

McCormick & Co.

Thoughts ahead of 4Q23 earnings

Reiterate Rating: BUY | PO: 80.00 USD | Price: 67.63 USD

MKC to report 4Q23 Jan 25th; lowering 4Q estimates

MKC is scheduled to report 4Q23 earnings on January 25th and introduce a FY24 financial outlook. Focus will be on Americas Consumer volumes (tracked channels have continued to look weak combined with a headwind from the DSD exit) and China foodservice recovery benefit to APAC. As a result of the weaker US scanner data, we lower our 4Q23 adj. EPS estimate to \$0.80 from \$0.82 and FY23 to \$2.64 from \$2.67. For FY24/25, we also lower our estimates to \$2.70 and \$2.90 from \$2.90 and \$3.10 respectively. For FY24, continued tepid volume recovery poses a risk to achieving on-algo topline & EPS growth, while we think there are other self-help initiatives, including M&A that MKC could pursue to offset any weakness. MKC's current valuation appears to be reflecting a below algorithm guide, while any potential turn in volume could serve as a positive catalyst for shares; reiterate Buy.

P&L moving pieces for FY24; Red Sea considerations

MKC has several pieces moving out of its business in FY24 including: 1) DSD exit in Americas Consumer, 2a) Owned line exit and 2b) Giotti Canning business divestiture, both in EMEA Flavor Solutions. We've also fielded several questions on MKC sourcing exposure to [freight tie ups in the Red Sea](#). MKC's most significant raw materials include Peppers and Vanilla, which are generally sourced from outside the US. Among its supplier countries that could have exposure include India, Indonesia and parts of Africa.

Topline Modeling changes for 4Q23

1) Consumer: we lower 4Q volume estimate to -3.5% from +1.2% and slightly raise price estimate to +4% from +3.4%. In Americas, Private Label spices/seasonings manufacturing serves as a positive volume offset (we estimate ~15% of sub-segment volumes) to weaker branded sales. 2) Total company: Lower volumes to -2.0% from +0.9% and raise price to +5.6% from +5.2%.

Reiterate Buy, but lower PO to \$80 from \$86

We reiterate our Buy rating, but lower our PO to \$80 from \$86 still based on a CY2025E P/E multiple of 28x, in-line with its 5 year historical average. 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 potential margin trajectory.

Estimates (Nov) (US\$)	2021A	2022A	2023E	2024E	2025E
EPS	3.05	2.53	2.64	2.70	2.90
GAAP EPS	2.80	2.52	2.51	2.70	2.90
EPS Change (YoY)	7.4%	-17.0%	4.3%	2.3%	7.4%
Consensus EPS (Bloomberg)			2.64	2.89	3.14
DPS	1.36	1.50	1.58	1.68	1.78
Valuation (Nov)					
P/E	22.2x	26.7x	25.6x	25.0x	23.3x
GAAP P/E	24.2x	26.8x	26.9x	25.0x	23.3x
Dividend Yield	2.0%	2.2%	2.3%	2.5%	2.6%
EV / EBITDA*	16.3x	18.2x	16.8x	16.7x	16.0x
Free Cash Flow Yield*	3.0%	2.1%	3.8%	3.5%	3.7%

* For full definitions of *iQmethod*SM measures, see page 10.

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Timestamp: 10 January 2024 05:00AM EST

10 January 2024

Equity

Key Changes

(US\$)	Previous	Current
Price Obj.	86.00	80.00
2023E Rev (m)	6,742.8	6,701.1
2024E Rev (m)	6,931.3	6,732.4
2025E Rev (m)	7,101.1	6,917.5
2023E EPS	2.67	2.64
2024E EPS	2.90	2.70
2025E EPS	3.10	2.90

Peter T. Galbo, CFA
Research Analyst
BofAS
+1 646 743 0175
peter.galbo@bofa.com

Bryan D. Spillane
Research Analyst
BofAS
+1 646 855 1979
bryan.spillane@bofa.com

Yasmine Deswandhy
Research Analyst
BofAS
+1 646 855 3745
yasmine.deswandhy@bofa.com

Stock Data

Price	67.63 USD
Price Objective	80.00 USD
Date Established	9-Jan-2024
Investment Opinion	B-1-7
52-Week Range	59.13 USD - 94.39 USD
Mrkt Val (mn) / Shares Out (mn)	18,247 USD / 269.8
Free Float	99.2%
Average Daily Value (mn)	104.03 USD
BofA Ticker / Exchange	MKC / NYS
Bloomberg / Reuters	MKC US / MKC.N
ROE (2023E)	14.4%
Net Dbt to Eqty (Nov-2022A)	102.5%
ESGMeter™	High

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to ["BofA ESGMeter Methodology"](#).

