

Whirlpool Corporation (WHR)

\$152.78 (As of 01/13/20)

Price Target (6-12 Months): **\$160.00**

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:C

Value: B

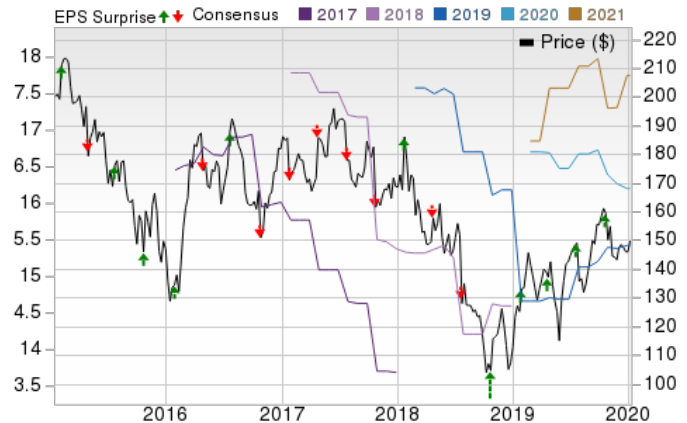
Growth: D

Momentum: C

Summary

Whirlpool underperformed the sector in the past three months. Most of the recent slowdown in share performance is due to the soft third-quarter 2019 results. Despite delivering an earnings beat, the company's top and bottom lines fell year over year. Notably, the company has a dismal sales surprise trend, with a miss in nine of the trailing 10 quarters. Sales declines at the Latin America and EMEA segments mainly hurt the top line in the third quarter. Although it reaffirmed the sales view for 2019, the metric is expected to be hurt by persistent softness in Canada and Mexico, and the exit of some European operations. However, Whirlpool's cost-containment efforts and margin expansion in North America are poised to drive growth in the future. Management now expects earnings for 2019 at the higher end of \$14.75-\$15.50 estimated earlier.

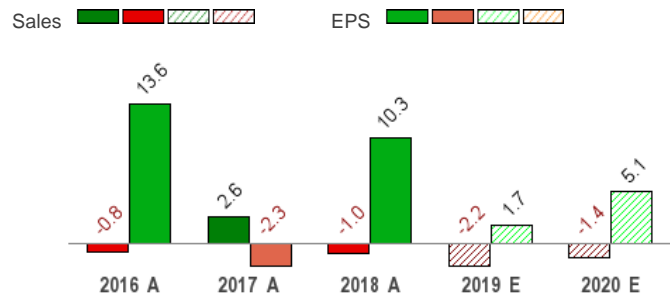
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$163.64 - \$114.00
20 Day Average Volume (sh)	568,066
Market Cap	\$9.7 B
YTD Price Change	3.6%
Beta	1.74
Dividend / Div Yld	\$4.80 / 3.1%
Industry	Household Appliances
Zacks Industry Rank	Top 43% (110 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	0.3%
Last Sales Surprise	-1.1%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	01/27/2020
Earnings ESP	0.0%
P/E TTM	9.7
P/E F1	9.4
PEG F1	1.8
P/S TTM	0.5

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	4,487 E	4,992 E	5,108 E	5,409 E	20,271 E
2019	4,760 A	5,186 A	5,091 A	5,528 E	20,566 E
2018	4,911 A	5,140 A	5,326 A	5,660 A	21,037 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$3.20 E	\$3.98 E	\$3.94 E	\$5.06 E	\$16.20 E
2019	\$3.11 A	\$4.01 A	\$3.97 A	\$4.33 E	\$15.42 E
2018	\$2.81 A	\$3.20 A	\$4.55 A	\$4.75 A	\$15.16 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 01/13/2020. The reports text is as of 01/14/2020.

