

## Mohawk Industries (MHK)

**\$137.50** (As of 01/15/20)

Price Target (6-12 Months): **\$144.00**

Long Term: 6-12 Months

**Zacks Recommendation:**

**Neutral**

(Since: 05/01/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

**Zacks Rank:** (1-5)

**4-Sell**

Zacks Style Scores:

VGM:A

Value: B

Growth: C

Momentum: B

### Summary

Mohawk's shares have outperformed its industry in the past year. The company's dominant market share in the highly fragmented and competitive industry, acquisition strategy, and strong international presence are expected to drive growth. The firm is streamlining operations, merging facilities and removing higher-cost assets to combat cost woes. It has been maintaining production rates, introducing new products and increasing promotions to address the ever-changing market needs. However, softness across the markets served (mainly U.S. businesses), and pressure on volumes and pricing are major headwinds. Also, input cost inflation, higher transportation expenses and a stronger dollar are pressing concerns for Mohawk. Estimates for 2020 moved south over the past 60 days, depicting analysts' concern over the stock.

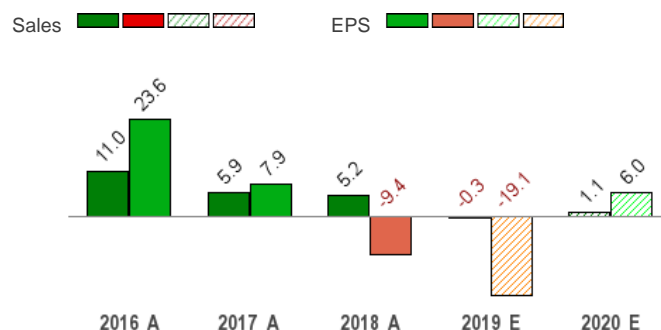
### Price, Consensus & Surprise



### Data Overview

52 Week High-Low	\$156.60 - \$108.93
20 Day Average Volume (sh)	518,806
Market Cap	\$9.8 B
YTD Price Change	0.8%
Beta	1.29
Dividend / Div Yld	\$0.00 / 0.0%
Industry	<a href="#">Textile - Home Furnishing</a>
Zacks Industry Rank	Top 44% (113 out of 254)

### Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	4.2%
Last Sales Surprise	0.8%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	02/13/2020
Earnings ESP	0.0%
P/E TTM	13.4
P/E F1	13.0
PEG F1	2.6
P/S TTM	1.0

### Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	2,412 E	2,594 E	2,564 E	2,469 E	10,062 E
2019	2,442 A	2,584 A	2,519 A	2,409 E	9,955 E
2018	2,412 A	2,577 A	2,546 A	2,449 A	9,984 A

### EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$2.05 E	\$2.99 E	\$3.01 E	\$2.48 E	\$10.57 E
2019	\$2.13 A	\$2.89 A	\$2.75 A	\$2.20 E	\$9.97 E
2018	\$3.01 A	\$3.51 A	\$3.29 A	\$2.53 A	\$12.33 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 01/15/2020. The reports text is as of 01/16/2020.

## Overview

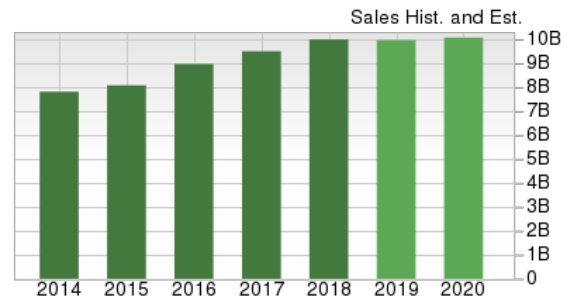
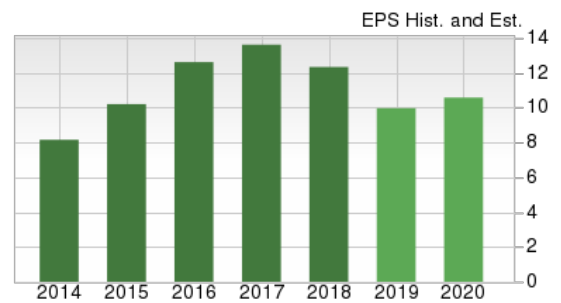
**Mohawk Industries, Inc.** is a leading global manufacturer of flooring products that enhance residential and commercial space. The company manufactures carpet, rugs, ceramic tile, laminate, wood, stone and vinyl flooring. It has a global presence with operations in Australia, Brazil, Canada, Europe, India, Malaysia, Mexico, New Zealand, Russia and the United States.

