

Mettler-Toledo (MTD)

\$721.43 (As of 03/19/20)

Price Target (6-12 Months): **\$758.00**

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:C

Value: D

Growth: A

Momentum: F

Summary

Mettler-Toledo continues to ride on the solid momentum across its Laboratory and Industrial segments which are aiding its performance in Americas, Europe, Asia and Rest of the World (ROW) regions. Further, benefits from strategic investments in Spinnaker sales, marketing initiatives, field resources and R&D are contributing well. Also, strengthening core industrial business is a major positive. Further, solid demand across pharmaceutical and life science end-market remains a tailwind. The company remains optimistic about its productivity and margin initiatives. Notably, the stock has outperformed its industry over a year. However, softness in its food retail segment remains a major headwind. Further, unfavorable currency fluctuations and seasonality are risks for the company. Also, sluggish spending by large food manufacturers is a concern.

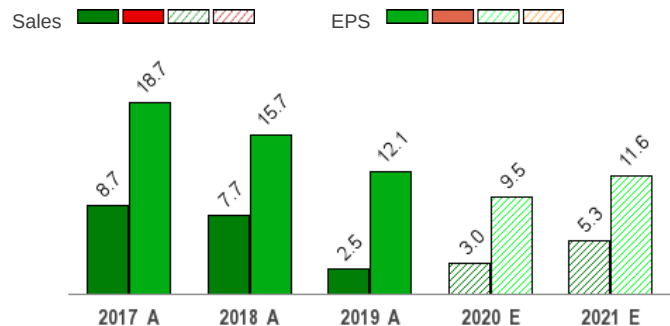
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$873.51 - \$595.91
20 Day Average Volume (sh)	234,309
Market Cap	\$17.3 B
YTD Price Change	-9.1%
Beta	1.37
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Instruments - Scientific
Zacks Industry Rank	Top 43% (108 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	1.2%
Last Sales Surprise	0.5%
EPS F1 Est- 4 week change	-0.2%
Expected Report Date	05/14/2020
Earnings ESP	-1.0%
P/E TTM	31.6
P/E F1	28.9
PEG F1	2.1
P/S TTM	5.8

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					3,263 E
2020	675 E	751 E	788 E	885 E	3,098 E
2019	679 A	731 A	754 A	844 A	3,009 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021					\$27.82 E
2020	\$4.26 E	\$5.61 E	\$6.46 E	\$8.68 E	\$24.94 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 03/19/2020. The reports text is as of 03/20/2020.

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.

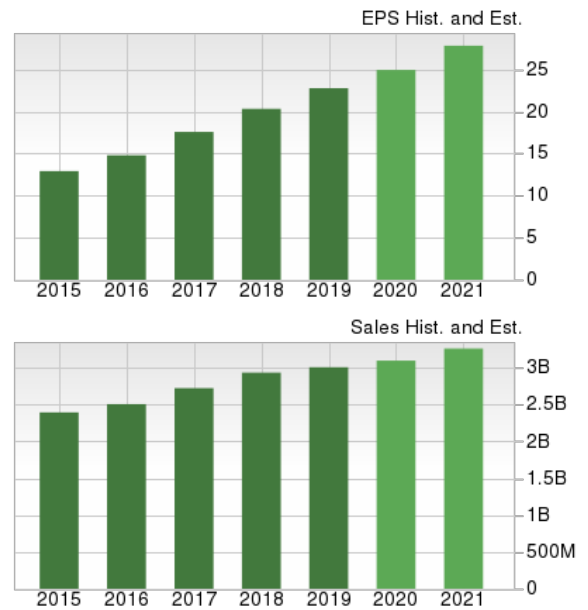
Mettler-Toledo reported revenues of \$3.01 billion in 2019. The company has three reportable segments— Laboratory Instruments, Industrial Instruments and Retail Weighing Solutions, which generated 52%, 41% and 7% of 2019 revenues, respectively.

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 market growth** is a matter of concern. In 2015, Russia, China and Brazil together contributed 18% to the company's total sales to external consumers and decreased 11% in local currencies. The decline was mainly due to reduction in customer expenses. 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.
- ▼ Mettler-Toledo has a substantially **leveraged balance sheet**. As of Dec 2019, the company had around \$1.23 billion of outstanding long-term debt. Such high debt levels may impede sufficient cash flow generation, which is needed to meet future debt obligations. Moreover, this may keep the company from accessing the debt market and refinancing at suitable rates.

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 Beats on Q4 Earnings Estimates

Mettler-Toledo International reported fourth-quarter 2019 adjusted earnings of \$7.78 per share, beating the Zacks Consensus Estimate by 1.2%. The figure improved 14% on a year-over-year basis and 34.8% sequentially.

Net sales of \$843.97 million were up 3.2% year over year and 11.9% from the prior quarter. The figure surpassed the Zacks Consensus Estimate of \$840.17.

