

Middleby Corporation (MIDD)

\$74.34 (As of 07/10/20)

Price Target (6-12 Months): **\$78.00**

Long Term: 6-12 Months

Zacks Recommendation:
Neutral

(Since: 06/16/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

2-Buy

Zacks Style Scores:

VGM:B

Value: B

Growth: B

Momentum: D

Summary

Middleby is poised to benefit from efforts to broaden the product portfolio, cost-saving actions in the wake of the pandemic, supply-chain initiatives and healthy liquidity position. Also, synergistic gains from acquired assets and solid backlog at the Food Processing Equipment Group segment might be beneficial. Further, its earnings estimates for 2020 and 2021 have been revised upward in the past 60 days. However, the company believes that low demand environment, stemming from the coronavirus outbreak, might adversely impact its operational performance in the quarters ahead. High debt levels can increase its financial obligations. We find the company more leveraged than the industry. Moreover, rising costs of sales and expenses have been concerning for Middleby. In the past six months, the company's shares have underperformed the industry.

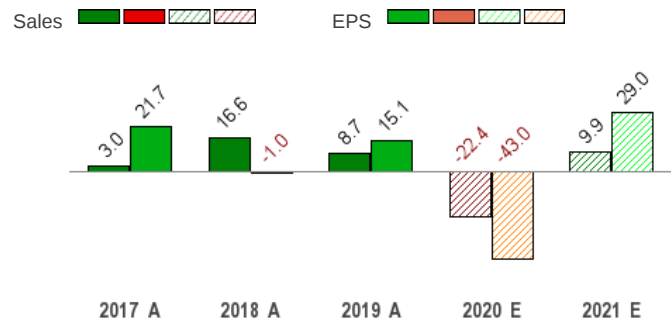
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$142.98 - \$41.73
20 Day Average Volume (sh)	1,789,220
Market Cap	\$4.1 B
YTD Price Change	-32.1%
Beta	1.64
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Manufacturing - General Industrial
Zacks Industry Rank	Bottom 38% (156 out of 252)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	12.3%
Last Sales Surprise	-1.4%
EPS F1 Est- 4 week change	1.7%
Expected Report Date	08/05/2020
Earnings ESP	6.4%
P/E TTM	10.8
P/E F1	18.6
PEG F1	NA
P/S TTM	1.4

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	688 E	571 E	645 E	753 E	2,525 E
2020	677 A	442 E	524 E	654 E	2,297 E
2019	687 A	761 A	724 A	788 A	2,959 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$1.36 E	\$1.11 E	\$1.27 E	\$1.71 E	\$5.16 E
2020	\$1.46 A	\$0.38 E	\$0.76 E	\$1.36 E	\$4.00 E
2019	\$1.38 A	\$1.70 A	\$1.72 A	\$2.00 A	\$7.02 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 07/10/2020. The reports text is as of 07/13/2020.

Overview

Elgin, IL-based The Middleby Corporation (MIDD) provides cooking, warming, food preparation and packaging equipment to commercial, industrial processing and residential markets. Formerly known as Oven Company, it was acquired by TMC Industries Ltd. in 1983. Post the acquisition, the company's name was changed to Middleby Corporation in 1985.

The company has manufacturing and distribution operations in Europe, Asia and Latin America.

The company operates in three main segments.

- **Commercial Foodservice Equipment Group** (65.4% of total revenues in first-quarter 2020): This segment manufactures cooking equipment for restaurants and institutional kitchens. The products include conveyor ovens, proofing ovens, speed cooking ovens and induction cooking equipment. The equipment in this segment are sold under brands like Combi, Lang, MPC, PrefectFry, CookTek, Southbend and Wells.