The company has reorganized its business into three segments — Global Ceramic, Flooring North America (Flooring NA) and Flooring Rest of the World (Flooring ROW).

**Global Ceramic** (accounting for 36.3% of third-quarter 2019 net sales): The Global Ceramic segment includes ceramic tile, porcelain tile and natural stone operations. Some of the brands included in this segment are American Olean, Daltile, KAI, Kerama Marazzi, Marazzi and Ragno.

**Flooring NA** segment (39.8%): The Flooring NA segment includes North American operations of various product categories, including carpets, rugs, carpet pad, hardwood, laminate and vinyl products including LVT. The new segment combines the former Carpet segment, the North American operations of the former Laminate and Wood segment, and the North American operations of the newly acquired vinyl flooring businesses. Some of the brands in this segment include Aladdin, Bigelow, Columbia Flooring, Durkan, Horizon, IVC, Karastan, Lees, Mohawk, Pergo, Portico, QuickStep and SmartStrand.

The **Flooring ROW** segment (23.9%): The Flooring ROW segment includes laminate, hardwood flooring, roofing elements, insulation boards, medium-density fiberboard (MDF), chipboards, and vinyl flooring products, including LVT. The new segment combines the European and Rest of the World operations of the former Laminate and Wood segment and the European and Rest of the World operations of the vinyl flooring businesses acquired recently. Some of the brands in this segment include IVC, Moduleo, Pergo, Quick-Step and Unilin.



---

## Reasons To Buy:

▲ **Well-Positioned in the Sector:** Mohawk is one of the largest flooring manufacturers in the global market. The company holds a dominant market share in extremely fragmented and competitive industry. In addition, the company commands a competitive advantage in the laminate flooring channel backed by the Laminate and Wood segment's industry-leading design, patented technologies and brands.

Mohawk enjoys a leading position in the home furnishings industry, and its strategic acquisitions are encouraging.

Mohawk is making higher internal investments to boost capacity and enter new markets.

Although higher inflation and slowing market conditions have been grappling Mohawk over the last few quarters, it selectively invested approximately \$1.5 billion to enhance its long-term performance, primarily in new product categories and geographies, with greenfield projects and acquisitions, cost-saving initiatives and share buyback.

The largest investments during the 2017-2018 period have been the expansion of LVT in the United States and Europe; ceramic capacity increases in the United States, Mexico, Italy, Poland, Bulgaria and Russia; luxury laminate in the United States, Europe and Russia; carpet tile in Europe; sheet vinyl in Russia; countertops in the United States and Europe; and carpet and rugs in the United States.

The company is also adding unique capabilities to introduce differentiated products and anticipates higher productivity improvement in the days ahead.

▲ **Strategic Initiatives to Boost Performance:** Over the last few quarters, Mohawk has been experiencing various headwinds like softness across the business, inflationary pressure, lower volumes and pricing concerns.

It has undertaken various strategic initiatives to improve profitability. The most significant of these initiatives are aligning ceramic production with demand in the United States, realigning its North American carpet operations, optimizing LVT manufacturing and ramping up new plant. In addition, it has been focusing on new product categories, introducing innovative product extensions and optimizing the recent buyouts. Mohawk is also investing in more sales personnel and marketing to boost its penetration in new and existing products to address ever-changing market needs. In addition, the company is streamlining operations to enhance efficiencies and leveraging automation and process enhancements to lower costs.

