Kiplinger's PERSONAL FINANCE

STOCKS | Why shares of a mundane oven maker soared 26-fold in the past five years. *By David Landis*

This company's really COOKING

ALTHOUGH HIS company's product line is limited to ovens and other hot-food equipment, Middleby chief executive Selim Bassoul took a keen interest a few years ago in the fresh salads his local Costco was selling. More and more often, he noticed, they were topped with chicken, shrimp and salmon, rather than cherry tomatoes or carrots. "All that protein on top needs to be cooked," he thought. A year ago, Middleby bought Alkar Holdings, which makes equipment for cooking and packaging precooked foods.

The new business now accounts for 14% of Middleby's sales, and it illustrates the importance Bassoul places on spotting trends. "If you are not on top of the trends, you will never survive," he says. It's not hard to understand why he feels that way. Two-thirds of the Elgin, Ill., company's business depends on its ability to persuade fast-food and casual-dining restaurants to buy new cooking equipment or to upgrade what they already have (the remainder comes from equipping new restaurants).

Sometimes, menu changes drive purchases. For example, a large fried-food restaurant chain Bassoul won't identify plans to add healthier fare—chicken and shrimp skewers and grilled salmon—to its menu. That will require every restaurant to purchase a rethermalizer, which reheats precooked food in a bath of boiling water. Other purchases are prompted by a need to save time, labor and energy costs. Here, Middleby has excelled at introducing products that contain what Bassoul calls "disruptive technology." For example, Middleby's new version of its Wow oven, launched in 2006, cooks pizzas 30% faster and with 30% less energy than the previous model, raising the performance bar for rival oven makers. Bassoul says he can keep Middleby's profits growing 15% to 20% annually by adding ten new products to its lineup each year.

Middleby's shares are as hot as the flames on its commercial burners.

MIDDLEBY/DAMIANOS PHOTOGRAPHY

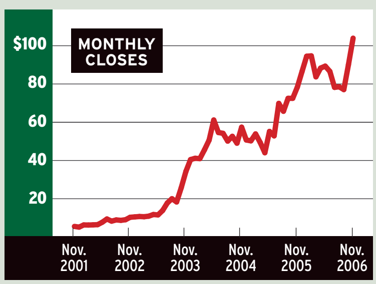
Bassoul, 49, who was born in Lebanon, is no gourmet chef. He says he can't even boil water. But he knew how to create a winning business recipe and radically altered Middleby's money-losing course when he became CEO in 2000. He ditched product lines that accounted for 20% of sales in favor of building up Middleby's more-profitable hot-food equipment business. Profits have soared. Middleby's shares (symbol MIDD) have skyrocketed from $4 in late 2001 to $104 in mid November.

Can the shares go further? They trade at 18 times estimated 2007 earnings. That's about 20% more than the overall market's price-earnings ratio, but the premium is justifiable because Middleby promises faster-than-average profit growth. Further gains will depend on Bassoul's ability to find productive acquisitions, not a bad bet given his track record.

Some analysts worry that the stock could be vulnerable to a weaker economy because consumers might eat out less. Bassoul insists that consumers will continue to spend roughly half their food budget outside the home, just as they always have. Meanwhile, he says, he is excited by a trend he calls "grazing"—smaller, more frequent meals—and also by the growth of hot finger foods. "They're going to be driving a lot more equipment needs," he says.

MIDDLEBY CORP.

- **Market capitalization:** $822 million
- **Annual revenues:** $400 million*
- **Annualized five-year earnings-per-share growth:** 105.5%
- **Earnings per share:** 2005, $3.98†; 2006, $4.92*; 2007, $5.72*
- **Phone:** 847-741-3300



Data to November 10. *Estimate. †Actual earnings.
SOURCES: Thomson, *Value Line*, Yahoo.