Mettler-Toledo (MTD)

$792.40 (As of 05/28/20)

Price Target (6-12 Months): **$832.00**

Long Term: 6-12 Months	**Zacks Recommendation:** (Since: 08/19/19) Prior Recommendation: Outperform	**Neutral**
Short Term: 1-3 Months	**Zacks Rank:** (1-5)	**4-Sell**
	Zacks Style Scores:	VGM:D
	Value: F | Growth: C | Momentum: B	

Summary

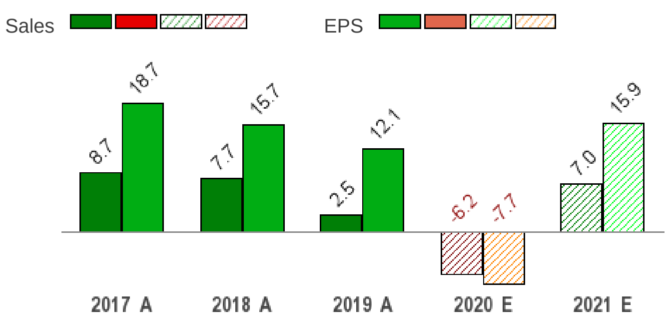
Mettler-Toledo reported weak first-quarter results wherein both earnings and sales declined year over year owing to coronavirus (COVID-19)-induced economic disruptions. Nevertheless, the company witnessed growth in the Laboratory segment during the reported quarter. Further, it benefited from its margin and productivity initiatives. Mettler-Toledo remains confident on these initiatives. Also, temporary cost containment measures and declining discretionary spending are expected to drive its performance in the near term. Further, the company expects to continue benefiting from Spinnaker sales and marketing initiatives. Notably, the stock has outperformed its industry on a year-to-date basis. However, uncertainties related to COVID-19 in the overall demand environment remain headwinds. Moreover, unfavorable currency fluctuations are risks.

Price, Consensus & Surprise

Data Overview

52 Week High-Low	$873.51 - $579.40
20 Day Average Volume (sh)	146,231
Market Cap	$18.9 B
YTD Price Change	-0.1%
Beta	1.05
Dividend / Div Yld	$0.00 / 0.0%
Industry	Instruments - Scientific
Zacks Industry Rank	Bottom 12% (223 out of 254)
Last EPS Surprise	0.5%
Last Sales Surprise	-1.9%
EPS F1 Est- 4 week change	-4.8%
Expected Report Date	08/06/2020
Earnings ESP	0.0%
P/E TTM	34.9
P/E F1	37.7
PEG F1	2.8
P/S TTM	6.4

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2021	704 E	701 E	724 E	885 E	3,018 E
2020	649 A	646 E	686 E	839 E	2,821 E
2019	679 A	731 A	754 A	844 A	3,009 A

EPS Estimates

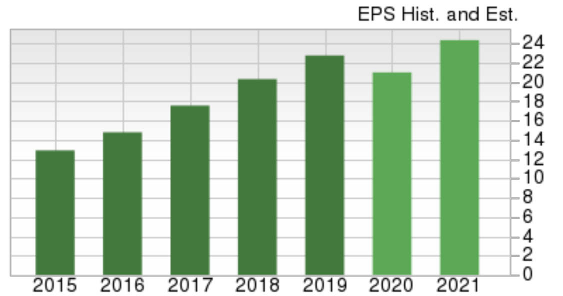
	Q1	Q2	Q3	Q4	Annual*
2021	$5.64 E	$5.63 E	$5.87 E	$7.42 E	$24.36 E
2020	$4.00 A	$4.21 E	$4.95 E	$7.77 E	$21.02 E
2019	$4.10 A	$5.16 A	$5.77 A	$7.78 A	$22.77 A

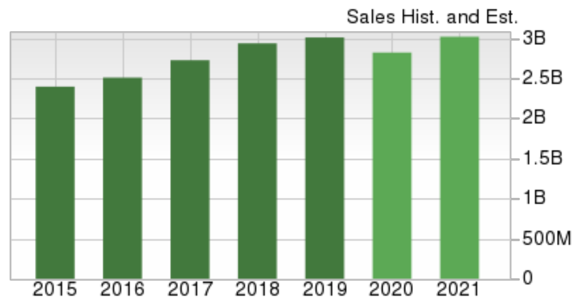
*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 05/28/2020. The reports text is as of 05/29/2020.

