

Mettler-Toledo (MTD)

\$945.24 (As of 08/05/20)

Price Target (6-12 Months): **\$993.00**

Long Term: 6-12 Months

Zacks Recommendation:
Neutral

(Since: 08/19/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:B

Value: D

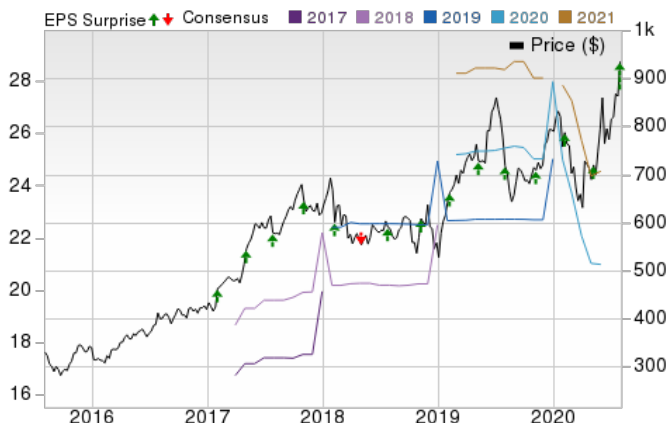
Growth: A

Momentum: A

Summary

Mettler-Toledo reported second quarter results wherein both earnings and sales surpassed the Zacks Consensus estimate, given impressive growth in China. However, demand in the end markets served by the company is negatively impacted by the COVID-19 pandemic. Nevertheless, benefits from strategic investments in Spinnaker sales, marketing initiatives, field resources and R&D remain tailwinds. Also, strengthening core industrial business is a major positive. Solid demand across pharmaceutical and life science end-market remains a tailwind. The company remains optimistic about productivity and margin initiatives. Also, temporary cost containment measures and declining discretionary spending are expected to drive its performance in the near term. Notably, the stock has outperformed the industry on a year-to-date basis.

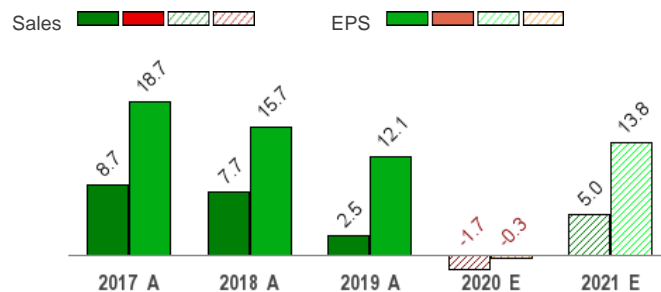
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$955.00 - \$579.40
20 Day Average Volume (sh)	119,309
Market Cap	\$22.6 B
YTD Price Change	19.2%
Beta	1.12
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Instruments - Scientific
Zacks Industry Rank	Top 10% (25 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	23.9%
Last Sales Surprise	6.7%
EPS F1 Est- 4 week change	10.5%
Expected Report Date	11/05/2020
Earnings ESP	4.3%
P/E TTM	41.4
P/E F1	41.7
PEG F1	3.0
P/S TTM	7.7

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	704 E	701 E	724 E	885 E	3,107 E
2020	649 A	691 A	747 E	857 E	2,958 E
2019	679 A	731 A	754 A	844 A	3,009 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$5.64 E	\$5.99 E	\$5.87 E	\$7.42 E	\$25.83 E
2020	\$4.00 A	\$5.29 A	\$5.75 E	\$7.89 E	\$22.69 E
2019	\$4.10 A	\$5.16 A	\$5.77 A	\$7.78 A	\$22.77 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 08/05/2020. The reports text is as of 08/06/2020.

Overview

Headquartered in Polaris Parkway, Columbus, Mettler-Toledo International Inc. is the world's largest manufacturer and marketer of weighing instruments for use in laboratory, industrial and food retailing applications. The company focuses on the high value-added segments of the weighing instruments market by providing solutions for specific applications.