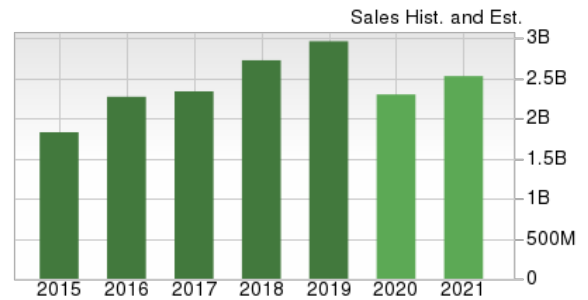
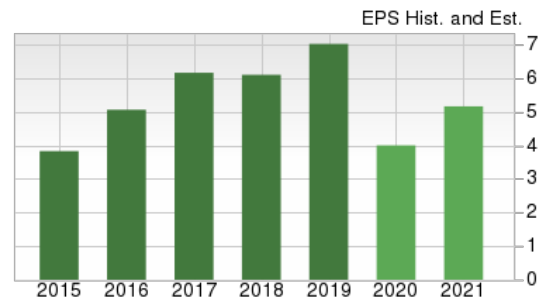
Notably, this segment's manufacturing operations are based in Arkansas, Illinois, California, Michigan, North Carolina, Texas, Washington, Australia, China, Denmark and Italy, among others.

- **Food Processing Equipment Group** (15.4%): This segment manufactures equipment for the food processing industry. It offers a variety of products including batch ovens, processing ovens, defrosting and packaging equipment among others. The products are sold under various brands such as Auto-Bake, Alkar, Cozzini and RapidPak.

This segment's manufacturing operations are located in Georgia, North Carolina, Illinois, Iowa, Oklahoma, Washington, Denmark, France, Germany, India, and the United Kingdom, among others.

- **Residential Kitchen Equipment Group** (19.2%): This segment manufactures equipment for the residential market, recording the revenues for Viking and Brigade. It offers ovens, dishwashers, cooktops, microwaves and other outdoor equipment.

Notably, this segment's manufacturing facilities are located in California, Mississippi, Michigan, Wisconsin, France, Ireland and the United Kingdom.



Reasons To Buy:

- ▲ In first-quarter 2020, Middleby's earnings surpassed estimates by 12.3%, while increased 5.8% from the year-ago quarter figure. The year-over-year improvement was driven by benefits from acquired assets and improved operating results. Notably, operating income in the quarter increased 4.3% year over year and margin expanded 90 basis points (bps). Of late, the company noted that its integration efforts at acquisitions, execution of supply-chain initiatives and improving business processes have been proving beneficial. Also, in response to the coronavirus crisis, it has been executing several cost-control measures to maintain a healthy capital structure. Some of the actions taken by the company include the reduction of discretionary expenses, eliminating unnecessary investments and adjustment of workforce. Going forward, the measures will help it maintain a healthy margin performance amid the crisis. In addition, analysts have become bullish about the company over the past 60 days. Its earnings estimates for 2020 have been increased from \$3.93 to \$4.00. In addition, the Zacks Consensus Estimate for 2021 earnings has gone up from \$5.11 to \$5.16.
- ▲ Middleby's robust liquidity position adds to its strength. In the last three years (2017-2019), the company's cash flow from operations increased 8.7% (CAGR). Notably, in the first quarter of 2020, its cash flow from operations increased to \$87.1 million, reflecting growth of 156.9% from the year-ago quarter. Notably, in the quarter, the company's free cash flow recorded an increase of 201.2% to \$78 million on a year-over-year basis. Also its cash and cash equivalents increased to \$381 million, up from \$81.2 million in the year-ago quarter. Notably, the company's healthy liquidity position might help it tide over the difficult operating conditions caused by the pandemic. In addition, strong backlog level at the Food Processing Equipment Group segment coupled with Middleby's effort to expand its product portfolio with the addition of COVID-19 containment-related products will likely support its top-line performance.
- ▲ Middleby is currently following an acquisition-based growth strategy. In 2019, it acquired Synesso, Evo, Powerhouse Dynamics, Ss Brewtech and Cooking Solutions Group for its Commercial Foodservice Equipment Group, whereas, it acquired Brava for its Residential Kitchen Equipment Group and Pacproinc for its Food Processing Equipment Group. Also, the company acquired RAM Fry Dispensers in January 2020. The buyout is expected to strengthen Middleby's product offerings in the restaurant automation platform. In addition, the company's Deutsche Beverage buyout (March 2020) is expected to strengthen its product offerings in the beverage platform. Notably, acquired assets boosted its sales by 5.2% in the first quarter of 2020.

