

Middleby Corporation (MIDD)

\$114.17 (As of 01/24/20)

Price Target (6-12 Months): **\$120.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 03/25/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

4-Sell

Zacks Style Scores:

VGM:C

Value: C

Growth: C

Momentum: F

Summary

Middleby stands to gain from strength in the Viking business, efforts to broaden product portfolio, improving selling techniques and international expansion in the quarters ahead. Also, the company is expected to gain from its inorganic growth strategy. Notably, acquired assets boosted Middleby's sales by 5.8% in the third quarter of 2019. In addition, various profitability actions will be beneficial. However, in the past three months, the company's shares have underperformed the industry. It faces headwinds from rising costs, forex woes and high debts. In addition, persistent weakness in the meat processing business might continue hurting Food Processing Equipment Group. Uncertainties in the U.K. might prove detrimental to the company's international business. Analysts have become bearish on the stock in the past seven days.

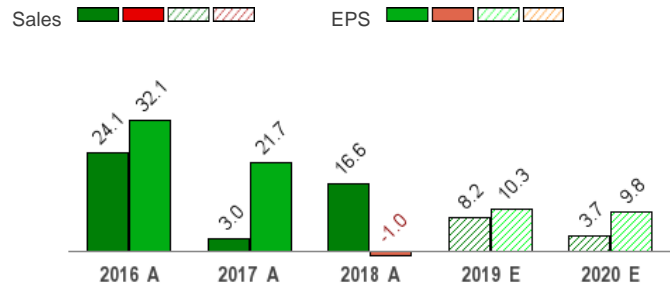
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$142.98 - \$105.77
20 Day Average Volume (sh)	382,689
Market Cap	\$6.4 B
YTD Price Change	4.3%
Beta	1.56
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Manufacturing - General Industrial
Zacks Industry Rank	Bottom 22% (200 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	5.5%
Last Sales Surprise	-5.0%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	02/26/2020
Earnings ESP	-2.4%
P/E TTM	17.3
P/E F1	15.5
PEG F1	NA
P/S TTM	2.2

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	716 E	781 E	745 E	793 E	3,053 E
2019	687 A	761 A	724 A	773 E	2,945 E
2018	585 A	668 A	713 A	757 A	2,723 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$1.62 E	\$1.86 E	\$1.84 E	\$2.02 E	\$7.39 E
2019	\$1.38 A	\$1.70 A	\$1.72 A	\$1.79 E	\$6.73 E
2018	\$1.18 A	\$1.63 A	\$1.56 A	\$1.79 A	\$6.10 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 01/24/2020. The reports text is as of 01/27/2020.

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** (69.2% of total revenues in third-quarter 2019): 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.

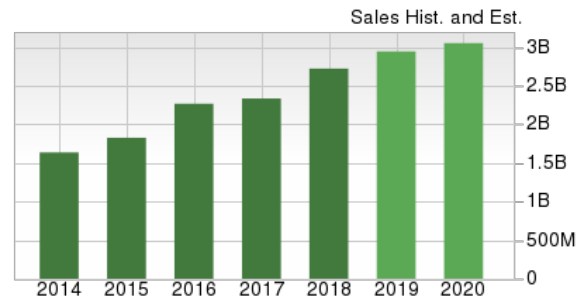
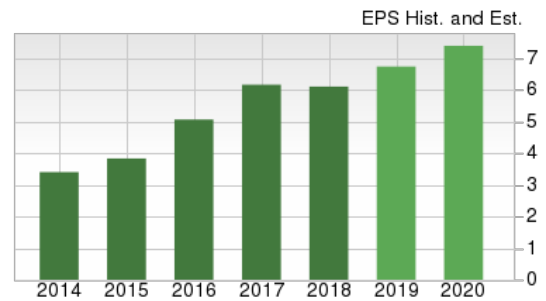
Notably, this segment's manufacturing operations are based in Arkansas, Illinois, California, Michigan, North Carolina, Texas, Washington, Australia, China, Denmark and Italy, among others.