DSD: direct store delivery

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iQprofileSM McCormick & Co.

iQmethodSM – Bus Performance*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Return on Capital Employed	8.3%	6.5%	7.0%	7.0%	7.2%
Return on Equity	19.7%	15.0%	14.4%	13.7%	13.9%
Operating Margin	17.4%	14.4%	15.1%	15.3%	15.7%
Free Cash Flow	550	390	696	643	680

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash Realization Ratio	1.0x	1.0x	1.4x	1.3x	1.2x
Asset Replacement Ratio	1.5x	1.3x	1.4x	1.3x	1.3x
Tax Rate	20.1%	20.9%	21.9%	22.0%	22.0%
Net Debt-to-Equity Ratio	111.4%	102.5%	87.0%	78.5%	70.4%
Interest Cover	8.1x	6.2x	4.9x	5.2x	5.7x

Income Statement Data (Nov)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Sales	6,318	6,351	6,701	6,732	6,918
% Change	12.8%	0.5%	5.5%	0.5%	2.8%
Gross Profit	2,506	2,275	2,484	2,510	2,610
% Change	8.9%	-9.2%	9.2%	1.0%	4.0%
EBITDA	1,411	1,265	1,370	1,379	1,440
% Change	9.5%	-10.3%	8.3%	0.6%	4.5%
Net Interest & Other Income	(119)	(100)	(163)	(159)	(151)
Net Income (Adjusted)	824	684	713	729	783
% Change	8.0%	-17.0%	4.3%	2.1%	7.5%

Free Cash Flow Data (Nov)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Net Income from Cont Operations (GAAP)	785	646	662	679	731
Depreciation & Amortization	186	201	203	210	210
Change in Working Capital	(223)	(256)	36	(3)	(19)
Deferred Taxation Charge	36	22	0	0	0
Other Adjustments, Net	44	39	75	37	37
Capital Expenditure	(278)	(262)	(280)	(280)	(280)
Free Cash Flow	550	390	696	643	680
% Change	-32.6%	-29.2%	78.7%	-7.6%	5.7%
Share / Issue Repurchase	5	3	(6)	20	20
Cost of Dividends Paid	(363)	(397)	(424)	(453)	(481)
Change in Debt	396	(74)	(367)	0	0

Balance Sheet Data (Nov)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash & Equivalents	352	334	271	481	700
Trade Receivables	550	574	606	609	625
Other Current Assets	1,295	1,479	1,336	1,337	1,362
Property, Plant & Equipment	1,140	1,198	1,326	1,396	1,466
Other Non-Current Assets	9,570	9,540	9,580	9,593	9,606
Total Assets	12,906	13,125	13,119	13,416	13,759
Short-Term Debt	1,309	1,507	1,392	1,392	1,392
Other Current Liabilities	1,914	1,925	1,800	1,801	1,824
Long-Term Debt	3,973	3,642	3,385	3,385	3,385
Other Non-Current Liabilities	1,283	1,351	1,364	1,364	1,364
Total Liabilities	8,480	8,426	7,941	7,942	7,965
Total Equity	4,426	4,699	5,178	5,474	5,794
Total Equity & Liabilities	12,906	13,125	13,119	13,416	13,759

* For full definitions of iQmethodSM measures, see page 10.

Company Sector

Food Processors

Company Description

With around \$6.3b in annual sales, McCormick is a leader in the global spices, seasonings and flavors industry. The company operates in two business segments: Consumer (62% of total sales) and Flavor Solutions (38%). MKC is one of the most geographically diverse companies within our coverage universe, with 40% of sales outside of the United States across 150 different countries.

Investment Rationale

We rate MKC shares at Buy. We expect FY23 to see easier volume compares benefitting revenues for MKC and improved cost outlook and margin trajectory. Our Buy rating is predicated on relative valuation to the market and peers.

Stock Data

Average Daily Volume

1,538,271

Quarterly Earnings Estimates

	2022	2023
Q1	0.63A	0.59A
Q2	0.48A	0.60A
Q3	0.69A	0.65A
Q4	0.73A	0.80E

Sub-segment commentary

For the past few quarters and for a few moving forward, MKC has had several pieces moving out of its business, causing some lumpiness in its volume numbers. These impacts include: 1) DSD exit (El Guapo), 2) Owned line exit, 3) Giotti Canning Business Divestiture, 4) Russia exit, and 5) Kitchen Basics Divestiture. Though the last two are now behind them, the first three pieces will continue to impact MKC's volumes over the next few quarters (Exhibit 1).

Exhibit 1: Pieces moving in and out of MKC's business going forward

MKC's Kitchen Basics divestiture and Russia impact are no longer headwinds

Exits	Which sub-segment?	Magnitude of hit to sub-segment	Which quarters?
DSD exit (El Guapo)	Americas Consumer	seasonally higher in 4Q23, ~2% in 1Q24	4Q23 & 1Q24
Owned line exit	EMEA Flavor Solutions	~1-2% each quarter	4Q23 & 1Q24
Giotti Canning business	EMEA Flavor Solutions	~3% each quarter	4Q23-3Q23

Source: MKC, BofA Global Research estimates

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Americas Consumer

In Americas Consumer, we estimate that ~15% of its volume is comprised of Private Label manufacturing (most heavily weighted to spices/seasonings). When weighting the Nielsen data based on this assumption, we derive Blended Nielsen data illustrated in Exhibit 2. With this in mind, we estimate MKC Americas Consumer volumes of -7.0% in 4Q, which incorporates the Blended Nielsen data for the 12wks ending November of -3.4% (-5% MKC branded and +5% Private Label) and a ~3.5% headwind from its DSD exit.