The well-performing Laboratory and Industrial product lines drove the top line. Further, the company's solid momentum across Americas and Asia contributed to the quarterly results.

However, unfavorable foreign exchange fluctuations and tariffs remained overhangs. Further, sluggishness in the food retail business continued to act as a headwind.

Market uncertainties, coronavirus impact, trade war between the United States and China, and foreign currency risks remain headwinds.

Nevertheless, the company remains confident on growth strategies that include productivity and margin initiatives. Moreover, Mettler-Toledo's continued investments in product portfolio expansion, field force, Spinnaker sales and marketing programs are anticipated to continue driving business.

Top Line in Detail

By Segments: The company reports in three segments — Laboratory Instruments, Industrial Instruments and Food Retail Weighing Solutions.

Laboratory Segment: This segment accounted for 53% of net sales in the reported quarter. The company witnessed sales growth of 6% in local currency on a year-over-year basis. This can be attributed to portfolio strength and solid demand across pharmaceutical and life science end-market.

Industrial Segment: The company generated 41% of net sales from this segment. Further, sales reflected year-over-year growth of 2%. This can primarily be attributed to well performing core industrial business, which improved 4% year over year owing to solid market demand, and growing momentum across Spinnaker sales and marketing initiatives.

However, the product inspection business remained flat year over year due to sluggish spending by large food manufacturers.

Food Retail: Mettler-Toledo generated 6% of sales from the food retail business. However, the sales declined 2% from the prior-year quarter on account of sluggish market demand.

By Geography

The company reports total sales figure from Americas, Europe and Asia/Rest of the World.

Americas: Mettler-Toledo generated 38% of sales from this region, up 6% in local currency year over year. This was driven by well-performing Laboratory segment and core industrial business.

Europe: This region contributed 31% to the company's net sales in the reported quarter. Sales in this region increased 1% year over year, owing to strong performance by Laboratory segment.

However, sluggish performance of core industrial and product inspection businesses in this region was an overhang.

Asia/Rest of the World: The company generated sales of 31% from this region, reflecting growth of 5% on a year-over-year basis. This can primarily be attributed to strong performance of the company in China owing to strong momentum across digital lab business and Industrial segment.

However, softness in retail business remains a headwind.

Operating Results

Gross margin was 59%, expanding 60 basis points (bps) year over year.

Research & development (R&D) expenses were \$35.3 million, down 2.5% from the year-ago quarter. Selling, general & administrative (SG&A) expenses increased 2.5% year over year to \$206.7 million.

As a percentage of sales, both R&D and SG&A expenses contracted 20 bps each on a year-over-year basis.

Adjusted operating margin was 30.4%, which expanded 110 bps from the prior-year quarter.

Balance Sheet and Cash Flow

As of Dec 31, 2019, the company's cash and cash equivalents balance was \$207.8 million, up from \$120.5 million as of Sep 30, 2019.

Long-term debt was \$1.23 billion, increasing from \$1.12 billion in the previous quarter.

Quarter Ending 12/2019

Report Date	Feb 06, 2020
Sales Surprise	0.45%
EPS Surprise	1.17%
Quarterly EPS	7.78
Annual EPS (TTM)	22.81

Mettler-Toledo generated \$201.7 million of cash from operating activities, up from \$175.9 million in the prior quarter. Free cash flow was \$186.2 million during the reported quarter.

Guidance

For first-quarter 2020, Mettler-Toledo anticipates sales growth between 0% and 1% on a year-over-year basis in local currency.

The company expects coronavirus outbreak to hurt sales in China in the fiscal first quarter significantly.

Adjusted earnings are anticipated in the range of \$4.20-\$4.30 per share, suggesting year-over-year growth of 2-5%.

Foreign exchange headwinds and negative impacts of tariffs thanks to U.S.-China trade dispute remain concerns.

For 2020, the company anticipates sales growth of 4% in local currency.

The company's guidance for adjusted earnings lies in the range of \$24.85-\$25.10 per share, reflecting year-over-year growth of 9-10%.

Recent News

On **Nov 25, 2019**, Mettler-Toledo announced the joining of Domitille Doat-Le Bigot to its Board of Directors.

Valuation

Mettler-Toledo shares are up 2.2% in the past six-month period but down 1.2% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Computer & Technology sector are down 15.7% and 12.5% in the past six-month period, respectively. Over the past year, the Zacks sub-industry and the sector are down 22.6% and 11.6%, respectively.

The S&P 500 index is down 18.9% in the past six-month period and 16.3% in the past year.

The stock is currently trading at 28.2X forward 12-month earnings, which compares to 19.34X for the Zacks sub-industry, 17.08X for the Zacks sector and 14.3X for the S&P 500 index.

