

Whirlpool Corporation (WHR)

\$112.19 (As of 05/01/20)

Price Target (6-12 Months): **\$119.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 04/01/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:A

Value: A

Growth: B

Momentum: A

Summary

Shares of Whirlpool have declined in the past three months. The stock came under pressure in spite of the company continuing with its earnings beat streak for the seventh straight quarter with first-quarter 2020 results. We note that net sales missed the Zacks Consensus Estimate for the third quarter in row. Also, both the top and bottom lines fell year over year. Sales decreased across all regions, except North America that witnessed a marginal growth. Management notified that in spite of disruptions caused by the pandemic, the company registered decent margin performance in North America, Latin America and EMEA regions. Moreover, Whirlpool has chalked out plans to protect margins and enhance liquidity position to navigate through this turbulent environment. The company is targeting more than \$500 million in net cost takeout.

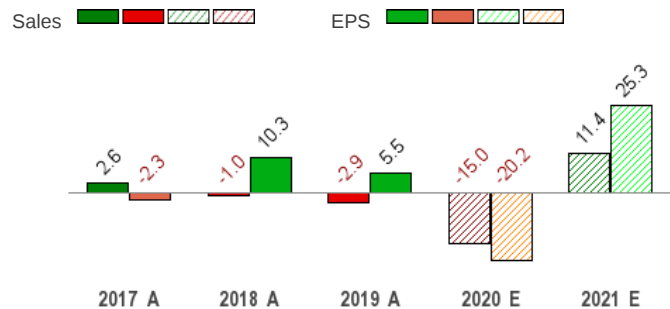
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$163.64 - \$64.00
20 Day Average Volume (sh)	946,814
Market Cap	\$7.0 B
YTD Price Change	-24.0%
Beta	1.98
Dividend / Div Yld	\$4.80 / 4.3%
Industry	Household Appliances
Zacks Industry Rank	Bottom 24% (192 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	8.1%
Last Sales Surprise	-1.2%
EPS F1 Est- 4 week change	-2.6%
Expected Report Date	NA
Earnings ESP	-59.6%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	3,934 E	4,109 E	4,603 E	4,929 E	19,335 E
2020	4,325 A	4,243 E	4,861 E	5,368 E	17,356 E
2019	4,760 A	5,186 A	5,091 A	5,382 A	20,419 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$3.44 E	\$2.96 E	\$4.25 E	\$4.36 E	\$16.00 E
2020	\$2.82 A	\$2.60 E	\$3.72 E	\$4.48 E	\$12.77 E
2019	\$3.11 A	\$4.01 A	\$3.97 A	\$4.91 A	\$16.00 A

*Quarterly figures may not add up to annual.

P/E TTM	7.1
P/E F1	8.8
PEG F1	1.7
P/S TTM	0.4

The data in the charts and tables, except sales and EPS estimates, is as of 05/01/2020. The reports text and the analyst-provided sales and EPS estimates are as of 05/04/2020.

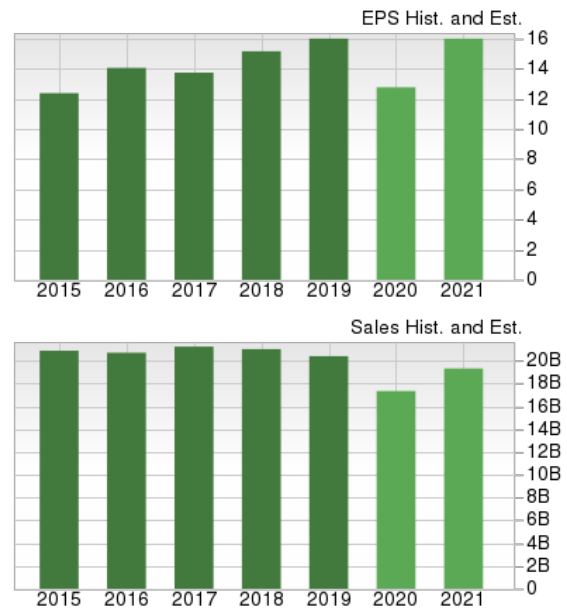
Overview

Benton Harbor, MI-based Whirlpool Corporation was founded in 1955 and is one of the largest manufacturers of home appliances in the world. The company manufactures products in 14 countries and markets products in nearly every country around the world.

Notably, the company's portfolio of products can be broadly classified into laundry appliances, refrigerators and freezers, cooking appliances, and other small household appliances such as dishwashers and mixers. It also produces hermetic compressors for refrigeration systems.