Exhibit 2: Americas Consumer Volumes Bridge for FY23

We assume private label makes up ~15% of Americas Consumer volumes. The blended Nielsen data and MKC Americas Consumer volumes excluding one-time impacts derives a ~88% correlation

	Feb-23	May-23	Aug-23	Nov-23
Vols % chg YoY	1Q23	2Q23	3Q23	4Q23E
Nielsen syndicated	-4.8%	-2.8%	-1.7%	-4.9%
Private Label Spices/Seasonings vol growth	8.2%	5.7%	4.3%	4.7%
Blended (15% PL weighting)	-2.8%	-1.5%	-0.8%	-3.4%
MKC Americas Consumer volumes	-4.5%	-3.5%	-2.3%	-7.0%
MKC Americas Consumer volumes (excl one-time impacts)	-4.5%	-1.5%	-0.7%	-3.5%

Source: MKC, NielsenIQ, BofA Global Research estimates

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Exhibit 3: Americas Consumer Bridge for 1Q24

We use the L4W Nielsen data for the period ending 12.30.23 as a proxy for our 1Q24 estimates

1Q24E	Volume	Price
Nielsen syndicated	-5.1%	3.0%
Private Label Spices/Seasonings growth	5.5%	-0.4%
Blended (15% PL weighting)	-3.5%	2.5%
MKC Americas Consumer	-5.5%	2.0%
MKC Americas Consumer (excl one time impacts)	-3.5%	2.0%

Source: MKC, NielsenIQ, BofA Global Research estimates

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EMEA Consumer

In EMEA Consumer, MKC will no longer be lapping its Russia impact in 4Q23, which has been a headwind in the sub-segment for the past six quarters. Excluding the headwind, EMEA Consumer Volumes have been negative in the past three quarters. For 4Q23, we model flat volume growth. We note that at its 3Q23 conference call, Ahold Delhaize's CEO briefly spoke of European consumers reaching for private label options versus branded, which could mean that EMEA Consumer volumes remain soft.



Exhibit 4: EMEA Consumer Volumes in FY23

MKC will no longer be seeing a Russia exit headwind in 4Q23

	Feb-23	May-23	Aug-23	Nov-23
Vols % chg YoY	1Q23	2Q23	3Q23	4Q23E
MKC EMEA Consumer volumes	-9.4%	-2.5%	-2.6%	0.0%
MKC EMEA Consumer volumes (excl one time impacts)	-5.4%	-0.5%	-0.6%	0.0%

Source: MKC, BofA Global Research

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But we see that, they within the store make different choices and mainly also to buy a higher share of their sales in private label. And that whole private label trend, that own brands share, we see that everywhere going up in the U.S. and in Europe.

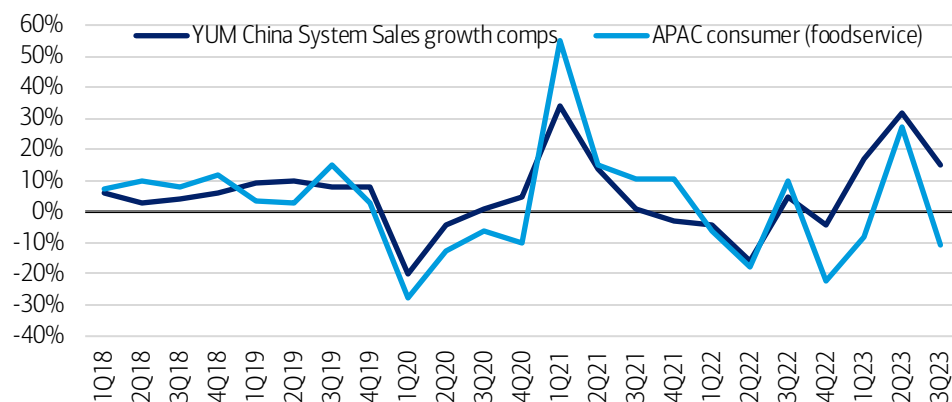
-Frans Muller-CEO of Ahold Delhaize, 3Q23 Earnings Call 11.8.23

APAC Consumer

Though 2Q23 and 4Q23 was initially expected to benefit from the lap of prior year COVID closures plus underlying China growth, MKC's China recovery has been slower than expected this year. For 4Q23, we model APAC Consumer constant currency growth of +14.5% driven by volume growth of 12.5%. As a read through, Lamb Weston (LW) noted positive traffic trends at Chinese restaurants on its latest conference call.