- **Food Processing Equipment Group** (12.3%): 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** (18.5%): 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 third-quarter 2019, Middleby's earnings surpassed estimates by 5.52% while increased 4.2% from the year-ago quarter figure. The year-over-year improvement was driven by benefits from acquired assets and growth in margins. On a segmental basis, Commercial Foodservice Equipment Group rose 6.2% and Food Processing Equipment Group expanded 1%. Also, gross and operating margins grew 70 basis points (bps) and 170 bps, respectively. In the quarters ahead, the company is likely to benefit from product innovation, improving selling techniques, solid offerings to customers and focus on growth markets. Also, various profitability actions will be beneficial.

Business acquisitions, solid growth opportunities in business segments and focus on innovation and effective selling techniques will likely boost Middleby's near-term profitability.

▲ Middleby's third-quarter revenues improved 1.5% on a year-over-year basis. The company noted that the stellar performance was backed by benefits from acquisitions. For 2019, the company anticipates Commercial Foodservice Equipment Group to gain from expansion in international businesses, technologically-advanced products and solutions, effective marketing initiatives, acquired assets, and the increasing adoption of ventless cooking equipment. Moreover, Viking products, product introductions and residential showrooms will strengthen Residential Kitchen Equipment Group. The company anticipates Food Processing Equipment Group to gain from innovation investment and product.

▲ Middleby is currently following an acquisition-based growth strategy. In 2018, the company acquired Hinds-Bock, Ve.Ma.C, Firex, Josper, Taylor, M-TEK, Crown Food Service Equipment and EVO. In addition, it acquired Standex International Corporation's Cooking Solutions Group in April 2019. The buyout has been helping in extending and fortifying Middleby's existing product portfolio of cooking products. Also, the buyout of Powerhouse Dynamics (April 2019) complements the company's Connect IoT platform and help in serving customers efficiently. In June 2019, it acquired Ss Brewtech, while bought Packaging Progressions in July. Recent, the company added Brava Home to its portfolio. The buyout is expected to expand Middleby's product offerings in the residential and commercial markets. Notably, acquired assets boosted the company's sales by 5.8% in the third quarter of 2019.

Reasons To Sell:

- ▼ In the last three months, Middleby's shares declined 4% versus the industry's growth of 6.3%. Also, the company is currently dealing with rising costs of sales. For instance, in the third quarter of 2019, its cost of sales rose 0.4% year over year, while expanded 11.5% (CAGR) in the last five years (2014-2018). Also, selling, general and administrative expenses grew 2.2% and represented 20% of sales in the reported quarter. Notably, material cost inflation on account of tariffs affected the company's performance. However, pricing actions came in as a relief. Rising costs, if unchecked, will likely dent the company's margins in the quarters ahead. In addition, analysts have become increasingly bearish about the company over the past seven days. The company's earnings estimates for 2019 have decreased from \$6.74 to \$6.73, due to one downward estimate revision versus none upward.
- ▼ Middleby's long-term debt in the last five years (2014-2018) rose 26.3% (CAGR), while the metric stood at \$1,955.9 million at the end of third-quarter 2019. Net interest expenses and deferred financing amortization increased 8.9% year over year in the third quarter. Notably, the stock looks relatively leveraged than the industry. Its debt/capital is currently pegged at 51.3%, higher than 47.3% recorded by the industry. We believe that a highly leveraged balance sheet can inflate the company's financial obligations and hurt profitability.
- ▼ In third-quarter 2019, Residential Kitchen Equipment Group's sales declined 12.8% from the year-ago quarter due to weakness in the domestic appliance business and unfavorable market conditions in the U.K. (related to Brexit). Moreover, persistent lower sales due to the absence of large customer orders within the meat processing business hurt revenues of Middleby's Food Processing Equipment Group in the quarter. For 2019, the company expects Brexit-related issues and weak spending by restaurant chains to play spoilsport for Commercial Foodservice Equipment Group. In addition, issues related to meat processing will continue hurting Food Processing Equipment Group. Uncertainties related to the international business, mainly in the U.K., might continue hurting Residential Kitchen Equipment Group. Additionally, in the third quarter, unfavorable movements in foreign currencies had a negative impact of 1.1% on revenues. We believe that due to large international exposure, the company might continue facing hurdles from forex woes.

