

Middleby Corporation (MIDD)

\$57.00 (As of 03/30/20)

Price Target (6-12 Months): **\$61.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 03/25/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:B

Value: B

Growth: B

Momentum: F

Summary

Middleby stands to gain from strength in the Viking business, efforts to broaden the product portfolio, improving selling techniques and focus on growth markets in the quarters ahead. Also, acquisitions, the last two being that of RAM Fry Dispensers and Synesso, will likely prove beneficial. Notably, acquired assets boosted its sales by 5.1% in the fourth quarter of 2019. However, in the past three months, the company's shares have underperformed the industry. It believes that the coronavirus outbreak might adversely impact its Commercial Foodservice Equipment Group in the first half of 2020. Also, weakness in spending by restaurant chains might be dragging for the segment. The company also faces headwinds from rising costs, forex woes and high debts. In the past month, earnings estimates for 2020 and 2021 have been revised downward.

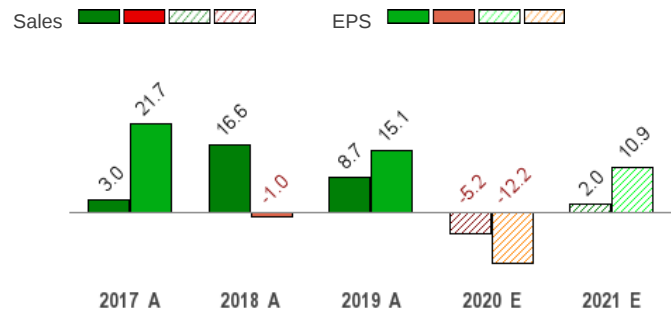
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$142.98 - \$41.73
20 Day Average Volume (sh)	1,499,079
Market Cap	\$3.2 B
YTD Price Change	-48.0%
Beta	1.38
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Manufacturing - General Industrial
Zacks Industry Rank	Bottom 39% (155 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	16.3%
Last Sales Surprise	3.2%
EPS F1 Est- 4 week change	-15.6%
Expected Report Date	05/13/2020
Earnings ESP	0.0%
P/E TTM	8.4
P/E F1	9.3
PEG F1	NA
P/S TTM	1.1

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	664 E	640 E	647 E	712 E	2,861 E
2020	698 E	708 E	696 E	778 E	2,805 E
2019	687 A	761 A	724 A	788 A	2,959 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$1.86 E	\$1.68 E	\$1.39 E	\$1.57 E	\$6.83 E
2020	\$1.71 E	\$1.45 E	\$1.39 E	\$1.46 E	\$6.16 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 03/30/2020. The reports text is as of 03/31/2020.

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** (65.1% of total revenues in fourth-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.

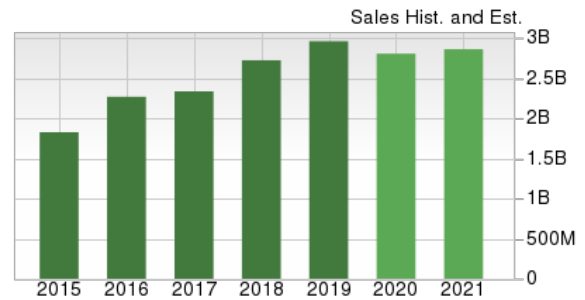
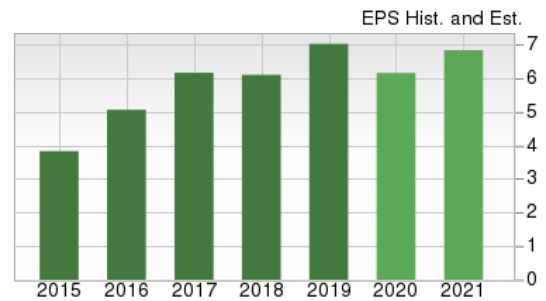
Notably, this segment's manufacturing operations are based in Arkansas, Illinois, California, Michigan, North Carolina, Texas, Washington, Australia, China, Denmark and Italy, among others.

- **Food Processing Equipment Group** (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** (19.5%): 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 fourth-quarter 2019, Middleby's earnings surpassed estimates by 16.3%, while increased 7% 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 8.6% year over year and margin expanded 80 basis points (bps). 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.
- ▲ Middleby's fourth-quarter revenues improved 4.1% on a year-over-year basis. The company noted that the stellar performance was backed by benefits from acquisitions. On a segmental basis, Commercial Foodservice Equipment Group's sales increased 5.9%, while that of Residential Kitchen Equipment Group inched up 0.2% and Food Processing Equipment Group expanded 2%. For 2020, the company anticipates Commercial Foodservice Equipment Group to gain from investments for enhancing technology capabilities, supply-chain initiatives, acquired assets and facility consolidations. Also, the popularity of ghost kitchens, food delivery, ventless cooking and specialty beverage might be boon. For the Residential Kitchen Equipment Group, the focus on residential showrooms and product introductions as well as the popularity of Viking products is beneficial. Middleby anticipates Food Processing Equipment Group to gain from improved backlog and innovation investment.
- ▲ The company 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. In addition, Middleby acquired RAM Fry Dispensers in January 2020. The buyout is expected to strengthen the company's product offering in the restaurant automation platform. Notably, acquired assets boosted its sales by 5.1% in the fourth quarter of 2019.