It markets brands including Whirlpool, KitchenAid, Maytag, Consul, Brastemp, Amana, Bauknecht, JennAir, Indesit and other major brand names. The company has the best brand portfolio in the industry, led by Whirlpool and KitchenAid. Of its brand portfolio, six brands generate more than \$1 billion in revenue.

Whirlpool, with its manufacturing and technology research centers spread globally, conducts its business through four reportable geographic segments. These are – North America; Latin America; Europe, Middle East and Africa (EMEA); and Asia. These regions contributed 56%, 16%, 21% and 7%, respectively, to total revenues in 2019.



Reasons To Buy:

- ▲ **Cost-Productivity Efforts Aid Operating Margins:** Whirlpool continues to gain from the successful execution of various measures undertaken to boost margins. These efforts included cost-based price increments and cost-reduction initiatives focused on improving business efficiency. We note that in spite of the disruptions caused by the pandemic the company managed to score decent operating margin. Adjusted operating margin contracted marginally by 20 basis points to 6.1% during the first quarter of 2020. This can be attributed to the company's stringent cost discipline actions that helped nearly offset COVID-19 related disruptions of about 150 basis points. The company has undertaken stringent measures to contain fixed costs, which involves restructuring actions, plant optimizations and the exit of certain non-profitable product segments. Management notified that the company witnessed decent margin performance in North America, Latin America and Europe, Middle East and Africa regions.
- ▲ **Positive Earnings Surprise Streak:** Whirlpool continued with its positive earnings surprise streak for the seventh straight quarter with first-quarter 2020 results. The company delivered adjusted earnings of \$2.82 per share that surpassed the Zacks Consensus Estimate of \$2.61. The better-than-expected bottom line number unveils the company's resilience toward the crisis and indicates that it remains watchful on the current economic scenario and its impact on business. Definitely, the cost containment efforts undertaken to navigate through this turbulent environment has been providing cushion to the bottom line.
- ▲ **Action Plan to Mitigate COVID-19 Impact:** Whirlpool has chalked out plans to protect margins and enhance liquidity position to navigate through this difficult time. The company is targeting more than \$500 million in net cost takeout by undertaking actions such as curtailing structural and discretionary costs, capturing raw material deflation opportunity, effectively managing working capital and syncing supply chain and labor levels with demand. The company remains well positioned to capture increasing demand of customers for the home and kitchen products. The company is focused on enhancing e-commerce and improving direct-to-consumer capabilities.
- ▲ **Financial Flexibility:** Whirlpool looks financially stable amid the coronavirus pandemic with no current maturities of long-term debt and enough cash and cash equivalents to meet any obligations. As of Mar 31, 2020, the company had cash and cash equivalents of \$2,837 million, which reflects an increase of about 45.3% on a sequential basis. Additionally, the company has roughly \$2 billion available in remaining committed credit facilities. This includes recently executed \$500 million short-term credit facility. Although, the company's long-term debt increased 12.7% sequentially to \$4,662 million as of Mar 31, its debt to capitalization ratio stands at 0.50, which is below the company's maximum limit of 0.65. While the company's interest coverage ratio requires a minimum of three times, it is currently above 10 times. Also, the company has no bond maturities for the remainder of 2020. Its next bond maturity of \$300 million is due in the second quarter of 2021.
- ▲ **Strength in North America Business:** We note that sales declined across all regions, except North America that witnessed a marginal growth. Net sales from North America inched up 0.2% year over year to \$2,540 million. On a currency-neutral basis, sales for the region rose 0.3%. This follows a decline of 0.3% in the preceding quarter. Notably, the company's aggressive cost actions partly offset negative price/mix and help mitigate operating margin contraction.

Whirlpool has chalked out plans to protect margins and enhance liquidity position to navigate through this difficult time. The company is targeting more than \$500 million in net cost takeout.

