

Middleby 'Wowing' competitors with new products

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(Crain's) — There's a reason that Middleby Corp. is growing two to three times as fast as other manufacturers of restaurant cooking equipment. It's the company's new products, and they were on display in full force at the company's annual meeting Friday at the Elgin headquarters.

The company's biggest hit this season appears to be the brand-new Wow oven, which is being rolled out in 1,500 Papa John's International Inc. pizza restaurants, with other pizza chains to follow soon.

Wow is breaking new ground in pizza pie-baking technology, with pizzas at Papa John's coming out of the oven in a little over 4 minutes — a big advance over the six-minute standard that has prevailed in the recent past.

Even more important, perhaps, the Wow is advertised to cook with as much as 40% less energy.

"We've come up with a better mousetrap. In terms of speed and energy savings this is a break-through product," declared Mark Sieron, president of the company's Middleby Marshall division, based adjacent to headquarters in Elgin.

Selim A. Bassoul, Middleby's chairman and CEO, boasts that products like Wow will keep his company on its extraordinary growth path. While the commercial restaurant category expanded about 4% in 2005, Middleby's revenues jumped 17% to \$316.7 million, with an acquisition accounting for a big chunk of that gain, and earnings zoomed 36% to \$32.2 million, or \$3.98 a share.

Whereas most manufacturers in mature industries strain for 10% operating margins, Middleby nets better than 10% of its sales in profits. "They seem to have pricing power in the market, and they've been very good at reducing their operating overhead," said Mark Grzymalski, an analyst with Needham & Co. in New York.

Pricing power is tough in an industry in which sturdy ovens are made to last 20 years or longer. "Our biggest competitor is ourselves," says Mr. Sieron, who reckons that of the 120,000 ovens that Middleby Marshall has produced over the past 25 years, some 100,000 are still in operation. "We have to make a really convincing argument to get people to replace an oven they already have."

Wow seems to make that argument in a compelling manner. Its peak heat output of 175,000 BTUs is about the same as older models, but Middleby has added elaborate vents and fans to circulate the heat faster and more intensely. New valves sense when the oven is empty — according to Mr. Sieron most pizza ovens are empty two-thirds of the time waiting for orders to come in — and cut off the air-movement fans to save on power. They can start back up again in four seconds when baking recommences.

Timothy J. Fitzgerald, Middleby's chief financial officer, confirms that the company enjoys better profit margins on new-technology products such as Wow, though he won't offer specifics.

Wow is priced at about \$55,000 per oven, compared with \$40,000 for older models it's destined to replace. That extra cost may represent an affordability challenge for mom-and-pop pizzerias, which make up about half of the 64,000 pizza restaurants in the U.S., Mr. Sieron acknowledges.

At the National Restaurant Association convention at McCormick Place next week, Middleby will be showing off other new products.

One of the most promising: a bread-baking oven dubbed Rhapsody that both proofs loaves (a moderate-heat and humidity process to allow bread to rise) and bakes them in the same unit. It's being offered up by the Nu-Vu division in Menominee, Mich., that Middleby acquired a year ago. Prices on it aren't set yet.

"A product like Rhapsody is disruptive. It's changing the rules for bread baking," said Mr. Bassoul, who predicted that Middleby will introduce two dozen new products in the next three years. "And many of them will be disruptive," he promised.

In the first quarter, Middleby's revenues rose 29% to \$96.7 million, with the \$27 million acquisition in December of Alkar Holdings Inc., a maker of equipment for wholesale food companies based near Madison, Wisc., accounting for more than half the sales gain.

Earnings were up 27% to \$8.1 million, or 97 cents per diluted share. CFO Fitzgerald calculates that Alkar added 2 cents a share to earnings in the quarter. Analyst Grzymiski, who rates the stock a Buy, had expected earnings of just 89 cents in the quarter.

"On an organic basis there is no reason that Middleby can't grow at a low double-digit rate in the near future," Mr. Grzymiski said.