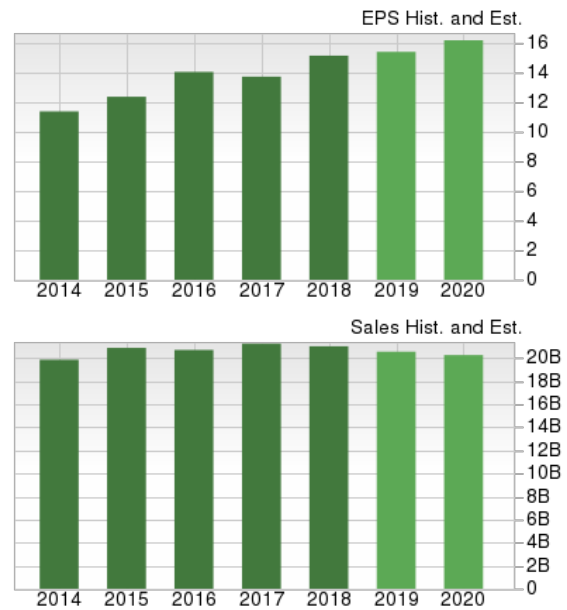
Overview

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, Maytag, KitchenAid, Jenn-Air, Amana, Brastemp, Consul, Gladiator, Affresh, Every Drop, Swash, Indesit and Bauknecht. 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 nearly 58.7%, 11.8%, 21.7% and 7.8%, respectively, to total revenues in third-quarter 2019.



Reasons To Buy:

- ▲ **Cost-Productivity Efforts Aid Operating Margins:** Whirlpool's third-quarter 2019 results reflected the continued success of the various measures undertaken to boost margins. These efforts included cost-based price increments and cost-reduction initiatives focused on improving business efficiency. To counter raw material inflation and other cost headwinds, the company implemented global cost-based pricing for trade customers along with initiatives to cut fixed overhead expenses by \$150 million. Backed by fixed cost discipline and a favorable product price/mix, the company reported operating margin expansion of 100 basis points (bps) in the third quarter. It expects favorable price/mix to aid margin growth throughout 2019.

For 2019, it now anticipates adjusted EBIT margin of 6.8% or marginally higher, driven by robust year-to-date performance. This suggests a 50-bps improvement from 2018. The guidance now indicates 200-bps gain from price/mix (compared with 175 bps previously mentioned). Further, the company expects adjusted earnings for 2019 to be at the higher-end of \$14.75-\$15.50 estimated earlier.

Whirlpool posted strong results for the North America unit in third-quarter on a favorable product price/mix and robust cost discipline. It expects this segment to deliver margin expansion in 2019.