Mettler-Toledo is also a leading provider of analytical instruments for use in life science, reaction engineering and real-time analytic systems used in drug and chemical compound development, and process analytics instruments used for in-line measurement in production processes.

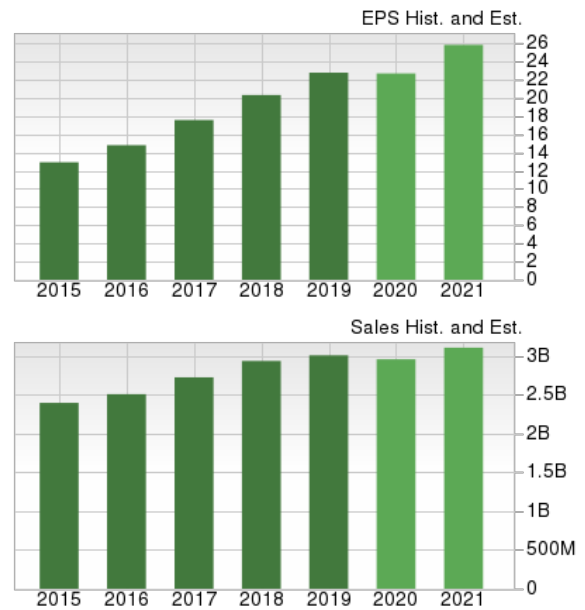
Mettler-Toledo reported revenues of \$3.01 billion in 2019. The company has three reportable segments— Laboratory Instruments, Industrial Instruments and Retail Weighing Solutions, which generated 52%, 41% and 7% of 2019 revenues, respectively.

Laboratory Instruments offering includes laboratory balances, automated laboratory reactors, liquid pipetting solutions, titrators, physical value analyzers, UV/VIS spectrophotometers, thermalanalysis systems and moisture analyzers, to name a few. The company with these products caters to the needs of pharmaceutical, food chemical, academia, cosmetics and food industries. Further, these products are used in testing labs, life science research labs, environment research labs and drug discovery process.

The Industrial segment offers industrial weighing instruments, industrial terminals, transportation and logistics, value scale systems, industrial software and product inspection systems. Mettler-Toledo also develops x-rays and metal detection required in production and packaging. Notably, this segment meets the needs of food, discrete manufacturing, chemical and pharmaceutical industries.

The Food Retail segment offers automated, weighing, packaging and labeling solutions. This segment operates in food and beverages, pharmaceutical, cosmetics, chemicals and biotechnology end-markets.

Products are manufactured at its China, Germany, Switzerland, the U.S. and the U.K. facilities. They are sold through a variety of distribution channels with Americas, Europe and Asia/Rest of the World (ROW) contributing 39%, 30% and 31% of 2019 revenues, respectively.



Reasons To Buy:

▲ Mettler-Toledo is the world's **largest manufacturer and marketer of weighing instruments** for use in laboratory, industrial and food retailing applications. The company's manufacturing, product development and research activities are divided into a number of producing organizations that help to reduce the time of product development, lower cost and enhance customer focus. The company integrates an extensive quality control system into its manufacturing process. All major manufacturing facilities are ISO 9001 certified. With continued focus on productivity and efficiency, supported by a huge manufacturing capacity and a wide range of suppliers, we believe that the company is well positioned to grow and maintain its leadership position.

Mettler-Toledo's leading market position, focus on product development and cost reduction, sales and marketing efforts and the Blue Ocean program bode well.

▲ Mettler-Toledo's **sales and service efforts offer significant revenue opportunities**. The company's geographically focused market organizations spread across the world that takes care of all aspects of its sales and service. It has one of the largest global sales and service organizations among precision instrument manufacturers. Its sales and service group comprises around 8,150 employees across sales, marketing, customer service and post-sales technical service, placed in 40 countries, and provides service and support to customers and distributors in major markets. The company's service business continues to grow with the global service network promoting expansion to emerging markets. Service (service contracts, on demand services, and replacement parts) contributed roughly 22% of net sales in 2019, 2018 and 2017. We believe that Mettler-Toledo is well positioned to leverage on its strong global network of sales and service organizations to expand.

