

Mohawk Industries (MHK)

\$66.38 (As of 03/19/20)

Price Target (6-12 Months): **\$70.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 05/01/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:A

Value: A

Growth: A

Momentum: C

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 seven days, depicting analysts' concern over the stock.

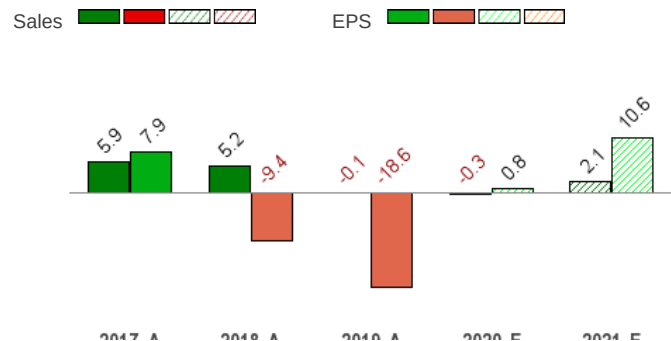
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$156.60 - \$58.50
20 Day Average Volume (sh)	1,169,049
Market Cap	\$4.8 B
YTD Price Change	-51.3%
Beta	1.27
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Textile - Home Furnishing
Zacks Industry Rank	Top 43% (108 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	2.3%
Last Sales Surprise	0.7%
EPS F1 Est- 4 week change	-1.9%
Expected Report Date	04/23/2020
Earnings ESP	-1.2%
P/E TTM	6.6
P/E F1	6.6
PEG F1	1.3
P/S TTM	0.5

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	2,506 E	2,609 E	2,577 E	2,426 E	10,153 E
2020	2,387 E	2,557 E	2,534 E	2,463 E	9,941 E
2019	2,442 A	2,584 A	2,519 A	2,425 A	9,971 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$2.41 E	\$3.10 E	\$3.17 E	\$2.61 E	\$11.19 E
2020	\$1.94 E	\$2.83 E	\$2.91 E	\$2.50 E	\$10.12 E
2019	\$2.13 A	\$2.89 A	\$2.75 A	\$2.25 A	\$10.04 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 03/19/2020. The reports text is as of 03/20/2020.

Overview

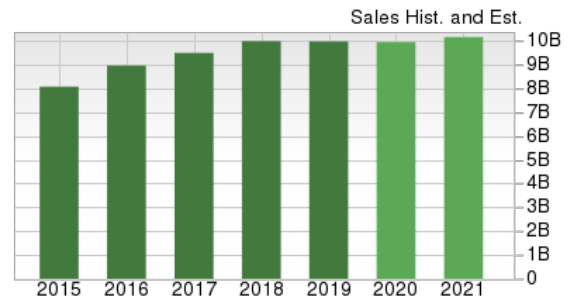
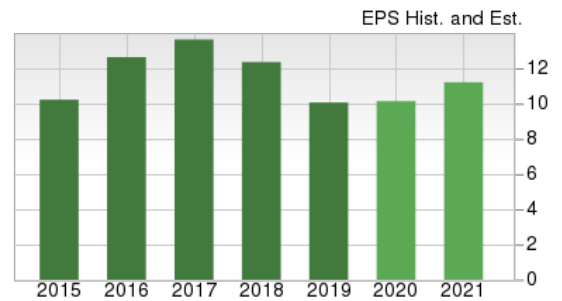
Mohawk Industries, Inc. is a leading global manufacturer of flooring products that enhance residential and commercial space. The company manufactures carpet, rugs, ceramic tile, laminate, wood, stone and vinyl flooring. It has a global presence with operations in Australia, Brazil, Canada, Europe, India, 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 36.4% of 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, Daltille, KAI, Kerama Marazzi, Marazzi and Ragno.

Flooring NA segment (38.6%): 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 (25%): 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.

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 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. During fourth-quarter 2019, total U.S. ceramic imports declined 17%, with Chinese ceramic imports falling 90% from the year-ago 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. In 2019, adjusted earnings decreased 18.6% year over year. Adjusted operating margin also contracted 250 basis points from a year ago, attributed to the above-mentioned headwinds.

Owing to the above-mentioned headwinds, Mohawk expects first-quarter 2020 earnings (excluding one-time charges) in the range of \$1.90-\$2.00 per share, indicating a decline from \$2.13 reported in the year-ago quarter.

▼ **Higher Chinese Tariffs & Inflation:** The overall U.S. floor covering industry has been grappling with higher tariffs since 2018. Mohawk's business is witnessing increased pressure of these tariffs. In fact, during fourth-quarter 2019, U.S. tariffs on clickable LVT from China were raised.