Uncertainties related to the U.K., issues in meat processing, forex woes, high debt level, and rising costs might continue to weigh on Middleby's performance in the quarters ahead.

Last Earnings Report

Middleby Q3 Earnings Surpass Estimates, Sales Lag

Middleby reported better-than-expected results for the third quarter of 2019, with earnings surpassing estimates by 5.52%. However, sales in the third quarter lagged estimates by 5.02%.

The company's adjusted earnings in the reported quarter were \$1.72 per share, surpassing the Zacks Consensus Estimate of \$1.63. Also, the bottom line rose 4.2% from the year-ago quarter figure of \$1.65 on benefits from acquired assets and growth in margins.

Quarter Ending **09/2019**

Report Date	Nov 06, 2019
Sales Surprise	-5.02%
EPS Surprise	5.52%
Quarterly EPS	1.72
Annual EPS (TTM)	6.59

Revenue Picture

In the quarter under review, Middleby's sales were \$724 million, reflecting year-over-year growth of 1.5%. Organic revenues in the quarter declined 2.9% year over year. Acquired assets grew sales by 5.8% while unfavorable movements in foreign currencies had a negative impact of 1.1%. Closure of non-core business had a negative 0.3% impact.

However, its net sales lagged the Zacks Consensus Estimate of \$762 million.

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

Sales from Commercial Foodservice Equipment Group (representing 69.2% of the reported quarter's net sales) were \$501 million, increasing 6.2% year over year. Sales, excluding the impact of forex woes and buyouts, grew 0.5% in the quarter.

Sales from Residential Kitchen Equipment Group (representing 18.5% of the reported quarter's net sales) totaled \$133.9 million, decreasing 12.8% year over year. Sales (excluding the impact of forex woes and buyouts) in the quarter declined 9.6%.

Sales from Food Processing Equipment Group (representing 12.3% of the reported quarter's net sales) were \$89.1 million, increasing 1% year over year. Excluding the impact of forex woes and buyouts, sales decreased 9.7% year over year.

Margins in Detail

In the quarter under review, Middleby's cost of sales rose 0.4% year over year to \$454 million. It represented 62.7% of sales compared with 63.4% in the year-ago quarter. Gross profit grew 3.4% year over year to \$270 million. Gross margin rose 70 basis points (bps) to 37.3%.

Selling, general and administrative expenses increased 2.2% year over year to \$144.5 million. It represented 20% of sales in the reported quarter. Operating income in the quarter under review improved 12.7% year over year to \$121.3 million. Operating margin rose 170 bps year over year to 16.8%.

Net interest expenses and deferred financing amortization totaled \$20.8 million, up from \$19.1 million in the year-ago quarter.

Balance Sheet and Cash Flow

Exiting the third quarter, Middleby had cash and cash equivalents of \$87.2 million, up 6.7% from \$81.7 million at the end of the last reported quarter. Long-term debt decreased 1.8% sequentially to \$1,955.9 million.

In the quarter, the company generated net cash of \$128.2 million from operating activities, increasing 21.6% from \$105.4 million generated in the year-ago quarter.

Outlook

In the quarters ahead, Middleby anticipates gaining from the focus on product innovation, improving selling techniques, solid offerings to customers and growth markets. Also, various profitability actions will be beneficial.