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 though 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:

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

- 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. 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 factor**s 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 also has a leveraged balance sheet. As of Mar 31, 2020, the company's net debt was $1.2 billion compared with $1.1 billion as of Dec 31, 2019. Accumulating high debt levels might restrict sufficient cash flow generation which is needed to meet future debt obligations. Moreover, this may keep the company away from accessing the debt market and refinancing at suitable rates. Notably, debt-to-total capital was 83.7% as of Mar 31, 2020 which increased from 75.4% as of Dec 31, 2019.

Last Earnings Report

Mettler-Toledo Beats on Q1 Earnings Estimates

Quarter Ending	03/2020
Report Date	May 07, 2020
Sales Surprise	-1.90%
EPS Surprise	0.50%
Quarterly EPS	4.00
Annual EPS (TTM)	22.71

Mettler-Toledo International reported first-quarter 2020 adjusted earnings of $4 per share, beating the Zacks Consensus Estimate by 0.50%. The bottom line declined 2% on a year-over-year basis and 48.6% sequentially.

Net sales of $649.2 million were down 4% on reported basis and 3% on currency neutral basis from the year-ago quarter. The top line also fell 23.1% from the prior quarter.

Notably, the top line missed the Zacks Consensus Estimate of $650 million.

Coronavirus pandemic significantly impacted the company's sales in China, other Asian countries and Europe negatively. This, in turn, led to decline in the company's top line.

Further, weak performance by Industrial and Retail segment during the quarter remained a concern.

The company has not provided full year 2020 guidance citing market uncertainties related to coronavirus pandemic.

Nevertheless, the company remains confident on its margin and productivity initiatives. Further, its temporary cost containment measures and declining discretionary spending are expected to aid the performance in the near term.

Top Line in Detail

By Segments: The company reports in three segments — Laboratory Instruments, Industrial Instruments and Food Retail, which accounted for 55%, 39% and 6% of the net sales in the first quarter, respectively. While Laboratory segment experienced 1% year-over-year growth, Industrial and Food Retail segments were down 5% and 16% from the year-ago quarter, respectively.

By Geography: The company reports total sales figure from Americas, Europe and Asia/Rest of the World (ROW). All these regions contributed 41%, 30% and 29% to net sales in the first quarter, respectively. While sales in Americas were up 3% year over year, the same in Europe and Asia/ROW were down 5% and 8% from the year-ago quarter, respectively.

Operating Results

Gross margin was 57.7%, expanding 50 basis points (bps) year over year.

Research & development (R&D) expenses were $34.4 million, down 4.6% from the year-ago quarter. Selling, general & administrative (SG&A) expenses decreased 2.8% year over year to $198.7 million.

As a percentage of sales, R&D expenses remained flat year over year and SG&A expenses contracted 50 bps from the year-ago quarter.

Adjusted operating margin was 21.8%, which remained flat on a year-over year basis.

Balance Sheet and Cash Flow

As of Mar 31, 2020, the company's cash and cash equivalents balance was $323.6 million, up from $207.8 million as of Dec 31, 2019.

Long-term debt was $1.5 billion, increasing from $1.2 billion in the previous quarter.

Mettler-Toledo generated $65.5 million of cash from operating activities, up from $201.7 million in the prior quarter. Free cash flow was $48.3 million during the reported quarter.

Guidance

For second-quarter 2020, Mettler-Toledo anticipates sales to decline between 8% and 12% on year-over-year basis in local currency.

Adjusted earnings are anticipated in the range of $4.05-$4.45 per share.

Recent News

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

Valuation

Mettler-Toledo shares are down 0.1% in the year-to-date period but up 8.9% over the trailing 12-month period. While stocks in the Zacks sub-industry are down 8.5%, the same in the Zacks Computer & Technology sector are up 3% in the year-to-date period. Over the past year, the Zacks sub-industry and the sector are up 0.8% and 20.5%, respectively.

The S&P 500 index is down 5.9% in the year-to-date period but up 8.4% in the past year.

The stock is currently trading at 35.4X forward 12-month earnings, which compares to 26.26X for the Zacks sub-industry, 24.23X for the Zacks sector and 22.06X 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 27.44X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our $832 price target reflects 37.17X 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	35.4	26.26	24.23	22.06
	5-Year High	36.32	26.74	24.23	22.06
	5-Year Low	19.94	18.41	16.72	15.23
	5-Year Median	27.44	22.36	19.24	17.49
P/S F12M	Current	6.53	4.21	3.68	3.42
	5-Year High	6.94	5.92	3.68	3.44
	5-Year Low	3.13	3.63	2.32	2.53
	5-Year Median	4.89	4.81	3.1	3.01
EV/Sales TTM	Current	6.76	6.03	4.16	2.96
	5-Year High	7.57	7	4.43	3.46
	5-Year Low	3.36	3.8	2.59	2.14
	5-Year Median	5.52	5.6	3.58	2.82