Over the past five years, the stock has traded as high as 36.32X and as low as 19.94X, with a 5-year median of 27.17X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$758 price target reflects 29.63X 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 F 12M	Current	28.2	19.34	17.08	14.3
	5-Year High	36.32	26.74	22.01	19.34
	5-Year Low	19.94	18.41	16.85	14.3
	5-Year Median	27.17	22.15	19.3	17.42
P/S F12M	Current	5.53	5.16	2.78	2.6
	5-Year High	6.94	5.92	3.58	3.43
	5-Year Low	3.13	3.63	2.3	2.54
	5-Year Median	4.83	4.81	3.02	3
EV/Sales TTM	Current	6.18	5.42	3.27	2.42
	5-Year High	7.57	7.04	4.45	3.46
	5-Year Low	3.36	3.8	2.54	2.14
	5-Year Median	5.44	5.58	3.53	2.82

As of 03/19/2020

Industry Analysis Zacks Industry Rank: Top 43% (108 out of 254)



Top Peers

Agilent Technologies, Inc. (A)	Neutral
Bruker Corporation (BRKR)	Neutral
Danaher Corporation (DHR)	Neutral
Illumina, Inc. (ILMN)	Neutral
PerkinElmer, Inc. (PKI)	Neutral
Thermo Fisher Scientific Inc. (TMO)	Neutral
Waters Corporation (WAT)	Neutral
Bio-Rad Laboratories, Inc. (BIO)	Underperform

Industry Comparison Industry: Instruments - Scientific				Industry Peers		
	MTD Neutral	X Industry	S&P 500	A Neutral	BRKR Neutral	WAT Neutral
VGM Score	C	-	-	F	D	F
Market Cap	17.30 B	153.29 M	16.45 B	20.36 B	5.51 B	11.03 B
# of Analysts	6	5.5	13	8	5	8
Dividend Yield	0.00%	0.00%	2.67%	1.09%	0.45%	0.00%
Value Score	D	-	-	F	D	F
Cash/Price	0.01	0.07	0.06	0.06	0.05	0.03
EV/EBITDA	22.70	15.76	10.36	17.00	18.67	14.83
PEG Ratio	2.05	1.92	1.49	NA	1.92	2.38
Price/Book (P/B)	41.76	1.54	2.16	4.20	6.45	NA
Price/Cash Flow (P/CF)	26.73	13.98	8.92	16.59	19.65	15.93
P/E (F1)	28.07	16.92	13.12	19.35	20.02	19.02
Price/Sales (P/S)	5.75	2.59	1.72	3.89	2.72	4.58
Earnings Yield	3.46%	6.01%	7.54%	5.17%	5.00%	5.26%
Debt/Equity	2.94	0.31	0.70	0.37	0.67	-7.62
Cash Flow (\$/share)	26.99	1.81	7.01	3.96	1.82	11.14
Growth Score	A	-	-	F	C	C
Hist. EPS Growth (3-5 yrs)	15.30%	10.32%	10.85%	12.32%	16.52%	10.59%
Proj. EPS Growth (F1/F0)	9.52%	9.88%	4.90%	9.29%	9.83%	3.78%
Curr. Cash Flow Growth	7.99%	-9.42%	6.03%	9.85%	11.27%	-4.57%
Hist. Cash Flow Growth (3-5 yrs)	9.94%	8.44%	8.55%	-2.46%	8.40%	5.07%
Current Ratio	1.47	2.09	1.23	1.64	2.23	2.22
Debt/Capital	74.59%	40.57%	42.57%	26.93%	40.84%	91.94%
Net Margin	18.65%	4.23%	11.57%	14.59%	10.20%	24.61%
Return on Equity	118.08%	5.94%	16.74%	20.49%	28.02%	172.16%
Sales/Assets	1.12	0.86	0.54	0.57	0.89	0.86
Proj. Sales Growth (F1/F0)	2.99%	0.94%	3.13%	6.87%	4.74%	1.87%
Momentum Score	F	-	-	C	F	F
Daily Price Chg	3.04%	0.08%	1.03%	-4.52%	-3.29%	0.34%
1 Week Price Chg	-6.00%	-13.58%	-11.01%	-11.91%	-15.87%	-7.76%
4 Week Price Chg	-4.50%	-28.16%	-33.45%	-22.03%	-28.15%	-18.37%
12 Week Price Chg	-8.91%	-27.01%	-30.67%	-23.04%	-30.09%	-23.94%
52 Week Price Chg	-1.14%	-28.84%	-23.69%	-19.81%	-10.83%	-29.11%
20 Day Average Volume	234,309	173,503	3,981,936	3,365,028	1,071,077	725,773
(F1) EPS Est 1 week change	-0.11%	-0.15%	-0.01%	-0.11%	-0.19%	-0.23%
(F1) EPS Est 4 week change	-0.21%	-0.30%	-0.85%	-0.43%	-1.20%	-0.39%
(F1) EPS Est 12 week change	-0.33%	-1.06%	-1.70%	-0.39%	-2.28%	-5.38%
(Q1) EPS Est Mthly Chg	-0.43%	-0.83%	-0.88%	-1.55%	-1.54%	-0.77%

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	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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