For Commercial Foodservice Equipment Group, the company expects expansion in international businesses, technologically-advanced products and solutions, effective marketing initiatives, and the increasing adoption of ventless cooking equipment to be beneficial. Also, acquired assets will be boon. However, Brexit-related issues and weak spending by restaurant chains might play spoilsport.

For Residential Kitchen Equipment Group, Middleby anticipates gaining from Viking products as well as focus on product introductions and residential showrooms.

For Food Processing Equipment Group, innovation investment and product launches will likely aid its performance, while issues related to the meat processing line of operations might be concerning.

Recent News

Middleby Acquires RAM Fry Dispensers

On **Jan 13, 2020**, Middleby announced that it acquired RAM Fry Dispensers — a subsidiary of Red Wing, MN-based Automated Equipment LLC. Financial terms of the transactions were kept under wraps.

RAM Fry Dispensers is engaged in manufacturing automated frozen fry dispensing equipment. Touted as user friendly, durable and cost-effective, the company's high-quality dispensers are mainly used in the restaurant chain market throughout the world.

Notably, the buyout is expected to strengthen Middleby's product offering in the restaurant automation platform. As noted by the company, the deal will complement its advanced fryer brands and will aid in further developing and integrating the RAM solutions with its current products.

Middleby Acquires Synesso

On **Dec 2, 2019**, Middleby announced that it acquired Seattle-based Synesso. The financial terms of the transactions have been kept under wraps.

Synesso is engaged in the designing and manufacturing of espresso machines (semi-automatic). These energy-efficient machines, with low maintenance costs, are mainly used in the commercial market. Synesso's revenue generation capacity is \$10 million.

The Synesso buyout is expected to strengthen Middleby's product offering in the beverage and coffee platform. Notably, the company already supplies traditional carafe, automated bean to cup, nitro brew and cold brew machines. Middleby's leading brands include JoeTap, Ss Brewtech and Concordia.

Brava Home Buyout

On **Nov 20, 2019**, Middleby announced that it acquired Redwood City, CA-based Brava Home Inc. The financial terms of the transactions have been kept under wraps.

Brava Home specializes in providing advanced technology for residential cooking. Its cooking-by-light technology saves cooking time for users. Also, appliances powered by the technology are eco-friendly. The Brava Home buyout is expected to strengthen Middleby's product offering in the commercial and residential businesses.

Valuation

Middleby shares are down 1.6% over the trailing 12 months. Over the past year, the Zacks sub-industry and the Zacks Industrial Products sector has moved up 28.5% and 16.2%, respectively.

The S&P 500 index has moved up 23.9% in the past year.

The stock is currently trading at 15.36x forward 12-month earnings per share, which compares to 21x for the Zacks sub-industry, 18.01x for the Zacks sector and 18.94x for the S&P 500 index.

Over the past five years, the stock has traded as high as 27.98x and as low as 14.19x, with a 5-year median of 21.23x. Our Neutral recommendation indicates that the stock will perform in line with the market. Our price target of \$120 reflects 16.14x 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	15.36	21	18.01	18.94
	5-Year High	27.98	22.58	19.91	19.34
	5-Year Low	14.19	15.2	12.6	15.18
	5-Year Median	21.23	18.95	16.54	17.45
EV/EBITDA F12M	Current	11.87	12.81	17.82	12.66
	5-Year High	17.49	12.81	18.22	12.66
	5-Year Low	9.71	8.3	10.69	9.08
	5-Year Median	13.6	10.7	14.03	10.78
EV/Sales F12M	Current	2.71	2.78	3.14	3.26
	5-Year High	3.78	2.78	3.14	3.37
	5-Year Low	2.31	1.67	1.76	2.3
	5-Year Median	3.11	2.31	2.28	2.78

As of 01/24/2020

Industry Analysis Zacks Industry Rank: Bottom 22% (200 out of 255)