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

Reasons To Sell:

- ▼ In fourth-quarter 2019, Middleby's organic sales declined 0.4% year over year, with a fall of 0.6% recorded for the Residential Kitchen Equipment Group and 3.9% for the Food Processing Equipment Group. For the Commercial Foodservice Equipment Group, organic sales inched up 0.4%. Middleby believes that its Commercial Foodservice Equipment Group might suffer from the adverse impacts of the coronavirus outbreak in the first half of 2020. Also, it believes that weak spending by restaurant chains might be concerning for the segment. In the last three months, Middleby's shares moved down 48% compared with the industry's decline of 27.2%.
- ▼ Middleby is currently dealing with rising costs of sales. For instance, in the fourth quarter of 2019, its cost of sales rose 4.6% year over year, while expanded 9.3% (CAGR) in the last three years (2017-2019). Also, selling, general and administrative expenses grew 6.7%, while 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. Additionally, international businesses have exposed it to risks arising from geopolitical issues, unfavorable movements in foreign currencies and others. In fourth-quarter 2019, forex woes had a negative impact of 0.5% on revenues. We believe that due to large international exposure, the company might continue facing hurdles from forex woes.
- ▼ Middleby's long-term debt in the last three years (2017-2019) rose 22.2% (CAGR), with the metric at \$1,870.2 million at the end of 2019. Net interest expenses and deferred financing amortization increased 40.6% year over year in 2019. We believe that a highly leveraged balance sheet can inflate the company's financial obligations and hurt profitability. In addition, analysts have become increasingly bearish about Middleby over the past 30 days. The company's earnings estimates for 2020 have been lowered from \$7.30 to \$6.75. In addition, the Zacks Consensus Estimate for 2021 earnings has gone down from \$7.89 to \$7.34.

Weakness in spending by restaurant chains, adverse impacts of the coronavirus outbreak, rising costs, forex woes and high debts might weigh on Middleby's performance in the quarters ahead.

Last Earnings Report

Middleby Surpasses Q4 Earnings and Sales Estimates

Middleby reported better-than-expected results for fourth-quarter 2019, with earnings surpassing estimates by 16.3%. This is the company's second consecutive quarter of impressive results. Also, sales in the fourth quarter surpassed estimates by 3.2%.

The company's adjusted earnings in the reported quarter were \$2.00 per share, surpassing the Zacks Consensus Estimate of \$1.72. Also, the bottom line rose 7% from the year-ago quarter figure of \$1.87 on benefits from acquired assets and improved operating results.

For 2019, the company's adjusted earnings were \$7.02 per share, increasing 10.6% from the previous year. Also, the bottom line surpassed the Zacks Consensus Estimate of \$6.81.

Quarter Ending **12/2019**

Report Date	Feb 26, 2020
Sales Surprise	3.16%
EPS Surprise	16.28%
Quarterly EPS	2.00
Annual EPS (TTM)	6.80

Revenue Picture

In the quarter under review, Middleby's sales were \$787.6 million, reflecting year-over-year growth of 4.1%. Organic revenues in the quarter declined 0.4% year over year. Acquired assets grew sales by 5.1%, while unfavorable movements in foreign currencies had a negative impact of 0.5%. Closure of the non-core business had a negative 0.1% impact.

Also, its net sales surpassed the Zacks Consensus Estimate of \$763.5 million.

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

Sales from the **Commercial Foodservice Equipment Group** (representing 65.1% of the reported quarter's net sales) were \$512.5 million, increasing 5.9% year over year. Sales, excluding the impact of forex woes and buyouts, grew 0.4% in the quarter.

Sales from the **Residential Kitchen Equipment Group** (representing 19.5% of the reported quarter's net sales) totaled \$153.6 million, inching up 0.2% year over year. Sales (excluding the impact of forex woes, end of non-core businesses and buyouts) in the quarter declined 0.6%.

Sales from the **Food Processing Equipment Group** (representing 15.4% of the reported quarter's net sales) were \$121.5 million, increasing 2% year over year. Excluding the impact of forex woes and buyouts, sales decreased 3.9% year over year.

For 2019, the company's sales were \$2.96 billion, reflecting growth of 8.7% from the previous year. Also, the top line surpassed the Zacks Consensus Estimate of \$2.94 billion.

