

Stock in Focus

McCORMICK & CO INC.(MKC)

By the Loomis Sayles Global Equity Opportunities Team

THE LOOMIS SAYLES GLOBAL EQUITY FUND

- *The Loomis Sayles Global Equity Fund uses a disciplined, bottom-up, unconstrained approach to investing.*
- *Based on deep, fundamental research, the Fund features a concentrated portfolio of high-quality companies with the ability to grow their intrinsic value.*
- *The Loomis Sayles Global Equity Fund's proven investment strategy features a long-term track record going back to 2004*.*

** This refers to the Loomis Sayles Global Equity Composite upon which the strategy of the Loomis Sayles Global Equity Fund is based. The Loomis Sayles Global Equity Fund was launched on 1 November 2018.*



About Loomis Sayles

Boston based Loomis, Sayles & Company has successfully been managing money for investors since 1926. The firm currently manages over \$250 billion USD on behalf of clients worldwide. With extensive resources across the US, Europe and Asia, Loomis Sayles is well positioned to manage global equities and deliver sound long term performance.

Stock in Focus

McCormick & Co. Inc is a global leader in spices and seasonings. Holding around 20% market share of an \$11 billion packaged spices and seasonings market, McCormick is four times the size of its next-largest competitor. McCormick also operates as a leading private-label producer and has a flavour solutions segment where it manufactures flavours for food manufacturers, food service operators and restaurants, such as the Frito Lay offerings from PepsiCo. Recognisable McCormick brands in Australia include Aeroplane Jelly as well as Keen's branded products. The company is a 'dividend aristocrat', with a history of raising its dividend consistently over the past 32 years.

Investment Thesis

McCormick meets our three alpha drivers of quality, intrinsic value growth and attractive valuation.

Alpha drivers

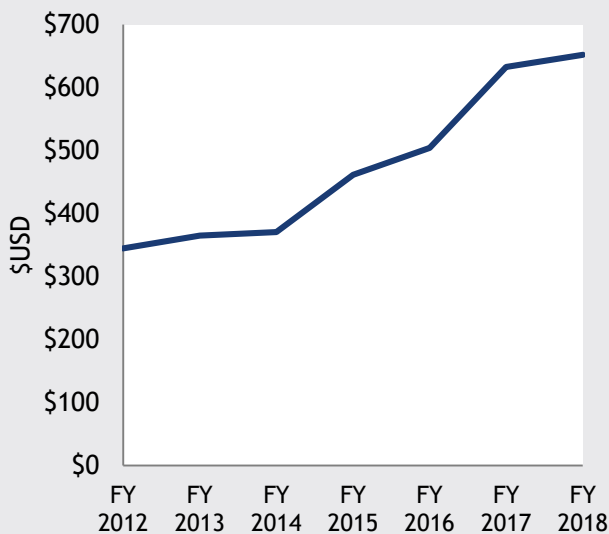
Quality assessment: McCormick rates highly across our quality criteria. It has a diversified business model with its branded products, a private label offering and a flavour solutions segment. In branded products, McCormick's strong management team has developed a solid portfolio of brands (McCormick, Lawry's and ethnic brands Zatarian's Thai Kitchen and Simply Asia); they continue to innovate spending, 7% of sales on R&D and marketing, which enables them to meet evolving customer preferences, such as organic and gluten free items. The company has significant intangible value in its brand name, patented flavour cell encapsulation and relationship with its suppliers. Its extensive distribution network is also a meaningful advantage when incorporating new brands. Lastly, the market structure remains fragmented providing growth opportunities for McCormick.

Intrinsic Value Growth: The company has multiple levers to grow its intrinsic value, or free cash flow: solid revenue growth, margin expansion and the low capital intensity of the business. The value generated through the compounding of these cash flows over time, or the ‘duration effect’, is an attribute that the Loomis Sayles Global Equity Fund seeks to capture.

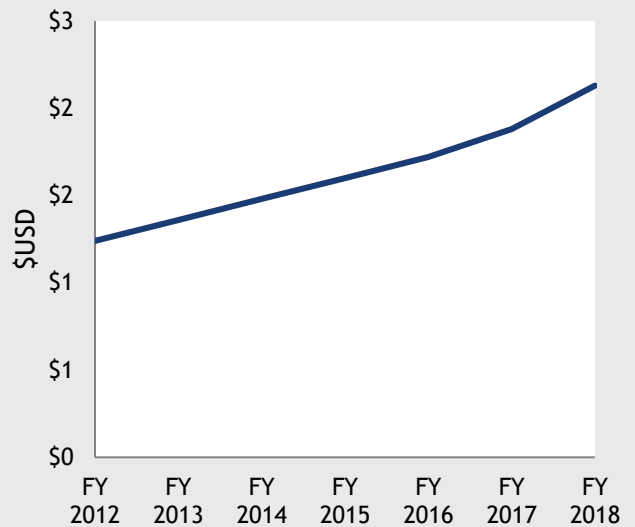
Valuation: A complete, robust understanding of valuation requires analysis of three potential scenarios. Using Discounted Cash Flow (DCF) as the primary valuation tool, we analyse the best, base and downside scenarios for each security. This process has enabled us to purchase shares of McCormick at attractive valuations, as well as opportunistically trim as the stock approached the best-case valuation.

Key Growth & Value Measures

FREE CASH FLOW PER SHARE



DIVIDEND PER SHARE



The Loomis Sayles Global Equity Composite has been invested McCormick for just over two years, with a position first initiated in June 2017. The Fund’s holding in McCormick reflects the rigorous investment process undertaken by the Loomis Sayles Global Equity team.

Disclaimer

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