Exhibit 5: MKC APAC Consumer sales growth vs YUMC System Sales growth comps (1Q18-3Q23)

We estimate sub-segment sales growth of +14.5% in 4Q23



Source: MKC, YUMC, BofA Global Research

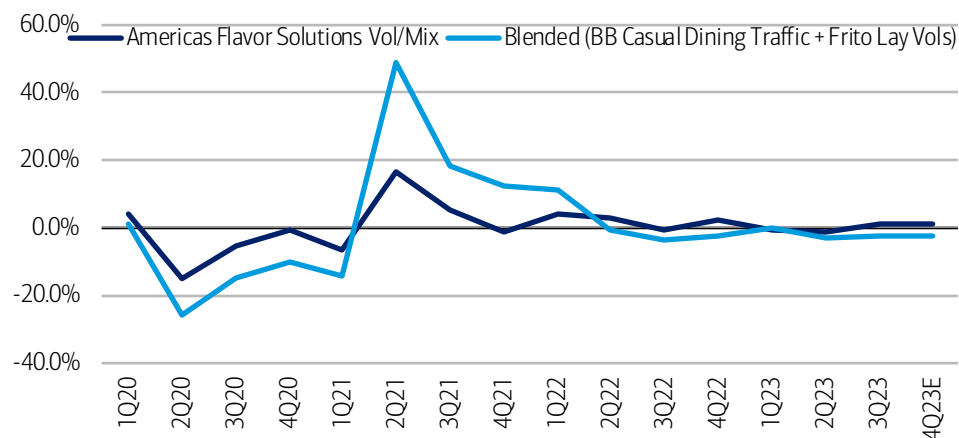
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Americas Flavor Solutions

We derive a ~90.4% correlation between the sub-segment's volume trends vs a blended data set of Blackbox Casual Traffic data and Frito Lay volumes (MKC provides flavoring solutions for Pepsico's Frito Lay business). Our weighting of the two leans heavier towards Casual Dining traffic (~62.5%) with the remaining towards Frito Lay volumes (~37.5%). Softness in Frito volumes could serve as a potential risk to Flavor Solutions in FY24.

Exhibit 6: Americas Flavor Solutions volume vs Blended Blackbox Casual Traffic & Frito Lay volume (

We estimate sub-segment volume growth of +1% in 4Q23



Source: MKC, PEP, Blackbox, BofA Global Research estimates

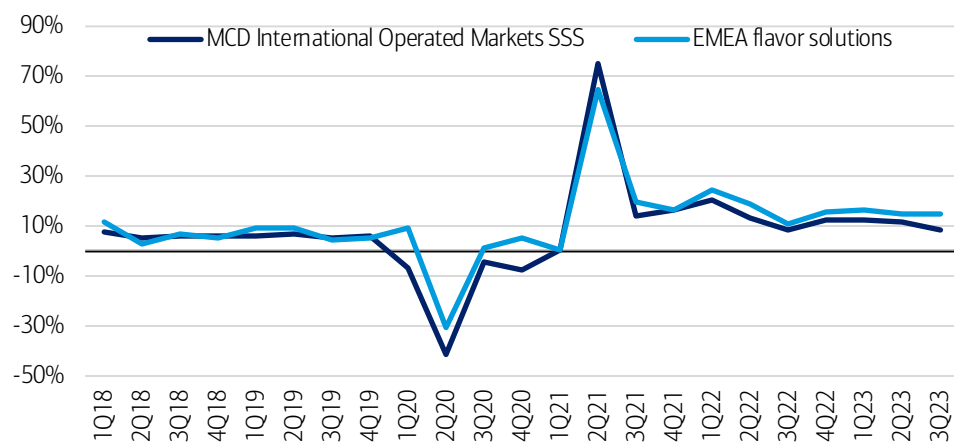
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EMEA Flavor solutions

There is a ~96.8% correlation historically between MKC's EMEA Flavor Solutions sales growth and McDonald's (MCD) International Operated Markets same store sales (SSS) growth. For 4Q23, we estimate sub-segment organic sales growth of +11%. One-time impacts to the sub-segment include: 1) a ~1-2% hit to volumes from its owned-line discontinuation, which will continue through 1Q24, and 2) a ~3% hit each quarter from its Giotti Canned Business discontinuation, which will be impacting 4Q23-3Q24. We model the latter within an acquisition line item and thus excluded from our organic sales growth estimate for 4Q23. It's headwind from its owned line exit however is included within our organic sales estimate.

Exhibit 7: MKC EMEA Flavor Solutions sales growth vs MCD International Operated Markets SSS growth

There is a ~96.8% correlation historically between MKC's EMEA Flavor Solutions sales growth and MCD's International Operated Markets SSS growth



Source: MKC, MCD, BofA Global Research

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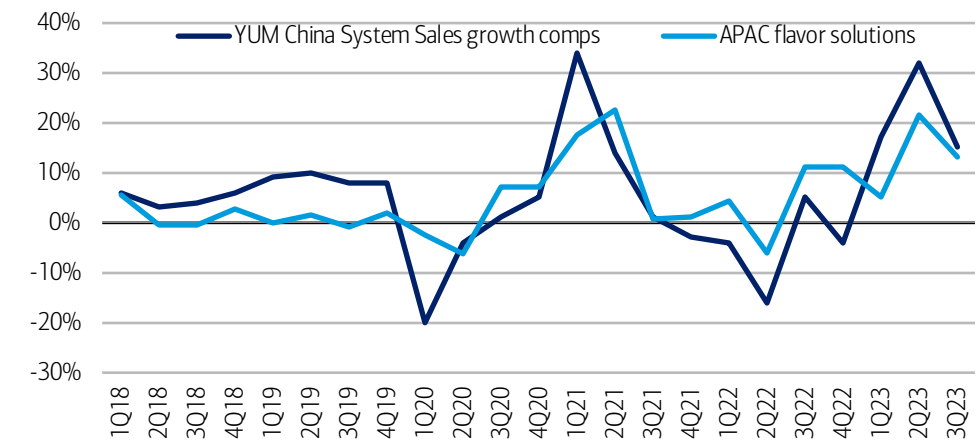
APAC Flavor solutions

Like APAC Consumer, APAC Flavor Solutions tracks closely to Yum China (YUMC) system sales growth. For 4Q23, we model sub-segment sales growth of +8%.