Margin Profile

In the quarter under review, Middleby's cost of sales rose 4.6% year over year to \$497.9 million. It represented 63.2% of sales compared with 62.9% in the year-ago quarter. Gross profit grew 3.2% year over year to \$289.7 million. Gross margin decreased 30 basis points (bps) to 36.8% due to the adverse impacts of movements in foreign currencies and low-margin acquisitions.

Selling, general and administrative expenses increased 6.7% year over year to \$148.8 million. It represented 18.9% of sales in the reported quarter. Operating income in the quarter under review improved 8.6% year over year to \$152 million. Operating margin rose 80 bps year over year to 19.3%.

Net interest expenses and deferred financing amortization totaled \$19.3 million, down from \$20.4 million in the year-ago quarter. Effective tax rate in the quarter was 22.8% versus 26% in the year-ago quarter.

For 2019, the company stated that an increase in tariff costs played spoilsport.

Balance Sheet and Cash Flow

Exiting the fourth quarter, Middleby had cash and cash equivalents of \$94.5 million, up 8.4% from \$87.2 million at the end of the last reported quarter. Long-term debt decreased 4.4% sequentially to \$1,870.2 million.

In the quarter, the company generated net cash of \$147.7 million from operating activities, reflecting growth of 26.4% from the year-ago quarter. Capital expenditure totaled \$12.8 million versus \$3.5 million in fourth-quarter 2018. Free cash flow increased 19% year over year to \$134.9 million.

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 and acquired assets will likely be beneficial.

For the Commercial Foodservice Equipment Group, the company expects to benefit from supply-chain initiatives, facility consolidations, investments for enhancing technology capabilities and acquired assets. Notably, Middleby acquired Synesso, Evo, Powerhouse Dynamics, Ss Brewtech and Cooking Solutions Group in 2019. Also, the company sees growth opportunities in ghost kitchens, food delivery, ventless cooking and specialty beverage. However, weak spending by restaurant chains might play spoilsport. The impacts of the Coronavirus outbreak might hit businesses in the first six months of 2020.

For the Residential Kitchen Equipment Group, Middleby anticipates gaining from Viking products as well as focus on product introductions and residential showrooms. Also, the acquisition of Brava in 2019 will likely bring more businesses in the quarters ahead.

For the Food Processing Equipment Group, innovation investment and improved backlog will likely aid its performance. In 2019, the company acquired Pacproinc.

Recent News

Middleby Acquires Deutsche Beverage Technology

On **Mar 2, 2020**, Middleby announced that it acquired Charlotte, N.C.-based Deutsche Beverage Technology.

Deutsche Beverage is engaged in the designing and manufacturing of systems related to beverage brewing and processing. Solutions offered can be used for kombucha, beer, cold brew coffee and other liquid extractions purposes.

The Deutsche Beverage buyout is expected to strengthen Middleby's product offering in the beverage platform. Notably, the company believes that the buyout will complement its June 2019 acquisition of Ss Brewtech — one of the leading beverage equipment makers and the finest player in the craft brewing industry.

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.

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.

Synesso is engaged in the designing and manufacturing of espresso machines (semi-automatic). 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.

Valuation

Middleby shares are down 48% in the year-to-date period and declined 57% over the trailing 12 months. Stocks in the Zacks sub-industry and the Zacks Industrial Products sector are down 27.2% and 28.9% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and the sector has moved down 20% and 25.6%, respectively.

The S&P 500 index is down 21.1% in the year-to-date period and 11.8% in the past year.

The stock is currently trading at 7.67x forward 12-month earnings per share, which compares to 16.62x for the Zacks sub-industry, 13.87x for the Zacks sector and 15.48x for the S&P 500 index.

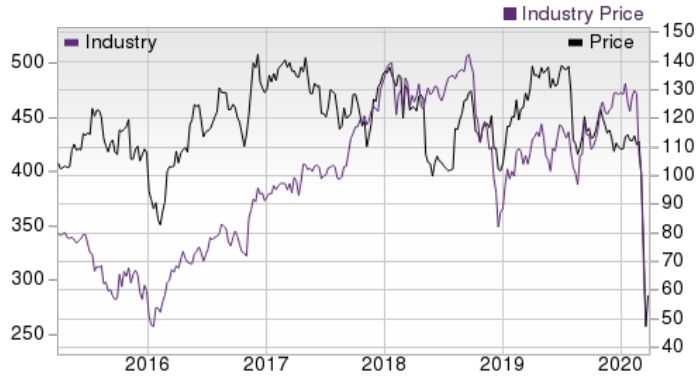
Over the past five years, the stock has traded as high as 27.98x and as low as 6.56x, with a 5-year median of 20.58x. Our Neutral recommendation indicates that the stock will perform in line with the market. Our price target of \$61 reflects 8.21x forward 12-month earnings per share.