Although mix and competitive pressure will offset the positive impact of the price rise in the near term, the above-mentioned initiatives are likely to help the company in the upcoming quarters. Mohawk's shares have outperformed its industry in the past year.

▲ **Diverse Acquisitions Supporting Top-Line Growth:** An opportunistic approach to acquisitions is an important part of Mohawk's growth strategy. These acquisitions broaden Mohawk's product portfolio, expand its geographic footprint and market share. Approximately 63% of net sales were generated by sales in the United States and approximately 37% outside the country.

In 2018, Mohawk acquired leading flooring companies in Australia, New Zealand and Brazil. In Europe, it bought two flooring distributors and a specialized mezzanine company. It entered into European porcelain slab and carpet tile markets during the year. The company expanded higher-quality ceramic in Eastern Europe, and initiated sheet vinyl production in Russia along with quartz countertop manufacturing in the United States. Much of the benefits from these capital investments will be realized in 2020 and beyond, as it starts to achieve higher volume, mix and productivity.

While these acquisitions have already started contributing to the top line, Mohawk has initiated new investments to enhance its capability and introduce new products.

▲ **Strong International Presence:** Mohawk enjoys strong international presence, with higher net sales being generated outside the United States. The company has presence in Australia, Brazil, Canada, Europe, India, Malaysia, Mexico, New Zealand, and Russia. The strong international presence allows the company to capitalize on high demand in the lucrative global market.

The company is increasing utilization of new investments in the United States, Europe and Russia through more product offerings, expansion of customer base and increase in production.

---

---

## Reasons To Sell:

▼ **Challenging U.S. Ceramic Market:** Mohawk's operating backdrop had remained tough throughout 2018 and in the first nine months of 2019. Specially, the U.S. ceramic market has been impacted by a decline in product mix, soft retail demand, a stronger dollar, shift of customers to LVT and excess inventories in the channel. Recently, the United States imposed 104% tariffs on Chinese imports. Further anti-dumping duties are anticipated going forward. Mohawk expects the U.S. ceramic market to remain soft in the upcoming period.

Increased raw material costs, softening demand, along with transportation costs mar growth prospects.

Mohawk's European ceramic business is also being impacted by lower market demand. Hence, the company has been reducing inventory levels, expanding product offerings and entering new categories.

Its ability to offset these pressures is hindered by continuous inflation, more competitive imports due to a stronger dollar and substitution of LVT to other alternatives. During the third quarter, adjusted earnings decreased 16.4% year over year. Adjusted operating margin also declined to 9.9% from 12.3% a year ago, attributed to the above-mentioned headwinds.

Although the company's expectations are rebuilding, EPS for the fourth quarter (taking all these factors into account), excluding one-time charges, is expected within \$2.13-\$2.23. It had reported EPS of \$2.53 in fourth-quarter 2018.

▼ **Higher Prices of Raw Materials & Competitive Landscape:** The prices of raw materials, labor, energy and fuel-related costs vary with market conditions. In the United States, rising material costs had the greatest impact on the company's carpet business. Currently, material and freight inflation have been negatively impacting the company's results. Notably, in third-quarter 2019, gross profit declined 4% from the prior-year period due to the above-mentioned headwinds.

The flooring industry is highly competitive with a number of players (large and small), including imports, offering products in the marketplace. The company needs to make significant investments in new products, distribution network and manufacturing facilities that could impact profitability.

▼ **Business Sensitive to General Economic Conditions:** Mohawk's business is dependent on general economic conditions like consumer confidence, income and spending, corporate and government spending, interest rate levels plus availability of credit and demand for housing. Hence, any prolonged downturns in the United States and global economies are expected to leave a negative impact on the floor covering industry and in turn, the company's business.