- ▲ **Strength in North America Business:** Despite challenging industry demand in Canada, Whirlpool continued to post positive results for the North America division. Sales for the segment improved 0.5% year over year and 0.6% on a currency-neutral basis, aided by favorable price mix and solid market share gains in a moderate U.S. industry environment. Operating margin in North America expanded 80 bps on favorable product price/mix and continued cost discipline. This marked the eighth straight quarter of margin growth for the North America segment. Looking ahead, the company expects to continue delivering strong results for the region, driven by favorable price/mix and price increases along with improvement in the demand environment in the United States. Driven by robust performance in the first nine months, the company is now confident of delivering meaningful margin expansion in North America in 2019. It continues to anticipate operating margin of 12% or more for the region.
- ▲ **Actions to Revive EMEA on Track:** Whirlpool has been taking measures to revive its soft EMEA segment. Although revenues in the region declined 3.8% in third-quarter 2019, unit volume grew 5% across its core European business, mainly driven by growth in Russia, the U.K., Italy and Poland. On a currency-neutral basis, the top line was almost flat from the year-ago quarter. Moreover, the region's adjusted operating loss of \$4 million in the reported quarter was significantly narrower than operating loss of \$39 million incurred in the year-ago quarter. This variance was due to a relative decline in raw material inflation and gains from cost-reduction efforts. Some key steps to restore profitability at the EMEA segment include the exit of Turkey domestic sales operations and Hotpoint small appliances in the previous quarter, as well as the sale of its South Africa operations. Moreover, it witnessed gains from fixed cost reduction and volume returned to positive. Management remains on track to deliver structural operating growth in the region. For 2019, industry demand expectations for the EMEA unit remain intact. Additionally, the segment is likely to witness breakeven EBIT margin in the same period.
- ▲ **Long-term Targets Bode Well:** Whirlpool's robust product pipeline, solid innovations and cost productivity initiatives keep it on track to achieve its long-term goals. The company has outlined significant long-term targets through 2020, backed by brand strength and product portfolio. The company aims to deliver organic revenue growth of 3–5% every year. Additionally, the company targets EBIT margin to exceed 10% by 2020 and envisions earnings per share to grow by 10–15% each year. Furthermore, Whirlpool anticipates delivering roughly 4–5% margins along with 8% margin in Europe. It also remains committed to accomplishing gross debt-to-EBITDA of roughly 2 in the long term.
- ▲ **Balanced Capital Allocation Approach:** Whirlpool follows a balanced capital allocation approach that focuses on making appropriate capital allocations to fund capital needs as well as return value to shareholders. Consistent with the strategy, the company regularly returns cash to shareholders in forms of dividend payouts and share repurchases. Since 1983, it has increased dividend payout from \$0.225 to \$1.20 per share. In the first nine months of 2019, Whirlpool bought back shares worth \$100 million and paid out dividends worth \$229 million. We believe that regular dividend payments and increments along with share repurchases reflect growth potential of the company's earnings and cash flow generation capabilities. Moreover, it strengthened the balance sheet by repaying the \$1-billion term loan with the cash proceeds from the sale of the Embraco compressor business. For 2019, it anticipates generating free cash flow of \$800 million, with operating cash flow of \$1.4 billion. Moreover, it expects capital expenditure of \$625 million.

Reasons To Sell:

▼ **Soft Q3 Results, Stock Underperforms:** Shares of Whirlpool declined 3.7% in the past three months, against the Consumer Discretionary sector's 10.7% rally. The underperformance is mostly attributed to the company's soft third-quarter 2019 results. Despite reporting an earnings beat, the company's bottom line fell year over year. This was primarily due to a 4.4% decline in sales, which also lagged estimates. We note that Whirlpool has a dismal sales surprise trend, with a miss in nine of the trailing 10 quarters. The decline in the company's top line in the reported quarter was driven by declines across the Latin America and EMEA segments, somewhat offset by growth at North America and Asia divisions. Although management reaffirmed sales guidance of \$20.6 billion for 2019, the metric is expected to be hurt by the persistent softness in Canada and Mexico, and the exit of certain European operations.

Whirlpool has a dismal sales surprise trend. In third-quarter 2019, the top line fell 4.4% on soft sales in the Latin America and EMEA segments. Moreover, soft China operations remain deterrents.

▼ **Latin America Remains A Weak Spot:** Whirlpool has been witnessing softness across its Latin America segment primarily due to weak industry demand in Mexico. In third-quarter 2019, the segment's sales fell 27.9% year over year along with operating income decline of 52.5%. Moreover, operating margin contracted 240 bps, as favorable product price/mix and lower raw material cost inflation were more than offset by adverse currency and lower unit volume. In fact, unit volume was hurt by temporary trade inventory adjustments at a major Brazil-based retailer, which is likely to revive in the next quarter. Nevertheless, it revised industry demand expectations to 3-4% for Latin America, owing to a weaker-than-expected demand environment in Mexico. Moreover, the company projects adjusted EBIT for Latin America to roughly 6% for 2019, after taking into consideration the impact of aforesaid trade inventory actions and sluggish demand in Mexico. Softness across Latin America might continue hurting the company's performance in the coming quarters.