Business acquisitions, healthy liquidity position and focus on supply-chain initiatives will likely benefit Middleby in the quarters ahead. Also, its cost-saving measures might help deal with the pandemic-related financial stress.

Reasons To Sell:

- ▼ In first-quarter 2020, Middleby's organic sales declined 5.9% year over year, with a fall of 5% recorded for the Residential Kitchen Equipment Group, and 8.7% for the Commercial Foodservice Equipment Group. For 2020, the company believes that its Commercial Foodservice Equipment Group will suffer from lower demand environment and an expected reduction in restaurant openings on account of the coronavirus outbreak. Notably, in April 2020, incoming orders in the segment declined about 65% on a year-over-year basis. Also, for the Residential Kitchen Equipment Group, the company is witnessing lower sales in both the U.S. and U.K. markets on account of the outbreak and anticipates witnessing continued low demand environment across its businesses. The incoming orders for April 2020 in the segment were down 53%. For the Food Processing Equipment Group, the company believes that the adverse impact on sales mix due to the pandemic might affect its business performance. Notably, incoming orders for April 2020 declined 28% in the segment. In the last six months, Middleby's shares lost 31.4% compared with the industry's decline of 11%.

Weak demand environment due to the coronavirus outbreak, rising costs, forex woes and high debts might weigh on Middleby's performance in the quarters ahead.
 - ▼ Middleby is currently dealing with rising costs of sales. Although in the first quarter of 2020, its cost of sales edged down 0.5% year over year, it expanded 9.3% (CAGR) in the last three years (2017-2019). Also, its selling, general and administrative expenses expanded 8.2% (CAGR) in the last three years (2017-2019). Rising costs, if unchecked, will likely dent the company's margins in the quarters ahead.
 - ▼ Middleby's long-term debt in the last three years (2017-2019) rose 22.2% (CAGR). Also, at the end of the first quarter of 2020, the metric grew 16.4% sequentially to \$2,177.2 million. Also, we find the company more leveraged than the industry. The stock's long-term debt-to-capital ratio is 0.54, higher than the industry's 0.48. We believe that a highly leveraged balance sheet can inflate the company's financial obligations and hurt profitability. In addition, international businesses have exposed the company to risks arising from geopolitical issues, unfavorable movements in foreign currencies and others. For instance, in fourth-quarter 2019 and first-quarter 2020, forex woes had negative impacts of 0.5% and 0.6%, respectively, on revenues. We believe that due to large international exposure, the company might continue facing hurdles from forex woes.
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Last Earnings Report

Middleby Q1 Earnings Surpass Estimates, Sales Miss

The Middleby Corporation reported mixed results for first-quarter 2020, with earnings surpassing estimates by 12.3% and revenues missing the same by 1.4%.

The company's adjusted earnings in the reported quarter were \$1.46 per share, surpassing the Zacks Consensus Estimate of \$1.30. Also, the bottom line rose 5.8% from the year-ago quarter figure of \$1.38 on benefits from acquired assets and improved operating income.

Quarter Ending **03/2020**

Report Date	May 07, 2020
Sales Surprise	-1.41%
EPS Surprise	12.31%
Quarterly EPS	1.46
Annual EPS (TTM)	6.88

Revenue Picture

In the quarter under review, Middleby's sales were \$677.5 million, reflecting a year-over-year decline of 1.4%. Organic revenues in the quarter declined 5.9% year over year. Acquired assets aided sales by 5.2%, while unfavorable movements in foreign currencies had a negative impact of 0.6%.

Notably, its net sales missed the Zacks Consensus Estimate of \$687 million.

The company reports net sales under three segments. A brief discussion of the segments is provided below:

Sales from the **Commercial Foodservice Equipment Group** (representing 65.4% of the reported quarter's net sales) were \$443.1 million, decreasing 3.1% year over year. Sales, excluding the impact of forex woes and buyouts, declined 8.7% in the quarter.