Reasons To Sell:

- ▼ **Dismal Stock Performance:** Shares of Whirlpool have declined 27% in the past three months, almost in line with the industry. The stock came under pressure in spite of the company continuing with its positive earnings surprise streak for the seventh straight quarter with first-quarter 2020 results. Net sales fell short of the Zacks Consensus Estimate for the third quarter in row. Also, both the top and bottom lines declined year over year. Margins also contracted during the quarter. Quite apparent, the crippling effect of the coronavirus outbreak has led to supply-chain disruptions, slowdown in production activities and reduced demand for several commodities. The ongoing pandemic has led the company to witness challenging conditions and significant disruptions in its operations as the government ordered shutdown of various facilities. Alongside disruptions in production, sluggish demand impacted the results.
- ▼ **Disappointing Sales View:** First-quarter net sales of \$4,325 million declined 9.1% from the year-ago period. We note that sales declined across all regions, except North America that witnessed a marginal growth. While net sales slid 12.4% (or 10.2% on a currency-neutral basis) in EMEA, the metric fell 29.4% (or 20.7% on a currency-neutral basis) in Latin America. Net sales from Asia decreased 22.3% to \$288 million from the prior-year quarter's figure thanks to COVID-19 that hurt demand in China and disrupted business activities in India. On a currency-neutral basis, sales for the region fell 20.2%. The coronavirus outbreak has hurt the company's sales performance. While the impact of the same on the business is difficult to ascertain, management envisions net sales decline of approximately 13-18% for the full year. The company projects organic net sales to decrease in the band of 10-15%.
- ▼ **EBIT Decline Y-o-Y:** Adjusted operating profit fell 10.7% to \$266 million from \$298 million in the year-ago quarter. Again, adjusted operating margin contracted marginally by 20 basis points to 6.1%. We note that price/mix adversely impacted margins by 175 basis points due to one-time product transition expenses and unfavorable product mix shifts due to COVID-19 related consumer purchases. The company witnessed higher demand for microwaves, low-end refrigerators, and freezers resulting in negative price/mix. Also, unfavorable currency fluctuations as impacted the margin.
- ▼ **Stiff Competition:** Whirlpool operates in a highly competitive home appliance industry having rivals namely Arcelik, Bosch, Electrolux, Haier, Kenmore, LG, Mabe, Midea, Panasonic and Samsung. The company faces competition on attributes such selling price, product features and design, consumer taste, performance, innovation, reputation, energy efficiency, service, quality, cost, distribution, and financial incentives. Moreover, with more and more companies adopting e-commerce channel and direct-to-consumer business models the competition has increased. Definitely, this may hurt the company's market share.

Net sales fell short of the Zacks Consensus Estimate for the third quarter in row. Also, both the top and bottom lines declined year over year. Sales declined across all regions, except North America.

Last Earnings Report

Whirlpool's Q1 Earnings Beat Estimates, Sales Miss

Whirlpool continued with its positive earnings surprise streak for the seventh straight quarter with first-quarter 2020 results. However, net sales fell short of the Zacks Consensus Estimate for the third quarter in row. Also, both the top and bottom lines declined year over year. Nonetheless, management notified that in spite of disruptions caused by the coronavirus pandemic, the company witnessed decent margin performance in North America, Latin America and Europe, Middle East and Africa regions.

Quarter Ending **03/2020**

Report Date	Apr 30, 2020
Sales Surprise	-1.18%
EPS Surprise	8.05%
Quarterly EPS	2.82
Annual EPS (TTM)	15.71

Moreover, Whirlpool has chalked out plans to protect margins and enhance liquidity position to navigate through this turbulent environment. The company is targeting more than \$500 million in net cost takeout by undertaking actions such as curtailing structural and discretionary costs, capturing raw material deflation opportunity, effectively managing working capital and syncing supply chain and labor levels with demand.

An Insight into Q1

The company delivered adjusted earnings of \$2.82 per share that surpassed the Zacks Consensus Estimate of \$2.61 but declined 9.3% from the year-ago quarter's figure of \$3.11. On a GAAP basis, it reported earnings of \$2.41 per share, significantly down from \$7.31 registered in the prior-year period.

Net sales of \$4,325 million declined 9.1% from the year-ago period and lagged the Zacks Consensus Estimate of \$4,377 million. Organic net sales edged down 0.3% to \$4,433 million. We note that sales declined across all regions, except North America that witnessed a marginal growth.

The coronavirus outbreak has hurt the company's sales performance. While the impact of the same on the business is difficult to ascertain, management still envisions net sales decline of approximately 13-18% for the full year. The company projects organic net sales to decrease in the band of 10-15%.

Adjusted operating profit (EBIT) fell 10.7% to \$266 million from \$298 million in the year-ago quarter. We note that adjusted operating margin contracted marginally by 20 basis points to 6.1%. This can be attributed to the company's stringent cost discipline actions that helped nearly offset COVID-19 related disruptions of about 150 basis points.