Its margins were under pressure due to increased inflation. Despite recording low raw material costs in the last few quarters, increase in wages and benefits neutralized the positives of the same. Although the company has undertaken various initiatives to mitigate the risk of these headwinds, the same is likely to put pressure on the bottom line in the near term.

▼ **Competitive Landscape:** 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 Q4 Earnings Surpass Estimates, Decline Y/Y

Mohawk Industries, Inc. reported better-than-expected fourth-quarter 2019 results. However, the top and bottom lines declined on a year-over-year basis due to softness in retail demand, greater competition and reduced production volume. In the near term, it expects the product categories to remain under pressure in most of the markets served.

Inside the Headlines

During the quarter, Mohawk reported adjusted earnings per share of \$2.25, which surpassed the consensus mark of \$2.20 by 2.3%. However, the metric declined 11.1% year over year.

Net sales of \$2,424.5 million surpassed the Zacks Consensus Estimate of \$2,407 million by 0.7%. However, the reported figure marginally fell 1% from the year-ago figure of \$2,448.6 million. On a constant-currency and days basis, net sales were down 1.7% year over year.

Operating Highlights

Gross profit during the quarter came in at \$622.8 million, down nearly 3.7% year over year. Adjusted selling, general and administrative expenses increased 9.6% from the prior-year level to \$463.3 million. Adjusted operating income totaled \$204.8 million, which declined 14.9% year over year.

Segment Details

Global Ceramic: Sales in the segment totaled \$858.3 million, down 0.3% year over year. Also, the metric declined 1.5% on a constant currency and days basis.

Operating margin of 6% declined from the prior-year level due to inflation and lower production rates, partially offset by productivity.

Flooring North America: Net sales in the segment came in at \$936.4 million, down 3.8% year over year (declining 5% on a constant days basis). The segment's adjusted operating income of \$69.2 million also dropped 19.9% from the prior-year level due to lower volume, price and mix.

Flooring Rest of the World: In the segment, net sales grew 2.6% year over year to \$629.8 million. On a constant-currency and days basis, sales grew 4% from the year-ago level. Adjusted operating income in the segment increased 14.1% on a year-over-year basis to \$89.5 million, courtesy of volume growth, reduced start-up cost and lower inflation, partially offset by price and mix.

Financial Highlights

As of Dec 31, 2019, it had cash and cash equivalents of \$134.8 million compared with \$119.1 million at 2018-end.

In 2019, operating cash flow was roughly \$1,418.8 million, up from 1,181.3 million a year ago.

Under the company's current stock repurchase program, it repurchased approximately \$23 million in the fourth quarter for a total of about \$375 million.

2019 Highlights

Adjusted earnings came in at \$10.04 per share in the year, reflecting a decrease of 18.6% year over year. Total sales of \$9,970.7 million also decreased 0.1% from the 2018 level.

Q1 View

The company continues to witness a tough business environment, given soft demand, greater competition and reduced production volume. To combat the above-mentioned headwinds, Mohawk has been undertaking many initiatives to boost sales and reduce costs. It has enhanced LVT manufacturing in the United States and Europe, and realigned its U.S. carpet operations.

Meanwhile, it has slashed ceramic production and inventories, and is taking out wood flooring plants in the United States and Europe. The company has been reducing the complexity of operations and increasing automation to improve efficiencies. Additionally, it has been focusing on improving productivity and volume of its new LVT, U.S. countertop, Russian sheet vinyl and European carpet tile investments.

Given the above-mentioned tailwinds, Mohawk expects first-quarter 2020 earnings (excluding one-time charges) in the range of \$1.90-\$2.00 per share, indicating a decline from \$2.13 reported in the year-ago quarter.

Quarter Ending **12/2019**

Report Date	Feb 13, 2020
Sales Surprise	0.71%
EPS Surprise	2.27%
Quarterly EPS	2.25
Annual EPS (TTM)	10.02

Valuation

Mohawk shares are down 51.3% in the year-to-date period, but down 47.3% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Consumer Discretionary sector are down 52.4% and 33.8% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 50% and 26.2%, respectively.

The S&P 500 index is down 24.9% in the year-to-date period and 15.4% in the past year.

The stock is currently trading at 6.35X forward 12-month earnings, which compares to 5.41X for the Zacks sub-industry, 14.1X for the Zacks sector and 14.3X for the S&P 500 index.

