ops	\$18.7	\$13.4	\$5.3	\$0.02	\$10.6	76.4%	
Net Income attributable to MKC	\$229.9	\$215.9	\$14.0	\$0.05	\$196.7	16.9%	
Adjusted diluted EPS	\$0.85	\$0.80	\$0.05		\$0.73	16.9%	
Shares outstanding	269.9	270.1	-0.2	\$0.00	269.9	0.0%	
By Segment:							
Sales:							
Consumer	\$1,048.6	\$1,066.3	(\$17.7)		\$1,037.8	1.0%	
Flavor Solutions	\$704.2	\$725.3	(\$21.1)		\$657.9	7.0%	
Total Sales	\$1,752.8	\$1,791.7	(\$38.9)		\$1,695.7	3.4%	
Operating Income:							
Consumer	\$235.2	\$221.7	\$13.5		\$235.2	0.0%	
Flavor Solutions	\$76.1	\$75.9	\$0.2		\$42.7	78.2%	
Total Operating Income	\$311.3	\$297.6	\$13.7		\$277.9	12.0%	

Source: MKC, BofA Global Research

BofA GLOBAL RESEARCH

Exhibit 2: Revenue Driver 4Q23 variance

Consumer constant currency growth came in largely in-line with our expectations

	4Q23A	4Q23E
Volume/mix	-3.8%	-3.5%
Price	3.8%	4.0%
Acquisition/Divestiture	0.0%	0.0%
FX	1.0%	2.3%
Consumer	1.0%	2.8%
Volume/mix	-2.0%	0.3%
Price	7.4%	8.0%
Acquisition/Divestiture	-0.6%	-0.5%
FX	2.2%	2.5%
Flavor Solutions	7.0%	10.3%
Volume/mix	-3.1%	-2.0%
Price	5.2%	5.6%
Acquisition/Divestiture	-0.2%	-0.2%
FX	1.5%	2.3%
Total Sales	3.4%	5.7%

Source: MKC, BofA Global Research

BofA GLOBAL RESEARCH

Price objective basis & risk

McCormick & Co. (MKC)

Our \$80 PO for MKC shares is based on a CY2025e P/E multiple of 28x, within its five-year historical valuation range of 19x-42x and in-line with average of 29.5x. In our view, MKC deserves to trade in-line to its 5 year average multiple given a slower China recovery (though easier volume compares) and improved cost outlook and margin trajectory.

Downside risks to our price objective are 1) slower-than-expected category growth, 2) a loss of a major customer, 3) increased competitive activity and expanding price gaps from private label, 4) strengthening of the US dollar, 5) lower-than-expected cost savings/debt paydown, 6) disruption from implementation of the company's new Enterprise Resource Planning (ERP) system.

Upside risks to our price objective: 1) faster-than-expected category growth, 2) rational competitive activity from private label, 3) lack of rotation from growth/momentum stocks to value stocks, 4) a weaker US dollar positively impacting reported international results, 5) greater-than-expected cost savings through its Comprehensive Continuous Improvement (CCI) program.

Analyst Certification

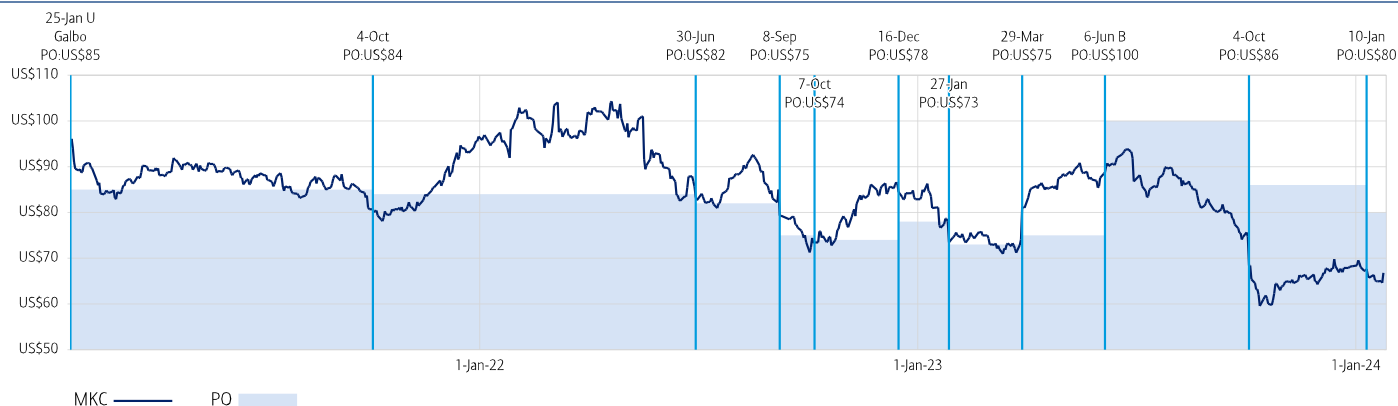
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McCormick (MKC) Price Chart



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Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	33	49.25%	Buy	16	48.48%
Hold	17	25.37%	Hold	10	58.82%
Sell	17	25.37%	Sell	8	47.06%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

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Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

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