---

## Last Earnings Report

### Mohawk's Q3 Earnings & Revenues Beat Estimates

Mohawk Industries, Inc. reported third-quarter 2019 results, wherein earnings and revenues surpassed the Zacks Consensus Estimate.

However, on a year-over-year basis, both the top and bottom lines declined due to softness in retail demand, strong dollar and excess inventories. It expects the aforementioned headwinds to prevail in the fourth quarter as well.

Quarter Ending **09/2019**

Report Date	Oct 24, 2019
Sales Surprise	0.82%
EPS Surprise	4.17%
Quarterly EPS	2.75
Annual EPS (TTM)	10.30

### Inside the Headlines

During the quarter, Mohawk reported adjusted earnings per share of \$2.75, which surpassed the consensus mark of \$2.64 by 4.2%. However, the metric declined 16.4% year over year.

Net sales of \$2,519.2 million surpassed the Zacks Consensus Estimate of \$2,499 million by 0.8%. However, the reported figure fell from the year-ago figure of \$2,546.8 million. On a constant-currency and days basis, net sales were flat year over year.

To combat the above-mentioned headwinds and improve business, Mohawk has been undertaking many initiatives that include aligning ceramic production with demand in the United States, realigning North American carpet operations, setting up of new plants and upgrading its LVT manufacturing. Also, the company has enhanced operations in Australia, New Zealand and Brazil by entering into new product categories, with innovative extensions.

### Operating Highlights

Gross profit during the quarter came in at \$691.7 million, down nearly 4% year over year. Adjusted selling, general and administrative (SG&A) expenses increased 6.1% from the prior-year level to \$449.2 million.

Adjusted operating income totaled \$250 million, which declined 20.4% year over year. Adjusted income tax rate was 18.3% during the reported quarter compared with 18.8% in the prior-year period.

### Segment Details

Global Ceramic: Sales in the segment totaled \$916.4 million, up 3.5% year over year. Also, the metric rose 4% on a constant currency and days basis.

However, operating margin of 9% declined from the prior-year level due to inflation and lower production rates, partially offset by productivity. Sluggish economy and excess industry capacity across the globe were other headwinds.

Flooring North America: Net sales in the segment came in at \$1001.9 million, down 4.4% year over year. The segment's adjusted operating income of \$80.2 million also dropped 14% from the prior-year level.

Moreover, operating margin in the unit was 8% owing to lower volume and inflation.

Flooring Rest of the World: In the segment, net sales dipped 1.9% year over year to \$600.9 million. On a constant-currency and days basis, sales grew 2.5% from the year-ago level. However, adjusted operating income in the segment fell 8.2% on a year-over-year basis to \$88.8 million.

Operating margin in the segment was 14%, backed by volume growth and lower inflation, partially offset by price and mix.

### Financial Highlights

As of Sep 28, 2019, it had cash and cash equivalents of \$111.3 million compared with \$91.4 million at 2018-end. During the first nine months of 2019, net cash from operating activities came in at \$978.1 million compared with \$894.5 million in the comparable year-ago period. Since the beginning of the third quarter, it purchased 740,000 shares for \$91 million under the stock purchase program. Markedly, free cash flow in the quarter rose year over year and balance sheet remained strong.

### Q4 View

With more investment in sales and marketing to expand placement of its products and increased utilization of new plants, the company is aiming for business improvement. With improved sales, cost, LVT production and increased distribution, its greenfield project is expected to yield favorably.

Given the above-mentioned tailwinds, Mohawk expects fourth-quarter 2019 earnings (excluding one-time charges) in the range of \$2.13-\$2.23 per share (versus \$9.8 reported in the year-ago period).

---

## Valuation

Mohawk shares are up 10.8% in the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Consumer Discretionary sector is up 4.8% and 20.8% in the past year, respectively.