Over the past five years, the stock has traded as high as 20.41X and as low as 6.23X, with a 5-year median of 15.3X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$70 price target reflects 6.7X 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 F12M	Current	6.35	5.41	14.1	14.3
	5-Year High	20.41	19.41	23.23	19.34
	5-Year Low	6.23	5.41	14.1	14.3
	5-Year Median	15.3	15.16	19.88	17.42
P/S F12M	Current	0.47	0.28	1.54	2.6
	5-Year High	2.16	1.58	3.19	3.43
	5-Year Low	0.47	0.28	1.54	2.54
	5-Year Median	1.59	1.22	2.53	3
EV/EBITDA TTM	Current	5.14	4.71	8.51	8.92
	5-Year High	15.18	12.46	17.59	12.88
	5-Year Low	5.07	4.42	8.29	8.31
	5-Year Median	11.03	9	12.28	10.78

As of 03/19/2020

Industry Analysis Zacks Industry Rank: Top 43% (108 out of 254)



Top Peers

BMC Stock Holdings, Inc. (BMCH)	Outperform
Floor & Decor Holdings, Inc. (FND)	Outperform
Armstrong Flooring, Inc. (AFI)	Neutral
American Woodmark Corporation (AMWD)	Neutral
Beacon Roofing Supply, Inc. (BECN)	Neutral
Culp, Inc. (CULP)	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 Outperform	TILE Neutral
VGM Score	A	-	-	F	D	A
Market Cap	4.76 B	89.11 M	16.45 B	1.13 B	2.91 B	353.29 M
# of Analysts	9	3	13	9	12	3
Dividend Yield	0.00%	1.21%	2.67%	0.00%	0.00%	4.29%
Value Score	A	-	-	B	D	B
Cash/Price	0.02	0.02	0.06	0.03	0.01	0.14
EV/EBITDA	4.46	6.03	10.36	9.82	16.61	4.97
PEG Ratio	1.22	0.97	1.49	NA	0.86	NA
Price/Book (P/B)	0.59	0.59	2.16	0.61	3.81	0.96
Price/Cash Flow (P/CF)	3.49	3.49	8.92	2.47	14.97	2.31
P/E (F1)	6.22	8.19	13.12	6.80	20.89	3.95
Price/Sales (P/S)	0.48	0.29	1.72	0.16	1.42	0.26
Earnings Yield	15.25%	12.21%	7.54%	14.72%	4.78%	25.25%
Debt/Equity	0.21	0.24	0.70	1.47	1.29	1.78
Cash Flow (\$/share)	19.01	1.13	7.01	6.66	1.92	2.62
Growth Score	A	-	-	F	C	A
Hist. EPS Growth (3-5 yrs)	3.76%	-0.95%	10.85%	13.35%	NA	12.32%
Proj. EPS Growth (F1/F0)	0.76%	0.43%	4.90%	6.98%	19.35%	-3.57%
Curr. Cash Flow Growth	-5.69%	-5.69%	6.03%	11.78%	30.45%	-12.37%
Hist. Cash Flow Growth (3-5 yrs)	7.62%	-0.96%	8.55%	40.23%	48.52%	15.06%
Current Ratio	1.63	2.27	1.23	2.01	1.27	2.08
Debt/Capital	17.69%	19.25%	42.57%	54.77%	56.35%	64.08%
Net Margin	7.46%	4.99%	11.57%	-0.47%	7.36%	5.90%
Return on Equity	9.27%	7.20%	16.74%	8.60%	17.33%	26.17%
Sales/Assets	0.74	1.32	0.54	1.10	0.98	0.94
Proj. Sales Growth (F1/F0)	-0.30%	0.00%	3.13%	0.84%	22.84%	-0.50%
Momentum Score	C	-	-	F	C	C
Daily Price Chg	2.04%	1.11%	1.03%	10.63%	5.56%	8.41%
1 Week Price Chg	-18.63%	-18.63%	-11.01%	-32.28%	-23.61%	-31.94%
4 Week Price Chg	-50.53%	-29.45%	-33.45%	-53.95%	-47.87%	-63.41%
12 Week Price Chg	-50.64%	-48.14%	-30.67%	-47.79%	-43.00%	-63.89%
52 Week Price Chg	-48.20%	-48.20%	-23.69%	-52.54%	-30.09%	-61.96%
20 Day Average Volume	1,169,049	103,007	3,981,936	857,283	2,008,663	415,323
(F1) EPS Est 1 week change	-1.09%	-1.09%	-0.01%	-2.33%	-1.61%	-6.50%
(F1) EPS Est 4 week change	-1.85%	-1.85%	-0.85%	-2.33%	2.22%	-8.37%
(F1) EPS Est 12 week change	-4.34%	-4.34%	-1.70%	-6.03%	2.29%	-8.73%
(Q1) EPS Est Mthly Chg	-0.13%	-7.89%	-0.88%	-1.60%	8.15%	-7.89%

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	A
Growth Score	A
Momentum Score	C
VGM Score	A

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.

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