As of 05/28/2020

Industry Analysis **Zacks Industry Rank:** Bottom 12% (223 out of 254)

Top Peers

Company (Ticker)	Rec	Rank
Agilent Technologies, Inc. **(A)**	Neutral	3
BioRad Laboratories, Inc. **(BIO)**	Neutral	4
Danaher Corporation **(DHR)**	Neutral	4
Illumina, Inc. **(ILMN)**	Neutral	3
PerkinElmer, Inc. **(PKI)**	Neutral	3
Thermo Fisher Scientific Inc. **(TMO)**	Neutral	4
Waters Corporation **(WAT)**	Neutral	4
Bruker Corporation **(BRKR)**	Underperform	4

Industry Comparison Industry: Instruments - Scientific

Industry Peers

	MTD	X Industry	S&P 500	A	BRKR	WAT
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Underperform	Neutral
Zacks Rank (Short Term)	4	-	-	3	4	4
VGM Score	D	-	-	B	F	D
Market Cap	18.94 B	294.76 M	21.49 B	26.84 B	6.74 B	12.26 B
# of Analysts	6	6	14	7	6	8
Dividend Yield	0.00%	0.00%	1.98%	0.83%	0.37%	0.00%
Value Score	F	-	-	C	F	F
Cash/Price	0.02	0.09	0.06	0.05	0.13	0.03
EV/EBITDA	24.93	16.65	12.50	22.18	19.25	16.55
PEG Ratio	2.72	4.74	2.87	2.85	3.18	6.18
Price/Book (P/B)	61.83	1.52	2.95	5.63	7.29	NA
Price/Cash Flow (P/CF)	29.36	16.80	11.81	21.86	20.96	17.77
P/E (F1)	37.30	37.71	21.33	28.50	38.19	24.72
Price/Sales (P/S)	6.36	2.95	2.28	5.13	3.31	5.20
Earnings Yield	2.65%	2.65%	4.50%	3.51%	2.61%	4.05%
Debt/Equity	4.94	0.71	0.76	0.38	1.04	-5.65
Cash Flow ($/share)	26.99	1.81	6.96	3.96	2.09	11.14
Growth Score	C	-	-	B	D	C
Hist. EPS Growth (3-5 yrs)	15.15%	10.22%	10.87%	14.42%	14.52%	10.39%
Proj. EPS Growth (F1/F0)	-7.71%	-9.11%	-10.48%	-2.21%	-27.07%	-10.93%
Curr. Cash Flow Growth	7.99%	-4.57%	5.39%	9.85%	12.63%	-4.57%
Hist. Cash Flow Growth (3-5 yrs)	9.94%	6.01%	8.55%	-2.46%	11.39%	5.07%
Current Ratio	1.77	2.05	1.29	1.63	2.60	2.41
Debt/Capital	83.16%	44.25%	44.54%	27.27%	50.92%	91.94%
Net Margin	18.38%	2.59%	10.59%	13.04%	8.69%	22.77%
Return on Equity	134.62%	4.52%	16.26%	20.76%	25.09%	1,937.83%
Sales/Assets	1.09	0.78	0.55	0.57	0.78	0.89
Proj. Sales Growth (F1/F0)	-6.24%	0.00%	-2.53%	0.15%	-6.68%	-7.27%
Momentum Score	B	-	-	B	C	B
Daily Price Chg	0.52%	-0.59%	-0.65%	0.59%	-1.02%	-0.47%
1 Week Price Chg	7.10%	3.85%	4.99%	4.15%	-0.14%	4.61%
4 Week Price Chg	10.06%	-1.61%	4.28%	13.08%	11.22%	5.86%
12 Week Price Chg	7.94%	-2.82%	-3.05%	7.74%	-2.82%	-0.48%
52 Week Price Chg	8.94%	-1.61%	0.01%	29.60%	5.45%	-1.66%
20 Day Average Volume	146,231	121,020	2,425,602	2,270,079	913,010	504,038
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	2.49%	0.00%	0.00%
(F1) EPS Est 4 week change	-4.78%	-4.78%	-1.70%	3.01%	-14.98%	0.19%
(F1) EPS Est 12 week change	-15.90%	-16.83%	-16.00%	-10.81%	-36.62%	-14.51%
(Q1) EPS Est Mthly Chg	15.84%	-0.30%	-3.25%	0.87%	-64.63%	-0.30%

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	F
Growth Score	C
Momentum Score	B
VGM Score	D

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.

Disclosures

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