▲ The company continues to focus on **development of advanced products and cost reductions** by making prudent investments in research and development. On the technological advancement front, the focus is on new or enhanced functionality, new applications, more accurate or reliable measurement, automation through robotics and additional software capability. On the cost reduction front, the focus is on reduction of manufacturing cost through design and serviceability enhancements. The company has invested \$413 million in research and development over the last three years (\$144 million in 2019, \$141 million in 2018 and \$128 million in 2017), which is roughly 5% of net sales for each year. We believe the focus on technology development and cost management will continue to impact margins positively.

▲ Mettler-Toledo has a long-term focus on operational excellence through the **Blue Ocean program**. The program is aimed at setting up a global operating model and includes new enterprise architecture, with a global, single instance ERP system. The model features standardized, automated and integrated processes, and high levels of global data transparency. The company's Chinese, Swiss, U.K. and certain U.S. and German operations have already implemented the program. Using this platform, Mettler-Toledo has established global and regional shared service centers for a range of activities, which allows it to better leverage scale and technology. The program has also enabled the company to augment its e-commerce capabilities. The company has already completed the execution of two-thirds of the program and will continue to implement it in other locations over the coming years.

▲ The company is currently working on a new program which it calls **Stern Drive** aimed at operational improvement through material cost reductions, shop floor productivity and back office productivity. The preliminary goal is to achieve reduction in material, variable manufacturing and fixed labor cost. This program is expected to complement existing Spinnaker and Blue Ocean programs and enhance supply chain and manufacturing efficiencies going forward.

Reasons To Sell:

- ▼ Mettler-Toledo's business segments, especially the high-end laboratory instruments business experiences **seasonality**. This segment experiences stronger demand in the fourth quarter and weaker demand in the first quarter, relative to second and third quarters. The seasonality causes considerable fluctuations in revenues and profits and makes forecasting difficult. Also, the company's core industrial business suffers from the seasonality during the first quarter. Further, retail business' lumpy nature of project remains a concern.
- ▼ The nature of business makes Mettler-Toledo vulnerable to **foreign exchange risk**. The company operates in many countries and derives a significant part of its sales and earnings from emerging markets such as Asia, Latin America and Eastern Europe. Thus, appreciation or depreciation of the U.S. dollar versus foreign currencies could impact the company's financial results.
- ▼ **Volatility in emerging markets** is a matter of concern. China is Mettler-Toledo's largest emerging market and it has a significant concentration of business there. In 2019, Chinese operations contributed more than 25.6% of revenues. Overcapacity in certain industries and continuing volatility in credit availability remain major concerns in China.
- ▼ The company's capacity to make payments on debt and fund share repurchase program, capital expenditures and research and development efforts are subjected to its ability to generate and repatriate cash in the future. This in turn depends on factors such as **general economic, financial, legislative, regulatory, governmental and competitive factors** that are beyond the company's control. Therefore, there remains uncertainty about Mettler-Toledo's capacity to generate sufficient cash flows from operations or arrange adequate borrowings to pay debt or fund other liquidity needs in the future.

Seasonality, volatility in emerging market growth, foreign exchange headwinds and business concentration in China remain major concerns for Mettler-Toledo.

Last Earnings Report

Mettler-Toledo Q2 Earnings & Revenues Beat Estimates

Mettler-Toledo International, Inc. reported second-quarter 2020 adjusted earnings of \$5.29 per share, which beat the Zacks Consensus Estimate of \$4.27. The bottom line increased 3% on a year-over-year basis and 32.3% sequentially.

Net sales of \$690.7 million were down 6% on a reported basis and 4% on a currency neutral basis from the year-ago quarter. However, the top line expanded 6.4% from the prior quarter.

Notably, the top line surpassed the Zacks Consensus Estimate by 6.7%.

Impressive growth in China, and the diversity in the company's Laboratory and Industrial businesses contributed to better-than-expected performance.

However, demand in its end markets was negatively impacted by the COVID-19 pandemic.