The S&P 500 index is up 23.6% in the past year.

The stock is currently trading at 12.95X forward 12-month price to earnings, which compares to 10.58X for the Zacks sub-industry, 20.65X for the Zacks sector and 18.96X for the S&P 500 index.

Over the past five years, the stock has traded as high as 20.41X and as low as 7.8X, with a 5-year median of 15.51X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$144 price target reflects 13.57X forward 12-month earnings.

The table below shows summary valuation data for MHK.

Valuation Multiples - MHK					
		Stock	Sub-Industry	Sector	S&P 500
P/E F 12M	Current	12.95	10.58	20.65	18.96
	5-Year High	20.41	19.41	23.35	19.34
	5-Year Low	7.8	9.03	16.16	15.17
	5-Year Median	15.51	15.22	20.11	17.44
P/S F12M	Current	0.98	0.57	2.39	3.52
	5-Year High	2.16	1.58	3.19	3.52
	5-Year Low	0.79	0.54	1.81	2.54
	5-Year Median	1.59	1.22	2.54	3
EV/EBITDA TTM	Current	7.71	6.21	12.71	12.12
	5-Year High	14.95	12.47	17.76	12.86
	5-Year Low	6.09	4.47	11.07	8.48
	5-Year Median	11.16	9.15	12.43	10.67

As of 01/15/2020

## Industry Analysis Zacks Industry Rank: Top 44% (113 out of 254)



## Top Peers

Armstrong Flooring, Inc. (AFI)	Neutral
American Woodmark Corporation (AMWD)	Neutral
Beacon Roofing Supply, Inc. (BECN)	Neutral
BMC Stock Holdings, Inc. (BMCH)	Neutral
Culp, Inc. (CULP)	Neutral
Floor & Decor Holdings, Inc. (FND)	Neutral
Interface, Inc. (TILE)	Neutral
SELECT INT CONC (SIC)	Underperform

Industry Comparison Industry: Textile - Home Furnishing				Industry Peers		
	MHK Neutral	X Industry	S&P 500	BECN Neutral	FND Neutral	TILE Neutral
<b>VGM Score</b>	<b>A</b>	-	-	<b>A</b>	<b>B</b>	<b>A</b>
Market Cap	9.85 B	220.02 M	24.22 B	2.44 B	4.87 B	968.57 M
# of Analysts	8	3	13	9	11	3
Dividend Yield	0.00%	1.57%	1.75%	0.00%	0.00%	1.57%
<b>Value Score</b>	<b>B</b>	-	-	<b>A</b>	<b>C</b>	<b>A</b>
Cash/Price	0.01	0.02	0.04	0.03	0.02	0.09
EV/EBITDA	7.12	10.06	14.11	12.50	31.88	10.06
PEG Ratio	2.61	1.73	2.06	1.34	1.52	NA
Price/Book (P/B)	1.27	1.41	3.34	1.31	6.73	2.78
Price/Cash Flow (P/CF)	7.07	9.97	13.57	5.33	31.54	5.65
P/E (F1)	13.28	13.00	18.90	13.72	35.93	9.91
Price/Sales (P/S)	0.99	0.65	2.65	0.34	2.49	0.72
Earnings Yield	7.69%	7.69%	5.29%	7.30%	2.78%	10.07%
Debt/Equity	0.22	0.24	0.72	1.39	1.27	1.92
Cash Flow (\$/share)	19.46	0.86	6.94	6.66	1.53	2.93
<b>Growth Score</b>	<b>C</b>	-	-	<b>B</b>	<b>A</b>	<b>A</b>
Hist. EPS Growth (3-5 yrs)	6.83%	-0.38%	10.56%	17.95%	NA	14.29%
Proj. EPS Growth (F1/F0)	6.11%	9.60%	7.59%	14.46%	21.62%	9.60%
Curr. Cash Flow Growth	-1.47%	-1.38%	14.73%	11.78%	40.84%	57.82%
Hist. Cash Flow Growth (3-5 yrs)	13.07%	-0.96%	9.00%	40.23%	NA	17.90%
Current Ratio	1.52	2.36	1.24	1.75	1.31	2.22
Debt/Capital	18.15%	19.25%	42.99%	53.29%	55.97%	65.75%
Net Margin	7.09%	3.50%	11.14%	-0.15%	6.81%	5.16%
Return on Equity	9.82%	6.60%	17.16%	9.55%	17.58%	25.71%
Sales/Assets	0.74	1.34	0.55	1.11	1.08	0.96
Proj. Sales Growth (F1/F0)	1.08%	1.52%	4.23%	2.48%	24.25%	1.96%
<b>Momentum Score</b>	<b>B</b>	-	-	<b>C</b>	<b>B</b>	<b>F</b>
Daily Price Chg	3.71%	1.53%	0.27%	1.95%	1.58%	1.53%
1 Week Price Chg	-3.02%	-1.37%	0.39%	7.65%	-5.24%	-1.37%
4 Week Price Chg	1.08%	-0.16%	2.17%	14.49%	-3.97%	-3.10%
12 Week Price Chg	7.00%	0.00%	6.65%	8.34%	7.12%	8.44%
52 Week Price Chg	11.70%	11.86%	22.43%	6.67%	63.83%	8.08%
20 Day Average Volume	518,806	53,842	1,545,017	373,168	786,395	258,100
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	-0.14%	0.00%
(F1) EPS Est 4 week change	0.00%	0.00%	0.00%	0.53%	-0.14%	-0.40%
(F1) EPS Est 12 week change	-3.36%	-3.55%	-0.41%	-12.32%	-2.55%	-3.55%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	0.00%	1.11%	1.33%