The table below shows summary valuation data for MIDD.

Valuation Multiples - MIDD					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	7.67	16.62	13.87	15.48
	5-Year High	27.98	23.5	19.93	19.34
	5-Year Low	6.56	15.6	12.55	15.18
	5-Year Median	20.58	19.39	16.46	17.42
EV/EBITDA F12M	Current	8.89	10.8	16.38	12.28
	5-Year High	17.87	11.34	18.05	12.64
	5-Year Low	8.89	7.64	10.56	9.08
	5-Year Median	13.75	9.65	14.06	10.8
EV/Sales F12M	Current	1.64	2.41	2.31	2.58
	5-Year High	3.78	3.26	3.12	3.52
	5-Year Low	1.64	1.81	1.76	2.3
	5-Year Median	3.07	2.58	2.29	2.8

As of 03/30/2020

Industry Analysis Zacks Industry Rank: Bottom 39% (155 out of 254)



Top Peers

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

Industry Comparison Industry: Manufacturing - General Industrial				Industry Peers		
	MIDD Neutral	X Industry	S&P 500	DOV Neutral	ITW Neutral	WBT Neutral
VGM Score	B	-	-	B	C	F
Market Cap	3.20 B	1.06 B	18.21 B	12.36 B	45.39 B	663.54 M
# of Analysts	5	3	13	8	10	4
Dividend Yield	0.00%	0.00%	2.3%	2.29%	3.01%	0.00%
Value Score	B	-	-	C	D	C
Cash/Price	0.03	0.11	0.06	0.03	0.04	0.19
EV/EBITDA	7.68	8.74	11.22	12.04	13.00	8.39
PEG Ratio	NA	1.83	1.74	1.25	2.57	NA
Price/Book (P/B)	1.64	1.63	2.41	4.10	15.10	2.62
Price/Cash Flow (P/CF)	6.47	7.99	9.70	10.87	15.51	4.08
P/E (F1)	9.44	14.20	15.12	14.38	19.45	16.46
Price/Sales (P/S)	1.08	0.89	1.96	1.73	3.22	0.42
Earnings Yield	10.81%	7.03%	6.55%	6.95%	5.14%	5.97%
Debt/Equity	0.96	0.51	0.70	0.98	2.56	5.66
Cash Flow (\$/share)	8.81	2.49	7.01	7.88	9.18	1.15
Growth Score	B	-	-	A	A	F
Hist. EPS Growth (3-5 yrs)	14.76%	7.61%	10.89%	11.69%	11.96%	3.40%
Proj. EPS Growth (F1/F0)	-12.31%	-5.51%	1.80%	0.40%	-5.55%	-58.09%
Curr. Cash Flow Growth	13.23%	0.20%	5.93%	10.20%	-2.44%	-5.20%
Hist. Cash Flow Growth (3-5 yrs)	16.08%	4.53%	8.55%	1.28%	4.24%	-5.30%
Current Ratio	2.04	2.01	1.23	1.46	2.90	1.60
Debt/Capital	49.00%	33.99%	42.57%	49.61%	71.90%	84.99%
Net Margin	11.90%	6.24%	11.64%	9.50%	17.87%	3.51%
Return on Equity	20.64%	11.05%	16.74%	29.46%	81.83%	43.49%
Sales/Assets	0.61	0.77	0.54	0.82	0.93	0.73
Proj. Sales Growth (F1/F0)	-5.21%	-1.07%	2.08%	-0.66%	-4.70%	-15.46%
Momentum Score	F	-	-	F	F	F
Daily Price Chg	-1.61%	0.00%	2.63%	4.50%	-0.66%	-3.50%
1 Week Price Chg	23.07%	12.34%	12.32%	23.92%	13.93%	10.20%
4 Week Price Chg	-49.10%	-20.00%	-18.22%	-20.26%	-17.85%	-64.12%
12 Week Price Chg	-47.69%	-28.15%	-23.36%	-26.04%	-20.27%	-69.57%
52 Week Price Chg	-57.00%	-29.80%	-17.22%	-10.75%	-4.04%	-71.66%
20 Day Average Volume	1,499,079	63,469	4,211,236	1,657,265	2,719,897	3,659,870
(F1) EPS Est 1 week change	-8.75%	0.00%	-0.19%	-2.12%	-3.14%	0.00%
(F1) EPS Est 4 week change	-15.63%	-0.14%	-3.07%	-5.94%	-7.08%	-58.21%
(F1) EPS Est 12 week change	-15.86%	-8.18%	-4.15%	-5.40%	-7.41%	-66.55%
(Q1) EPS Est Mthly Chg	-4.84%	-0.76%	-2.28%	-2.87%	-3.10%	-30.00%

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	F
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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