Regional Performance

Net sales from **North America** inched up 0.2% year over year to \$2,540 million. On a currency-neutral basis, sales for the region rose 0.3%. Segment's operating profit fell 3% to \$303 million, while operating margin shrunk 40 basis points to 11.9%. We note that the company's aggressive cost actions partly offset negative price/mix.

Net sales from **EMEA** (Europe, Middle East and Africa) declined 12.4% to \$879 million. On a currency-neutral basis, sales for the region fell 10.2%. Notably, segment's operating loss for the quarter under review improved to \$15 million from \$21 million in the year-ago period courtesy of disciplined cost actions.

Net sales from **Latin America** plunged 29.4% to \$618 million. On a currency-neutral basis, sales for the region fell 20.7%. However, the segment's organic net sales surged 23.3% driven by share gains in Brazil. The segment reported an operating profit of \$31 million, down from \$45 million in the year-ago period. However, operating margin remained almost flat at 5%. Management stated that cost containment efforts helped offset unfavorable currency. The region's operating profit includes \$24 million related to the Embraco compressor business.

Net sales from **Asia** decreased 22.3% to \$288 million from the prior-year quarter's figure thanks to COVID-19 that hurt demand in China and disrupted business activities in India. On a currency-neutral basis, sales for the region fell 20.2%. The segment reported an operating loss of \$16 million against operating profit of \$7 million in the prior-year period.

Financial Position

As of Mar 31, 2020, Whirlpool had cash and cash equivalents of \$2,837 million, long-term debt of \$4,662 million and shareholders' equity of \$3,980 million. Management highlighted that the company has roughly \$2 billion available in remaining committed credit facilities. The company generated negative free cash flow of \$870 million.

Recent News

Whirlpool Withdraws 2020 Guidance on COVID-19 Impact – Mar 24, 2020

Whirlpool withdrew its 2020 financial guidance, citing the uncertainty regarding the coronavirus pandemic, which is impacting global business and consumer activities. Also, management borrowed \$2.2 billion on Mar 13 from its current revolving credit facility.

Further, disruptions in production, sluggish demand is anticipated to affect results. The company now foresees earnings before interest and taxes during first-quarter 2020 to be marginally higher than its earlier guided view of \$25-\$40 million.

Whirlpool's New Distribution Center Expands Footprint in Tulsa - March 10, 2020

Whirlpool opened a new state-of-the-art factory distribution center ("FDC") in Tulsa, OK. The facility is located adjacent to its existing manufacturing plant in the region. This plant produces freestanding and slide-in ranges under the Whirlpool, Amana, Maytag, KitchenAid and JennAir brand names.

The company has invested \$55 million in the new facility, which is likely to double the size of its presence in Tulsa. Moreover, the 800,000-square-foot facility will create additional 150 manufacturing jobs within the plant, once fully operational. The plant currently employs 1,710 people. Further, the new FDC will improve the production capacity of the Tulsa plant and enhance supply-chain efficiencies across North America.

The factory distribution center is equipped with a climate control system for regulating the temperature and humidity content to provide an optimal working and storage environment. It also features a unique dock-loading equipment for the operator's safety and a better conveyor equipment to manage inventory effectively and lower potential damage. Further, the new information systems at the facility should help control inventory, offer real-time information and enhance labor efficiency in the warehouse.

Valuation

Whirlpool shares are down 24% in the year-to-date period and 19.8% for the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Consumer Discretionary sector are down 24.3% and 20.6% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and the sector are down 20.7% and 17.1%, respectively.

The S&P 500 index is down 12.1% in the year-to-date period and 3.7% in the past year.

The stock is currently trading at 8.09X forward 12-month earnings, which compares to 7.62X for the Zacks sub-industry, 23.64X for the Zacks sector and 20.18X for the S&P 500 index.

Over the past five years, the stock has traded as high as 14.67X and as low as 4.17X, with a 5-year median of 10.19X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$119 price target reflects 8.58X forward 12-month earnings.

