

# INVESTOR'S BUSINESS DAILY

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## THE NEW AMERICA

**MIDDLEBY CORP.** *Elgin, Illinois*

# Technology Is A Key Ingredient In Its Success

BY DAVID ISAAC

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According to the Encyclopedia Britannica, the first stove was built in Alsace, France, in 1490, made entirely of brick and tile.

Benjamin Franklin invented an iron furnace stove in the 18th century. Later models adopted coal, kerosene, gas and electric heating methods.

Today, some stoves are so high tech, you wonder whether they'll fly away and orbit Earth.

One firm looking to advance the technology is Middleby Corp.<sup>MIDD</sup>. It sells cooking equipment to food-service operations such as hotels, restaurants and hospitals.

The company doesn't just make stoves. It supplies everything on the hot side of the kitchen: ranges, broilers, griddles, fryers. Middleby came out with seven new products in 2003 and plans to unveil eight more this year.

"We usually generate between four to eight patents a year," Chief Executive Selim Bassoul said.

Most are related to saving energy or automating the cooking process. They're not "Star Wars" engineering, Bassoul says.

But reducing energy consumption, cooking time and labor costs can mean dramatic savings for Middleby's customers.

On average, the company's products cut energy consumption by 40%. That adds up to savings of \$400 to \$500 a month in a typical pizza restaurant owned by Papa John's<sup>PZZA</sup>.

### Profitable Niche

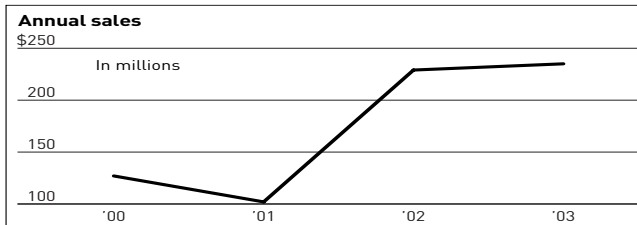
In 2000, Bassoul decided to focus part of the company's research and development on energy savings. At the time, it wasn't a big issue with most customers.

"They said, 'Selim, are you sure?'" Bassoul said. "I said, 'Trust me. Energy one day will be a big issue for customers. They can't raise their prices. They have to save.'"

Innovation helps customers

### Hot Stuff

Middleby not only stays in the kitchen despite the heat — it makes the heat, producing cooking gear for a variety of well-known food franchises. New products and markets help drive sales growth

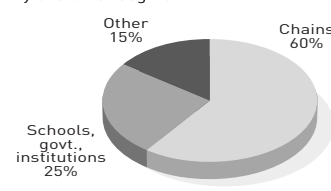


### U.S. market positions

|                  | Rank |
|------------------|------|
| Convection ovens | 1    |
| Conveyor ovens   | 1    |
| Combi ovens      | 1    |
| Broilers         | 1    |
| Toasters         | 1    |
| Warmers          | 1    |
| Fryers           | 2    |
| Ranges           | 2    |
| Griddles         | 2    |
| Steamers         | 3    |

### Revenue breakdown

By customer segment



Source: Company reports

### Middleby Corp.

|                           |           |
|---------------------------|-----------|
| Ticker                    | MIDD      |
| Share price               | Near 52   |
| 12-month sales            | \$235 mil |
| 5-year profit growth rate | 121%      |

### IBD SmartSelect Corporate Ratings

|                                  |    |
|----------------------------------|----|
| Earnings Per Share               | 97 |
| Relative Price Strength          | 97 |
| Industry Group Relative Strength | A- |
| Sales+Profit Margins+ROE         | B  |
| Accumulation/Distribution        | B  |

See [investors.com](http://investors.com) for more details

and leads to new products, higher margins and steady financial growth for Middleby.

The company's annual profit has moved up more than eightfold the past two years. It earned \$1.99 a share last year.

Overall sales growth has been slower, with the company's 2003 revenue climbing only 3% to \$235 million.

Still, Middleby's Southbend division grew its fourth-quarter sales 11% to \$9.2 million, thanks to its new Platinum series of ranges, broilers and griddles.

Middleby's new offerings enjoy success because the company

works in concert with its customers, analysts say.

"Through the (R&D) process, they are in contact with the potential buyers of the piece of equipment to make sure when it is released, there will be a demand for it," said James Clement of Sidoti & Co.

One example is a special safety toaster Middleby developed for Hampton Inn hotel chain.

Hampton came to Middleby when it started to offer self-serve breakfasts. It worried about putting out toasters because of the risk that kids would stick forks inside and electrocute themselves.

The toasters Middleby came up with have none of the heating elements exposed. They sell for \$600 apiece. Schools as well as hotels use them.

Middleby is also working on a series of automated cleaning devices it will unveil next year. The gadgets are designed to save on labor costs and boost morale of employees who'd rather not have to clean up after a day's work.

How did Middleby come up with the idea?

It didn't.

Customers did.

"I wouldn't have thought of that," Bassoul said. "Our customers came to us."

### Eiffel Tower, Golden Arches

One trend working in Middleby's favor is globalization of U.S. restaurant chains. The McDonald's on the Champs-Elysees in Paris is not just a showpiece. It's also the symbol of a culinary conquest.

U.S. chains such as McDonald's<sup>MCD</sup>, Papa John's, KFC and California Pizza Kitchen<sup>CPKI</sup> have expanded abroad.

The company's Middleby Worldwide division, which oversees international sales and distribution, saw fourth-quarter revenue increase 9% to \$10.5 million.

Much of that growth was driven by sales in China, Australia and the U.K.

The company has set up infrastructure to serve U.S. restaurants around the world. It has a manufacturing plant in the Philippines. It's also built test kitchens in China, Spain, Mexico and other countries.

These minikitchens let U.S. chains train their local employees in foreign lands to cook burgers and pizzas the way we do here.

"(Middleby is strong) in Europe, Latin America and Asia as well, partly because they have service capability in those markets whereas some companies don't," said analyst Anton Brenner of Roth Capital Partners.

Another helpful trend is the popularity of ethnic cuisine. Asian and Latin cooking involves a lot of fried food. Middleby's fryer business is "going crazy," Bassoul says.

Middleby sells its cooking equipment under a number of brand names, including Middleby Marshall, Toastmaster, CTX, Southbend and Blodgett.

First Call analysts expect the company's 2004 earnings to rise 14% to \$2.26 a share. They see profit gaining 16% to \$2.62 next year.