Exhibit 8: MKC APAC Flavor Solutions sales growth vs YUMC System Sales growth comps (1Q18-3Q23)

We estimate sub-segment sales growth of +8% in 4Q23



Source: MKC, YUMC, BofA Global Research

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Revenue by geography

Exhibit 9: Revenue by geography (4Q23-4Q24E)

We model 4Q23 Consumer segment organic sales growth of +2.8% and Flavor Solutions organic sales growth of +10.3%

Geographic sales trends	4Q23E	2023E	1Q24E	2Q24E	3Q24E	4Q24E	2024E
Consumer Segment							
Constant currency	-4.5%	1.9%	-3.5%	0.0%	0.5%	2.0%	-0.3%
Volume/Mix	-7.0%		-5.5%	0.0%	0.5%	2.0%	
Price	2.5%		2.0%	0.0%	0.0%	0.0%	
Acquisition/Divestiture	0.0%	-0.8%	0.0%	0.0%	0.0%	0.0%	0.0%
FX impact	<u>0.5%</u>	-0.2%	<u>0.0%</u>	<u>0.0%</u>	<u>0.0%</u>	<u>0.0%</u>	0.0%
Americas	-4.0%	1.7%	-3.5%	0.0%	0.5%	2.0%	-0.3%
Constant currency	11.0%	7.2%	10.0%	3.5%	0.0%	0.0%	3.4%
Volume/Mix	0.0%		0.0%	0.0%	0.0%	0.0%	
Price	11.0%		10.0%	3.5%	0.0%	0.0%	
FX impact	<u>10.0%</u>	1.4%	<u>0.0%</u>	<u>0.0%</u>	<u>0.0%</u>	<u>0.0%</u>	0.0%
EMEA	21.0%	8.6%	10.0%	3.5%	0.0%	0.0%	3.4%
Constant currency	14.5%	5.8%	5.0%	-5.0%	5.0%	-5.0%	0.0%
Volume/Mix	12.5%		5.0%	-5.0%	5.0%	-5.0%	
Price	2.0%		0.0%	0.0%	0.0%	0.0%	
FX impact	<u>1.0%</u>	-5.0%	<u>0.0%</u>	<u>0.0%</u>	<u>0.0%</u>	<u>0.0%</u>	0.0%
Asia/Pacific	15.5%	0.8%	5.0%	-5.0%	5.0%	-5.0%	0.0%
Constant currency	0.5%	2.8%	-0.2%	0.0%	1.0%	1.0%	0.5%
M&A	0.0%	-0.5%	0.0%	0.0%	0.0%	0.0%	0.0%
FX impact	<u>2.3%</u>	<u>-0.5%</u>	<u>0.0%</u>	<u>0.0%</u>	<u>0.0%</u>	<u>0.0%</u>	<u>0.0%</u>
Total consumer segment	2.8%	1.8%	-0.2%	0.0%	1.0%	1.0%	0.5%
Flavor solutions Segment							
Constant currency	7.5%	10.2%	3.0%	1.0%	0.0%	0.0%	1.0%
Volume/Mix	1.0%		1.0%	1.0%	0.0%	0.0%	
Price	6.5%		2.0%	0.0%	0.0%	0.0%	
Acquisition	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
FX impact	<u>1.0%</u>	0.9%	<u>0.0%</u>	<u>0.0%</u>	<u>0.0%</u>	<u>0.0%</u>	0.0%
Americas	8.5%	11.1%	3.0%	1.0%	0.0%	0.0%	1.0%
Constant currency	11.0%	14.4%	-3.0%	0.0%	0.0%	0.0%	-0.8%
Volume/Mix	-5.5%		-3.0%	0.0%	0.0%	0.0%	
Price	16.5%		0.0%	0.0%	0.0%	0.0%	
Acquisition/Divestiture	-3.0%		-3.0%	-3.0%	-3.0%		
FX impact	<u>10.0%</u>	-1.1%	<u>0.0%</u>	<u>0.0%</u>	<u>0.0%</u>	<u>0.0%</u>	0.0%
EMEA	18.0%	13.3%	-6.0%	-3.0%	-3.0%	0.0%	-0.8%
Constant currency	8.0%	11.9%	8.0%	3.0%	0.0%	0.0%	2.8%
Volume/Mix	4.0%		5.0%	0.0%	0.0%	0.0%	
Price	4.0%		3.0%	3.0%	0.0%	0.0%	
FX impact	<u>1.0%</u>	-4.8%	<u>0.0%</u>	<u>0.0%</u>	<u>0.0%</u>	<u>0.0%</u>	0.0%
Asia/Pacific	9.0%	7.2%	8.0%	3.0%	0.0%	0.0%	2.8%
Constant currency	8.3%	11.1%	2.5%	1.0%	0.0%	0.0%	0.8%
M&A	-0.5%	-0.1%	-0.5%	-0.5%	-0.5%	0.0%	-0.4%
FX impact	<u>2.5%</u>	<u>-0.1%</u>	<u>0.0%</u>	<u>0.0%</u>	<u>0.0%</u>	<u>0.0%</u>	<u>0.0%</u>
Total flavor solutions segment	10.3%	10.9%	2.0%	0.5%	-0.5%	0.0%	0.5%