The table below shows summary valuation data for WHR

Valuation Multiples - WHR					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	8.09	7.62	23.64	20.18
	5-Year High	14.67	12.78	23.64	20.18
	5-Year Low	4.17	5.62	16.15	15.19
	5-Year Median	10.19	9.5	19.88	17.44
P/S F12M	Current	0.37	0.35	1.94	3.19
	5-Year High	0.71	0.46	3.19	3.44
	5-Year Low	0.2	0.33	1.67	2.54
	5-Year Median	0.54	0.38	2.52	3.01
EV/EBITDA TTM	Current	4.13	4.34	9.62	10.37
	5-Year High	9.39	9.03	17.6	12.86
	5-Year Low	3.22	2.89	8.26	8.28
	5-Year Median	7.04	6.3	12.24	10.77

As of 05/01/2020

Industry Analysis Zacks Industry Rank: Bottom 24% (192 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
HOWDEN JOINERY (HWDJY)	Outperform	4
AO WORLD PLC (AOWDF)	Neutral	NA
Best Buy Co., Inc. (BBY)	Neutral	3
Electrolux AB (ELUXY)	Neutral	3
Hamilton Beach Brands Holding Company (HBB)	Neutral	3
Illinois Tool Works Inc. (ITW)	Neutral	3
Target Corporation (TGT)	Neutral	3
Walmart Inc. (WMT)	Neutral	3

Industry Comparison Industry: Household Appliances				Industry Peers		
	WHR	X Industry	S&P 500	ELUXY	HBB	HWDJY
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Outperform
Zacks Rank (Short Term)	3	-	-	3	3	4
VGM Score	A	-	-	B	A	F
Market Cap	7.03 B	2.26 B	20.61 B	4.26 B	166.27 M	4.17 B
# of Analysts	4	1	14	2	1	2
Dividend Yield	4.28%	1.47%	2.11%	5.26%	2.93%	1.29%
Value Score	A	-	-	A	A	D
Cash/Price	0.30	0.30	0.06	0.30	0.01	NA
EV/EBITDA	4.29	4.79	11.87	4.79	5.11	NA
PEG Ratio	1.59	2.35	2.47	4.16	NA	NA
Price/Book (P/B)	1.72	1.85	2.67	1.78	3.10	NA
Price/Cash Flow (P/CF)	4.38	5.05	10.66	5.05	6.30	15.40
P/E (F1)	8.47	16.07	19.01	34.44	6.64	18.26
Price/Sales (P/S)	0.35	0.32	2.10	0.32	0.25	NA
Earnings Yield	11.38%	6.22%	5.05%	2.90%	15.05%	5.48%
Debt/Equity	1.19	0.47	0.72	0.47	0.64	NA
Cash Flow (\$/share)	25.53	2.14	7.01	5.47	2.09	1.77
Growth Score	B	-	-	C	A	D
Hist. EPS Growth (3-5 yrs)	7.04%	4.19%	10.88%	5.54%	NA	NA
Proj. EPS Growth (F1/F0)	-20.19%	-12.31%	-7.32%	-62.26%	1.09%	-11.83%
Curr. Cash Flow Growth	-33.06%	1.93%	5.92%	-7.73%	11.58%	NA
Hist. Cash Flow Growth (3-5 yrs)	1.93%	-0.14%	8.55%	-2.39%	NA	NA
Current Ratio	0.88	1.27	1.23	0.98	1.27	NA
Debt/Capital	54.43%	35.38%	43.84%	31.89%	38.86%	NA
Net Margin	4.33%	1.98%	11.08%	1.98%	-0.53%	NA
Return on Equity	25.67%	14.29%	16.44%	10.44%	32.74%	NA
Sales/Assets	1.05	1.05	0.54	1.20	2.11	NA
Proj. Sales Growth (F1/F0)	-7.69%	-2.11%	-1.42%	-21.79%	0.00%	-4.23%
Momentum Score	A	-	-	D	C	C
Daily Price Chg	-8.78%	-0.29%	-2.39%	-2.13%	-2.80%	-0.58%
1 Week Price Chg	-0.71%	0.00%	-1.74%	-1.43%	0.46%	2.55%
4 Week Price Chg	36.89%	34.80%	17.07%	9.34%	69.75%	36.05%
12 Week Price Chg	-27.00%	-21.03%	-18.53%	-42.24%	-18.63%	-23.44%
52 Week Price Chg	-21.48%	-25.65%	-9.82%	-43.80%	-27.41%	0.76%
20 Day Average Volume	946,814	16,997	2,641,413	12,394	35,042	101
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-2.64%	-2.64%	-6.62%	-46.84%	0.00%	-21.99%
(F1) EPS Est 12 week change	-17.71%	-17.23%	-13.28%	-76.85%	-2.63%	-16.76%
(Q1) EPS Est Mthly Chg	-8.70%	-4.35%	-11.97%	NA	0.00%	NA

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	A
Growth Score	B
Momentum Score	A
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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