Sales from the **Residential Kitchen Equipment Group** (representing 19.2% of the reported quarter's net sales) totaled \$130.1 million, down 4.9% year over year. Sales (excluding the impact of forex woes and buyouts) in the quarter declined 5%.

Sales from the **Food Processing Equipment Group** (representing 15.4% of the reported quarter's net sales) were \$104.3 million, increasing 12.8% year over year. Excluding the impact of forex woes and buyouts, sales increased 6.1% year over year.

Margin Profile

In the quarter under review, Middleby's cost of sales fell 0.5% year over year to \$427.3 million. It represented 63.1% of sales compared with 62.5% in the year-ago quarter. Gross profit declined 2.8% year over year to \$250.2 million. Gross margin decreased 60 basis points (bps) to 36.9%.

Selling, general and administrative expenses decreased 1.3% year over year to \$143.9 million. It represented 21.2% of sales in the reported quarter. Operating income in the quarter under review improved 4.3% year over year to \$105.4 million. Operating margin rose 90 bps year over year to 15.6%. Net interest expenses and deferred financing amortization totaled \$15.7 million, down from \$20.5 million in the year-ago quarter.

Balance Sheet and Cash Flow

Exiting the first quarter, Middleby had cash and cash equivalents of \$381 million, up from \$94.5 million at the end of the last reported quarter. Long-term debt grew 16.4% sequentially to \$2,177.2 million.

In the quarter, the company generated net cash of \$87.1 million from operating activities, reflecting growth of 156.9% from the year-ago quarter. Capital expenditure totaled \$9.2 million versus \$8.1 million in first-quarter 2019. Free cash flow increased 202.2% year over year to almost \$78 million.

Outlook

In the quarters ahead, Middleby anticipates gaining from the focus on product innovation, improving selling techniques and solid offerings to customers. Also, in response to the coronavirus crisis, it has been executing cost-control measures to maintain a healthy capital structure. Some of the actions being taken by the company include the reduction of discretionary expenses and adjustment of global office and production workforces.

For the Commercial Foodservice Equipment Group, the company expects to benefit from innovative products and investments it made for enhancing technology capabilities. Although it witnessed sales improvements from the restaurant industry during April compared to the previous month, it expects sales performance to remain under pressure on account of the coronavirus outbreak in the near term.

For the Residential Kitchen Equipment Group, the company is witnessing lower sales in both the U.S. and UK markets on account of the coronavirus outbreak. Middleby anticipates experiencing continued low demand environment across its businesses in the quarters ahead.

For the Food Processing Equipment Group, stable backlog will likely aid its performance in the quarters ahead. Although of late the overall demand from the industry continues to be relatively stable, the company believes that the pandemic might affect its business performance in the near term.

Valuation

Middleby shares are down 32.2% in the year-to-date period and 46.1% over the trailing 12 months. Stocks in the Zacks sub-industry and the Zacks Industrial Products sector are down 10.1% and 11.7% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry declined 9.7%, while the sector decreased 4.7%.

The S&P 500 Index has moved down 0.8% year to date and increased 6.3% in the past year.

The stock is currently trading at 16.1x forward 12-month earnings per share, which compares to 25.82x for the Zacks sub-industry, 20.94x for the Zacks sector and 22.71x for the S&P 500 index.

Over the past five years, the stock has traded as high as 27.98x and as low as 5.91x, with a 5-year median of 19.48x. Our Neutral recommendation indicates that the stock will perform in line with the market. Our price target of \$78 reflects 16.91x forward 12-month earnings per share.

The table below shows summary valuation data for MIDD.

