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Equipment Firms Bets On Small Restaurants

By BOB TITA

Middleby Corp. is betting the restaurant industry will be adding new kitchen equipment in small bites as restaurants try to lure back customers.

Middleby Chairman and Chief Executive Selim Bassoul has been acquiring niche equipment companies with unconventional cooking technologies on a hunch that the restaurant industry's future spending on equipment will be more limited and cost-conscious than the full-scale build-outs of restaurant chains that reigned during most of the past decade.

Middleby, whose product lines include commercial pizza ovens, ranges, deep fryers and griddles, has made four niche-product acquisitions in the past three years, including oven-maker TurboChef Technologies Inc. in 2008. The cash-and-stock deal worth about \$160 million was the largest acquisition to date for the Elgin, Ill., company.

TurboChef ovens can cook up to 12 times faster than standard convection ovens, but the primary attraction for Middleby is that the ovens don't need the ventilation fans and ducts required by most municipal building codes for conventional ovens. For TurboChef customers such as Subway and Dunkin' Donuts, the countertop ovens have allowed them to expand menus without the cost of remodeling outlets for oven vents.

"My goal is to create a ventless kitchen. An oven hood costs people money every single day," Mr. Bassoul said.

He estimated that eliminating hoods for ovens, ranges and other appliances could trim \$20,000 from the installation cost of a full-service restaurant kitchen. On top of that, Mr. Bassoul said hoods made appliances less energy efficient by drawing heat away from the cooking process.

Middleby also bought Wells Bloomfield LLC, St. Louis, from United Technologies Corp. in 2007 for \$29 million, primarily for a Wells' grill featuring a self-contained fan and filtering system to trap smoke and grease.

Last year, Middleby paid \$9 million for CookTek LLC, Chicago, to obtain its line of cooktops that generate heat from electromagnetic energy, making them more portable and safer to use than a gas-powered range. Middleby recently announced the purchase of Perfect Fry Co. for an undisclosed amount. The Alberta, Canada, company manufactures a line of ventless countertop deep fryers, complete with their own suppression systems for hot-oil fires.

Mr. Bassoul, who became chief executive in 2001, envisions the fryers being popular with bars and delicatessens looking to add French fries, chicken wings or other deep-fried items.

"They're emphasizing [ventless equipment] sooner than others, which is typically what they've done in the past in latching on to other value-added attributes," says Tony Brenner, an analyst for Roth Capital Partners in California. "They were the first to emphasize energy savings 10 years ago, and now everybody is doing it."

By some estimates, industry-wide sales of commercial kitchen equipment fell almost 10% in 2009 from \$9.5 billion in 2008. Industry analysts predict equipment sales will recover slowly, especially since the U.S. restaurant industry remains burdened by a glut of locations at a time when people are eating out less. Consumer spending at restaurants fell 3.5% last year from 2008. The outlook for 2010 is for restaurant spending to increase by 0.6%.

"The industry is moving to smaller restaurants," said David Henkes, a vice president for restaurant consultancy Technomic Inc., Chicago.

"When you look at where some of the equipment growth is going to come from, it's from smaller types of things. Middleby is smart to be investing in those things."

Acquisitions have helped Middleby achieve a five-fold increase in sales since 2001 to \$646.6 million last year. The company's knack for quickly pulling out excess costs from its

acquisitions has made the company one of the most profitable in its industry.

Even with falling sales and income in 2009, Middleby's earnings per share are up an average of 8.6% over the past three years compared with 3.3% growth for a kitchen appliance sector that includes other high-margin operators, such as Illinois Tool Works Inc. and Manitowoc Co.