Source: MKC, BofA Global Research estimates

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Income statement

Exhibit 10: Summary income statement

We model FY23 adj. EPS of \$2.64

	Nov-21	Feb-22	May-22	Aug-22	Nov-22	Nov-22	Feb-23	May-23	Aug-23	Nov-23	Nov-23	Nov-24	Nov-25
Nov Year End	2021	1Q22	2Q22	3Q22	4Q22	2022	1Q23	2Q23	3Q23	4Q23E	2023E	2024E	2025E
Net Sales	\$6,317.9	\$1,522.4	\$1,536.8	\$1,595.6	\$1,695.7	\$6,350.5	\$1,565.5	\$1,659.2	\$1,684.7	\$1,791.7	\$6,701.1	\$6,732.4	\$6,917.5
Cost of Goods Sold	3812.3	962.0	1013.8	1028.9	1071.3	4076.0	1002.6	1043.7	1061.9	1,109.0	4217.2	4222.5	4307.5
Gross Profit	\$2,505.6	\$560.4	\$523.0	\$566.7	\$624.4	\$2,274.5	\$562.9	\$615.5	\$622.8	\$682.6	\$2,483.8	\$2,509.9	\$2,610.1
Selling General & Admin	1404.1	333.3	349.2	328.1	346.5	1,357.1	336.1	380.5	371.7	385.0	1,473.3	1,480.9	1,521.6
Operating income (adjusted)	\$1,101.5	\$227.1	\$173.8	\$238.6	\$277.9	\$917.4	\$226.8	\$235.0	\$251.1	\$297.6	\$1,010.5	\$1,029.0	\$1,088.4
Interest expense	136.6	33.1	33.7	37.9	44.4	149.1	50.6	52.2	52.7	49.5	205.0	199.1	191.1
Other income (expense), net	17.3	6.2	6.3	27.8	8.4	48.7	11.1	12.5	7.1	11.5	42.2	40.0	40.0
Earnings before income taxes	\$982.2	\$200.2	\$146.4	\$228.5	\$241.9	\$817.0	\$187.3	\$195.3	\$205.5	\$259.6	\$847.7	\$869.9	\$937.4
Income tax expense	197.1	39.5	27.2	48.4	55.8	170.9	40.9	43.5	44.0	57.1	185.5	191.4	206.2
Adj. net income from cons ops	\$785.1	\$160.7	\$119.2	\$180.1	\$186.1	\$646.1	\$146.4	\$151.8	\$161.5	\$202.5	\$662.2	\$678.6	\$731.1
Income from uncons ops	38.8	9.3	10.4	7.5	10.6	37.8	14.0	10.3	13.4	13.4	51.1	50.0	52.0
Net income attributable to MKC	\$823.9	\$170.0	\$129.6	\$187.6	\$196.7	\$683.9	\$160.4	\$162.1	\$174.9	\$215.9	\$713.3	\$728.6	\$783.1
Non-recurring items	(68.6)	(15.1)	(11.1)	35.3	(11.0)	(1.9)	(21.3)	(10.0)	(4.8)	-	(36.1)	-	-
GAAP net income	\$755.3	\$154.9	\$118.5	\$222.9	\$185.7	\$682.0	\$139.1	\$152.1	\$170.1	\$215.9	\$677.2	\$728.6	\$783.1
GAAP EPS	\$2.80	\$0.57	\$0.44	\$0.82	\$0.69	\$2.52	\$0.52	\$0.56	\$0.63	\$0.80	\$2.51	\$2.70	\$2.90
Adjusted EPS	\$3.05	\$0.63	\$0.48	\$0.69	\$0.73	\$2.53	\$0.59	\$0.60	\$0.65	\$0.80	\$2.64	\$2.70	\$2.90
Weighted avg diluted shares	270.0	270.5	270.5	270.2	269.9	270.3	269.8	269.8	270.1	270.1	270.0	270.1	270.1
Dividends Per share	\$1.36	\$0.37	\$0.37	\$0.37	\$0.39	\$1.50	\$0.39	\$0.39	\$0.39	\$0.41	\$1.58	\$1.68	\$1.78
YoY growth Dividend	10%	9%	9%	9%	15%	10%	5%	5%	5%	6%	6%	6%	6%