Valuation Multiples - MIDD					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	16.1	25.82	20.94	22.71
	5-Year High	27.98	26.62	21.55	22.71
	5-Year Low	5.91	15.6	12.56	15.27
	5-Year Median	19.48	19.68	16.8	17.59
P/S F12M	Current	1.71	3.13	2.68	3.55
	5-Year High	3.71	3.19	2.72	3.55
	5-Year Low	0.8	1.58	1.52	2.52
	5-Year Median	2.61	2.25	2.01	3.04

As of 07/10/2020

Industry Analysis Zacks Industry Rank: Bottom 38% (156 out of 252)



Top Peers

Company (Ticker)	Rec	Rank
Altra Industrial Motion Corp. (AIMC)	Outperform	2
Applied Industrial Technologies, Inc. (AIT)	Outperform	1
Colfax Corporation (CFX)	Neutral	2
Flowserve Corporation (FLS)	Neutral	3
IDEX Corporation (IEX)	Neutral	3
Ingersoll Rand Inc. (IR)	Neutral	2
Nordson Corporation (NDSN)	Neutral	3
Welbilt, Inc. (WBT)	Neutral	4

Industry Comparison Industry: Manufacturing - General Industrial				Industry Peers		
	MIDD	X Industry	S&P 500	CFX	IEX	IR
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	2	-	-	2	3	2
VGM Score	B	-	-	B	C	D
Market Cap	4.13 B	1.15 B	21.61 B	3.32 B	11.83 B	11.79 B
# of Analysts	3	3	14	10	7	5
Dividend Yield	0.00%	0.00%	1.92%	0.00%	1.27%	0.00%
Value Score	B	-	-	C	D	D
Cash/Price	0.09	0.10	0.07	0.11	0.05	0.05
EV/EBITDA	9.14	11.06	12.75	13.79	18.71	32.03
PEG Ratio	NA	3.16	2.87	4.46	3.37	3.41
Price/Book (P/B)	2.17	2.07	3.01	0.99	5.31	1.35
Price/Cash Flow (P/CF)	8.44	9.75	11.53	6.04	22.85	17.18
P/E (F1)	18.75	29.30	21.07	23.06	33.67	27.01
Price/Sales (P/S)	1.40	1.18	2.23	0.96	4.80	4.48
Earnings Yield	5.38%	3.09%	4.48%	4.35%	2.97%	3.71%
Debt/Equity	1.15	0.51	0.76	0.79	0.45	0.39
Cash Flow (\$/share)	8.81	2.49	6.94	4.64	6.87	1.65
Growth Score	B	-	-	B	A	D
Hist. EPS Growth (3-5 yrs)	14.24%	11.57%	10.90%	8.44%	13.62%	NA
Proj. EPS Growth (F1/F0)	-43.02%	-32.99%	-9.99%	-47.85%	-19.63%	-34.09%
Curr. Cash Flow Growth	13.23%	5.08%	5.51%	27.59%	4.80%	-25.03%
Hist. Cash Flow Growth (3-5 yrs)	16.08%	5.59%	8.55%	3.20%	7.29%	5.38%
Current Ratio	2.48	2.17	1.30	1.93	3.51	2.11
Debt/Capital	53.47%	34.28%	44.46%	44.24%	30.94%	28.13%
Net Margin	12.10%	4.33%	10.62%	-13.62%	16.92%	2.86%
Return on Equity	20.40%	10.81%	15.75%	8.89%	19.89%	2.12%
Sales/Assets	0.59	0.78	0.55	0.40	0.65	0.36
Proj. Sales Growth (F1/F0)	-22.38%	-9.17%	-2.52%	-20.72%	-10.97%	103.40%
Momentum Score	D	-	-	B	C	C
Daily Price Chg	4.79%	0.44%	1.51%	0.90%	-0.16%	1.62%
1 Week Price Chg	2.74%	1.46%	3.66%	6.86%	2.02%	4.52%
4 Week Price Chg	2.17%	0.43%	1.85%	3.59%	3.85%	-7.94%
12 Week Price Chg	50.88%	15.81%	12.57%	30.63%	6.89%	15.08%
52 Week Price Chg	-44.95%	-9.04%	-7.10%	6.38%	-7.21%	-12.33%
20 Day Average Volume	1,789,220	87,345	2,339,510	1,066,832	436,086	4,833,405
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	1.69%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 12 week change	-20.12%	-21.24%	-7.77%	-17.75%	-6.63%	106.67%
(Q1) EPS Est Mthly Chg	-0.79%	0.00%	0.00%	0.00%	0.00%	0.00%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	B
Growth Score	B
Momentum Score	D
VGM Score	B

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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