---

## 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	<b>B</b>
Growth Score	<b>C</b>
Momentum Score	<b>B</b>
VGM Score	<b>A</b>

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

**This report contains independent commentary to be used for informational purposes only. The analysts contributing to this report do not hold any shares of this stock. The analysts contributing to this report do not serve on the board of the company that issued this stock. The EPS and revenue forecasts are the Zacks Consensus estimates, unless indicated otherwise on the reports first page.** Additionally, the analysts contributing to this report certify that the views expressed herein accurately reflect the analysts personal views as to the subject securities and issuers. ZIR certifies that no part of the analysts compensation was, is, or will be, directly or indirectly, related to the specific recommendation or views expressed by the analyst in the report.

Additional information on the securities mentioned in this report is available upon request. This report is based on data obtained from sources we believe to be reliable, but is not guaranteed as to accuracy and does not purport to be complete. Any opinions expressed herein are subject to change.

ZIR is not an investment advisor and the report should not be construed as advice designed to meet the particular investment needs of any investor. Prior to making any investment decision, you are advised to consult with your broker, investment advisor, or other appropriate tax or financial professional to determine the suitability of any investment. This report and others like it are published regularly and not in response to episodic market activity or events affecting the securities industry.

This report is not to be construed as an offer or the solicitation of an offer to buy or sell the securities herein mentioned. ZIR or its officers, employees or customers may have a position long or short in the securities mentioned and buy or sell the securities from time to time. ZIR is not a broker-dealer. ZIR may enter into arms-length agreements with broker-dealers to provide this research to their clients. Zacks and its staff are not involved in investment banking activities for the stock issuer covered in this report.

ZIR uses the following rating system for the securities it covers. **Outperform-** ZIR expects that the subject company will outperform the broader U.S. equities markets over the next six to twelve months. **Neutral-** ZIR expects that the company will perform in line with the broader U.S. equities markets over the next six to twelve months. **Underperform-** ZIR expects the company will underperform the broader U.S. equities markets over the next six to twelve months.

No part of this report can be reprinted, republished or transmitted electronically without the prior written authorization of ZIR.