Nevertheless, it remains confident of margin and productivity initiatives. Further, Mettler-Toledo's temporary cost-containment measures and declining discretionary spending are expected to aid near-term performance.

Top Line in Detail

By Segments: The company reports in three segments — Laboratory Instruments, Industrial Instruments and Food Retail, which accounted for 52%, 42% and 6% of second-quarter net sales, respectively. The segments were down 4%, 3% and 11% from the year-ago quarter, respectively.

By Geography: It reports sales from Americas, Europe and Asia/Rest of the World (ROW). These regions contributed 39%, 28% and 33% to second-quarter net sales, respectively. While sales in Americas and Europe were down 7% and 5% from the year-ago quarter, respectively, the same in Asia/ROW was up 1%.

Operating Results

Gross margin was 57.6%, expanding 20 basis points (bps) year over year.

Research & development (R&D) expenses were \$31.2 million, down 17.3% from the year-ago quarter. Selling, general & administrative (SG&A) expenses decreased 7.9% year over year to \$190.1 million.

As a percentage of sales, R&D as well as SG&A expenses contracted 50 and 60 bps, respectively, from the year-ago quarter.

Adjusted operating margin was 25.6%, which expanded 130 bps on a year-over year basis.

Balance Sheet and Cash Flow

As of Jun 30, 2020, the company's cash and cash equivalent balance was \$127.3 million, down from \$323.6 million on Mar 31, 2020.

Long-term debt was \$1.1 billion, decreasing from \$1.5 billion in the first quarter.

Mettler-Toledo generated \$183.2 million of cash from operating activities, up from \$65.5 million in the first quarter. Free cash flow was \$170 million during the reported quarter.

Guidance

For third-quarter 2020, Mettler-Toledo anticipates sales to decline between 1% and 3% on a year-over-year basis in local currency.

Adjusted earnings are anticipated in the range of \$5.80-\$6 per share.

For the full year of 2020, it anticipates sales to decline between 1% and 3% on a year-over-year basis in local currency. Adjusted earnings are anticipated in the range of \$22.70-\$23.20 per share.

Quarter Ending **06/2020**

Report Date	Jul 30, 2020
Sales Surprise	6.68%
EPS Surprise	23.89%
Quarterly EPS	5.29
Annual EPS (TTM)	22.84

Recent News

On **Apr 13, 2020**, Mettler-Toledo withdrew its 2020 annual guidance owing to coronavirus led disruptions.

Valuation

Mettler-Toledo shares are up 19.1% in the year-to-date period and 34.1% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Computer & Technology sector are up 3.7% and 20.2% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and the sector are up 15.6% and 36.9%, respectively.

The S&P 500 index is up 2.6% in the year-to-date period and 15% in the past year.

The stock is currently trading at 40.13X forward 12-month earnings, which compares to 23.63X for the Zacks sub-industry, 26.3X for the Zacks sector and 22.58X for the S&P 500 index.

Over the past five years, the stock has traded as high as 40.13X and as low as 19.94X, with a 5-year median of 27.82X. Our Outperform recommendation indicates that the stock will perform better than the market. Our \$993 price target reflects 38.9X forward 12-month earnings.

The table below shows summary valuation data for MTD

Valuation Multiples - MTD					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	40.13	23.63	26.3	22.58
	5-Year High	40.13	26.74	26.3	22.58
	5-Year Low	19.94	18.41	16.72	15.25
	5-Year Median	27.82	22.55	19.47	17.55
P/S F12M	Current	6.93	5.3	3.93	3.55
	5-Year High	7.07	5.92	3.93	3.55
	5-Year Low	3.13	3.63	2.32	2.53
	5-Year Median	4.97	4.91	3.14	3.02
EV/Sales TTM	Current	7.22	6.21	4.57	3.12
	5-Year High	7.57	7	4.57	3.45
	5-Year Low	3.36	3.8	2.59	2.14
	5-Year Median	5.57	5.64	3.62	2.84