EBITDA calculation													
Adjusted Operating Profit	\$1,101.5	\$227.1	\$173.8	\$238.6	\$277.9	\$917.4	\$226.8	\$235.0	\$251.1	\$297.6	\$1,010.5	\$1,029.0	\$1,088.4
(+) Other income	17.3	6.2	6.3	27.8	8.4	48.7	11.1	12.5	7.1	11.5	42.2	40.0	40.0
(+) Income from uncons ops	38.8	9.3	10.4	7.5	10.6	37.8	14.0	10.3	13.4	13.4	51.1	50.0	52.0
(+) Stock-based comp	66.6	11.1	25.8	12.2	11.2	60.3	11.8	26.7	12.6	12.5	63.6	50.0	50.0
Adjusted EBIT	\$1,224.2	\$253.7	\$216.3	\$286.1	\$308.1	\$1,064.2	\$263.7	\$284.5	\$284.2	\$335.0	\$1,167.4	\$1,169.0	\$1,230.4
(+) Depreciation & Amortization	186.3	49.0	49.2	50.0	52.4	200.6	47.8	48.8	53.8	52.5	202.9	210.0	210.0
Adjusted EBITDA	\$1,410.5	\$302.7	\$265.5	\$336.1	\$360.5	\$1,264.8	\$311.5	\$333.3	\$338.0	\$387.5	\$1,370.3	\$1,379.0	\$1,440.4
Margin Analysis		-408.43	-277.85	148.47	130.61		-86.60	113.96	-12.82	113.20			
Gross Margin	39.7%	36.8%	34.0%	35.5%	36.8%	35.8%	36.0%	37.1%	37.0%	38.1%	37.1%	37.3%	37.7%
Total SG&A % Sales	22.2%	21.9%	22.7%	20.6%	20.4%	21.4%	21.5%	22.9%	22.1%	21.5%	22.0%	22.0%	22.0%
Operating Margin	17.4%	14.9%	11.3%	15.0%	16.4%	14.4%	14.5%	14.2%	14.9%	16.6%	15.1%	15.3%	15.7%
Operating Margin (revenue driver)	17.4%	14.9%	11.3%	15.0%	16.4%	14.4%	14.5%	14.2%	14.9%	16.6%	15.1%	15.3%	15.7%
Adjusted EBIT margin	19.4%	16.7%	14.1%	17.9%	18.2%	16.8%	16.8%	17.1%	16.9%	18.7%	17.4%	17.4%	17.8%
Adjusted EBITDA margin	22.3%	19.9%	17.3%	21.1%	21.3%	19.9%	19.9%	20.1%	20.1%	21.6%	20.4%	20.5%	20.8%
Pre-tax Margin	15.5%	13.2%	9.5%	14.3%	14.3%	12.9%	12.0%	11.8%	12.2%	14.5%	12.7%	12.9%	13.6%
Net Margin (continuing ops)	12.4%	10.6%	7.8%	11.3%	11.0%	10.2%	9.4%	9.1%	9.6%	11.3%	9.9%	10.1%	10.6%
Tax rate	20.1%	19.7%	18.6%	21.2%	23.1%	20.9%	21.8%	22.3%	21.4%	22.0%	21.9%	22.0%	22.0%
YoY % Change													
Sales	12.8%	2.8%	-1.3%	3.0%	-2.0%	0.5%	2.8%	8.0%	5.6%	5.7%	5.5%	0.5%	2.8%
Gross Profit	8.9%	-4.0%	-14.9%	-5.5%	-11.8%	-9.2%	0.4%	17.7%	9.9%	9.3%	9.2%	1.0%	4.0%
SG&A	9.6%	3.7%	-2.1%	0.2%	-13.1%	-3.3%	0.8%	9.0%	13.3%	11.1%	8.6%	0.5%	2.7%
Operating Profit	8.1%	-13.5%	-32.6%	-12.4%	-10.0%	-16.7%	-0.1%	35.2%	5.2%	7.1%	10.1%	1.8%	5.8%
Pre-tax Profit	9.0%	-14.2%	-35.3%	-5.5%	-13.8%	-16.8%	-6.4%	33.4%	-10.1%	7.3%	3.8%	2.6%	7.8%
Net Income (continuing ops)	8.7%	-10.9%	-32.3%	-13.3%	-15.8%	-17.7%	-8.9%	27.3%	-10.3%	8.8%	2.5%	2.5%	7.8%
Adjusted EPS	7.7%	-12.4%	-30.5%	-13.6%	-13.5%	-17.1%	-5.4%	25.4%	-6.7%	9.7%	4.4%	2.1%	7.5%