Top Peers

Dover Corporation (DOV)	Neutral
Electrolux AB (ELUXY)	Neutral
GEA GROUP AG SP (GEAGY)	Neutral
Illinois Tool Works Inc. (ITW)	Neutral
John Bean Technologies Corporation (JBT)	Neutral
Panasonic Corp. (PCRFY)	Neutral
Whirlpool Corporation (WHR)	Neutral
Welbilt, Inc. (WBT)	Underperform

Industry Comparison Industry: Manufacturing - General Industrial				Industry Peers		
	MIDD Neutral	X Industry	S&P 500	DOV Neutral	ITW Neutral	WBT Underperform
VGM Score	C	-	-	B	C	F
Market Cap	6.41 B	1.97 B	24.13 B	17.01 B	56.66 B	2.14 B
# of Analysts	4	4	13	8	8	5
Dividend Yield	0.00%	0.00%	1.78%	1.67%	2.43%	0.00%
Value Score	C	-	-	C	C	D
Cash/Price	0.01	0.05	0.04	0.02	0.03	0.05
EV/EBITDA	14.29	13.46	14.02	17.19	15.20	14.58
PEG Ratio	NA	2.11	2.03	1.62	2.92	NA
Price/Book (P/B)	3.42	2.63	3.30	5.64	19.08	9.28
Price/Cash Flow (P/CF)	14.60	12.55	13.52	16.50	19.34	12.44
P/E (F1)	15.30	18.52	18.92	18.60	22.30	17.85
Price/Sales (P/S)	2.19	1.42	2.65	2.37	3.98	1.32
Earnings Yield	6.47%	5.38%	5.28%	5.38%	4.49%	5.60%
Debt/Equity	1.05	0.56	0.72	0.96	2.57	6.30
Cash Flow (\$/share)	7.82	2.51	6.94	7.10	9.11	1.22
Growth Score	C	-	-	B	B	F
Hist. EPS Growth (3-5 yrs)	15.31%	5.37%	10.60%	8.45%	12.28%	5.37%
Proj. EPS Growth (F1/F0)	9.73%	7.72%	7.59%	7.58%	3.96%	25.00%
Curr. Cash Flow Growth	4.22%	15.81%	13.90%	12.99%	10.04%	5.36%
Hist. Cash Flow Growth (3-5 yrs)	17.24%	7.16%	9.00%	-2.75%	6.16%	-3.15%
Current Ratio	2.05	2.03	1.22	1.42	2.81	1.71
Debt/Capital	51.31%	36.44%	42.99%	49.08%	72.01%	86.31%
Net Margin	11.55%	6.22%	11.35%	9.08%	17.49%	3.82%
Return on Equity	20.81%	13.11%	17.10%	29.62%	80.38%	46.20%
Sales/Assets	0.61	0.83	0.55	0.83	0.94	0.75
Proj. Sales Growth (F1/F0)	3.67%	1.90%	4.03%	2.55%	0.63%	2.93%
Momentum Score	F	-	-	B	D	F
Daily Price Chg	1.42%	-0.32%	-1.01%	-1.30%	-1.84%	-3.31%
1 Week Price Chg	3.88%	1.58%	2.29%	3.25%	1.23%	0.98%
4 Week Price Chg	3.12%	-0.19%	1.02%	1.13%	-2.75%	-4.47%
12 Week Price Chg	-5.61%	3.75%	6.85%	12.72%	4.58%	-19.99%
52 Week Price Chg	-1.21%	13.57%	20.39%	47.90%	34.65%	13.97%
20 Day Average Volume	382,689	41,380	1,536,379	584,707	1,055,714	890,593
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	0.00%	0.00%	0.00%	0.04%	0.00%	0.00%
(F1) EPS Est 12 week change	0.12%	-0.38%	-0.23%	-0.32%	-0.72%	-10.88%
(Q1) EPS Est Mthly Chg	0.00%	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	C
Growth Score	C
Momentum Score	F
VGM Score	C

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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