As of 08/05/2020

Industry Analysis Zacks Industry Rank: Top 10% (25 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
Danaher Corporation (DHR)	Outperform	2
PerkinElmer, Inc. (PKI)	Outperform	1
Thermo Fisher Scientific Inc. (TMO)	Outperform	2
Agilent Technologies, Inc. (A)	Neutral	2
BioRad Laboratories, Inc. (BIO)	Neutral	2
Bruker Corporation (BRKR)	Neutral	3
Illumina, Inc. (ILMN)	Neutral	3
Waters Corporation (WAT)	Neutral	3

Industry Comparison Industry: Instruments - Scientific				Industry Peers		
	MTD	X Industry	S&P 500	A	BRKR	WAT
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	2	3	3
VGM Score	B	-	-	B	D	B
Market Cap	22.60 B	237.33 M	22.93 B	30.23 B	6.82 B	13.08 B
# of Analysts	5	6	14	6	6	7
Dividend Yield	0.00%	0.00%	1.76%	0.74%	0.36%	0.00%
Value Score	D	-	-	C	D	C
Cash/Price	0.01	0.09	0.07	0.04	0.12	0.03
EV/EBITDA	29.25	17.22	13.16	24.93	19.45	17.22
PEG Ratio	2.99	5.50	2.99	3.14	6.70	6.80
Price/Book (P/B)	50.21	2.18	3.20	6.34	7.37	NA
Price/Cash Flow (P/CF)	35.02	16.72	12.45	24.69	21.18	18.96
P/E (F1)	41.00	30.72	21.78	31.41	35.84	25.59
Price/Sales (P/S)	7.69	2.51	2.47	5.77	3.46	5.74
Earnings Yield	2.40%	3.34%	4.33%	3.19%	2.78%	3.91%
Debt/Equity	2.55	0.72	0.77	0.38	1.04	-8.40
Cash Flow (\$/share)	26.99	0.71	6.94	3.96	2.09	11.14
Growth Score	A	-	-	C	D	A
Hist. EPS Growth (3-5 yrs)	14.75%	11.06%	10.46%	14.42%	14.52%	10.01%
Proj. EPS Growth (F1/F0)	-0.36%	-2.07%	-7.14%	0.22%	-21.45%	-8.22%
Curr. Cash Flow Growth	7.99%	7.99%	5.47%	9.85%	12.63%	-4.57%
Hist. Cash Flow Growth (3-5 yrs)	9.94%	9.94%	8.55%	-2.46%	11.39%	5.07%
Current Ratio	1.41	1.99	1.32	1.63	2.60	1.82
Debt/Capital	71.81%	41.76%	44.59%	27.27%	50.92%	NA
Net Margin	18.61%	1.61%	10.15%	13.04%	8.35%	22.61%
Return on Equity	138.77%	1.75%	14.46%	20.76%	22.75%	-349.31%
Sales/Assets	1.07	0.73	0.51	0.57	0.73	0.87
Proj. Sales Growth (F1/F0)	-3.18%	0.00%	-1.68%	0.82%	-7.52%	-6.83%
Momentum Score	A	-	-	A	A	C
Daily Price Chg	1.79%	1.42%	0.59%	0.37%	-1.10%	0.51%
1 Week Price Chg	8.38%	-1.10%	0.14%	1.60%	3.94%	-4.44%
4 Week Price Chg	15.53%	11.01%	5.31%	9.33%	7.13%	14.12%
12 Week Price Chg	36.82%	34.43%	19.84%	22.12%	16.75%	18.11%
52 Week Price Chg	34.08%	20.03%	2.73%	44.02%	5.97%	0.39%
20 Day Average Volume	119,309	102,580	2,098,555	1,476,905	553,079	657,259
(F1) EPS Est 1 week change	9.94%	6.73%	0.00%	0.00%	6.94%	0.00%
(F1) EPS Est 4 week change	10.54%	8.82%	1.10%	0.11%	7.09%	2.52%
(F1) EPS Est 12 week change	5.05%	6.54%	1.04%	5.56%	8.03%	3.05%
(Q1) EPS Est Mthly Chg	21.80%	10.52%	0.39%	0.00%	-0.75%	-3.67%

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	D
Growth Score	A
Momentum Score	A
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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