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

I, Peter T. Galbo, CFA, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

US - Consumables Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	BellRing Brands Inc	BRBR	BRBR US	Bryan D. Spillane
	Celsius Holdings Inc	CELH	CELH US	Jonathan Keypour
	Coca-Cola Europacific Partners plc	CCEP	CCEP US	Bryan D. Spillane
	Colgate-Palmolive Company	CL	CL US	Bryan D. Spillane
	Constellation Brands	STZ	STZ US	Bryan D. Spillane
	Coty Inc.	COTY	COTY US	Anna Lizzul
	e.l.f. Beauty	ELF	ELF US	Anna Lizzul
	Freshpet, Inc.	FRPT	FRPT US	Bryan D. Spillane
	Kenvue Inc.	KVUE	KVUE US	Anna Lizzul
	Keurig Dr Pepper	KDP	KDP US	Bryan D. Spillane
	Kraft Heinz Company	KHC	KHC US	Bryan D. Spillane
	Lamb Weston Holdings Inc	LW	LW US	Peter T. Galbo, CFA
	McCormick & Co.	MKC	MKC US	Peter T. Galbo, CFA
	Mondelez International	MDLZ	MDLZ US	Bryan D. Spillane
	Monster Beverage Corporation	MNST	MNST US	Peter T. Galbo, CFA
	PepsiCo	PEP	PEP US	Bryan D. Spillane
	Philip Morris International	PM	PM US	Lisa K. Lewandowski
	Pilgrim's Pride Corp.	PPC	PPC US	Peter T. Galbo, CFA
	The Coca Cola Company	KO	KO US	Bryan D. Spillane
	The Procter & Gamble Company	PG	PG US	Bryan D. Spillane
NEUTRAL				
	Altria Group	MO	MO US	Lisa K. Lewandowski
	Church & Dwight	CHD	CHD US	Anna Lizzul
	Clorox	CLX	CLX US	Anna Lizzul
	Conagra Brands, Inc.	CAG	CAG US	Peter T. Galbo, CFA
	Estee Lauder Companies Inc.	EL	EL US	Bryan D. Spillane
	General Mills	GIS	GIS US	Bryan D. Spillane
	JM Smucker Company	SJM	SJM US	Peter T. Galbo, CFA
	Kellanova	K	K US	Peter T. Galbo, CFA



US - Consumables Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	Molson Coors Beverage Company	TAP	TAP US	Bryan D. Spillane
	The Duckhorn Portfolio, Inc.	NAPA	NAPA US	Peter T. Galbo, CFA
	The Hershey Company	HSY	HSY US	Bryan D. Spillane
	Utz Brands	UTZ	UTZ US	Peter T. Galbo, CFA
	WK Kellogg Co	KLG	KLG US	Peter T. Galbo, CFA

UNDERPERFORM

	Brown-Forman Corporation	BFB	BF/B US	Bryan D. Spillane
	Campbell Soup Company	CPB	CPB US	Peter T. Galbo, CFA
	Canopy Growth	YWEED	WEED CN	Lisa K. Lewandowski
	Canopy Growth	CGC	CGC US	Lisa K. Lewandowski
	Cronos Group	YCRON	CRON CN	Lisa K. Lewandowski
	Cronos Group	CRON	CRON US	Lisa K. Lewandowski
	Dole plc	DOLE	DOLE US	Bryan D. Spillane
	Herbalife Nutrition Ltd	HLF	HLF US	Anna Lizzul
	Hormel Foods Corp.	HRL	HRL US	Peter T. Galbo, CFA
	Kimberly-Clark	KMB	KMB US	Anna Lizzul
	Tyson Foods, Inc.	TSN	TSN US	Peter T. Galbo, CFA

RSTR

	The Vita Coco Company, Inc.	COCO	COCO US	Bryan D. Spillane
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IQmethodSM Measures Definitions**Business Performance**

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill

Amortization

Shareholders' Equity

Sales

N/A

N/A

Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

Numerator

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

EV = Current Share Price × Current Shares + Minority Equity + Net Debt +

Other LT Liabilities

Enterprise Value

Denominator

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap = Current Share Price × Current Basic Shares

Sales

Basic EBIT + Depreciation + Amortization

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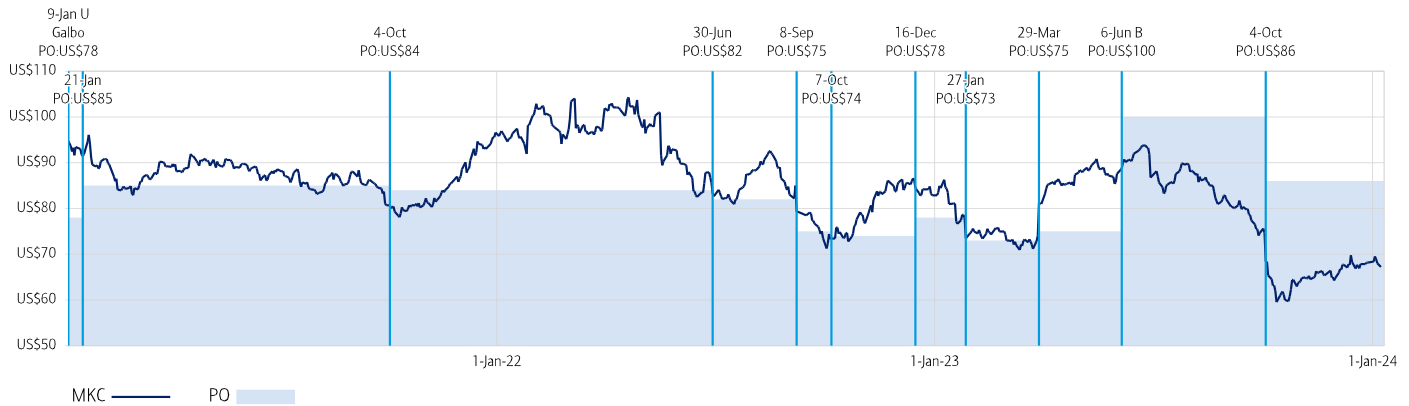
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Disclosures

Important Disclosures

McCormick (MKC) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

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

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)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2} Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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