▼ **China Hurts Asia Operations:** Though Whirlpool delivered top-line growth for the Asia segment due to continued gains from its India business, soft China operations remained a deterrent to EBIT growth. Higher spending toward the transition of Sanyo branded products to Whirlpool brand in China pressurized margins in the third quarter. Consequently, the segment reported an operating profit of \$9 million, down 30.8% from the year-ago period. Operating margin also contracted 140 bps in the reported quarter, as gains from rise in volume, lower raw material inflation and cost-reduction efforts were more than offset by higher brand transition investments in China. Although management reaffirmed margin guidance for Asia at 3% for 2019, higher spending toward brand transition in China might continue to pressurize margins and hurt profitability.

▼ **Cost Inflation & Currency Remain Headwinds:** Despite positive margins, Whirlpool continued to witness pressures from cost inflation, and tariffs and logistic expenses as well as increased marketing and technology investments, and adverse currency. These headwinds are partly offset by gains from improved price/mix. Persistence of such headwinds is likely to offset benefits from improved price/mix in 2019. Further, higher spending on marketing and technology may pressurize operating margin growth and weigh on profitability.

Last Earnings Report

Whirlpool's Q3 Earnings Beat Estimates, Sales Miss

Whirlpool reported mixed third-quarter 2019 results, wherein earnings outpaced the Zacks Consensus Estimate while sales missed. With this, the company delivered the fifth straight earnings beat, while its sales missed estimates after a beat in the last reported quarter. Both top and bottom lines fell on a year-over-year basis.

Q3 Highlights

The company delivered adjusted earnings of \$3.97 per share, which outpaced the Zacks Consensus Estimate by a penny. However, the bottom line declined 12.7% from \$4.55 per share earned in the year-ago quarter. On a GAAP basis, the company reported earnings of \$5.57 per share, significantly up from \$3.22 registered in the prior-year quarter.

Net sales were \$5,091 million, down 4.4% from the year-ago period number. The top line also lagged the Zacks Consensus Estimate of \$5,146 million. The downside was driven by sales decline across the company's Latin America, and Europe, Middle East and Africa (EMEA) segments, somewhat offset by growth at North America and Asia divisions. However, adjusted organic net sales rose 1.6%.

Adjusted operating profit (EBIT) grew 9.6% to \$364 million from \$332 million in the year-ago quarter. Also, the operating margin expanded 100 basis points (bps) to 7.2%, backed by gains from global cost-based pricing and constant cost-containment efforts.

Regional Performance

Sales from **North America** inched up 0.5% to \$3 billion, while it rose 0.6% on a currency-neutral basis. Operating margin expanded 80 bps to 12.8%, primarily backed by favorable product price/mix and gains from cost productivity, partly negated by higher costs and a decline in unit volume. In dollar terms, operating profit rose 7.5% to \$387 million.

Sales from **Latin America** fell 27.9% year over year to \$632 million. However, adjusted organic sales grew 4.1%. Moreover, operating margin of 4.6% contracted 240 bps as favorable product price/mix and lower raw material cost inflation were more than offset by adverse currency and a decline in unit volume. In dollar terms, operating income plunged 52.5% to \$29 million.

Sales from **EMEA** declined 3.8% to \$1.1 billion, while the same dipped 0.4% on a currency-neutral basis. The region incurred adjusted operating loss of \$4 million in the third quarter, narrower than operating loss of \$39 million in the year-ago quarter. However, this was somewhat compensated with a decline in raw material inflation and gains from cost-reduction efforts.

Sales from **Asia** grew 5.7% to \$358 million from the prior-year quarter's figure. Excluding currency impacts, the metric rose 7.1%. Further, the segment reported operating profit of \$9 million, which declined 30.8% from the year-ago period. Operating margin also contracted 140 bps to 2.4% as gains from rise in volume, lower raw material inflation and cost-reduction efforts were more than offset by higher brand transition investments in China.

Financial Position

Whirlpool had cash and cash equivalents of \$993 million as of Sep 30, 2019, and long-term debt of \$4,105 million. During the first nine months of 2019, the company used \$566 million in cash in operating activities and reported negative free cash flow of \$805 million. Meanwhile, it incurred capital expenditure of \$306 million.

Notably, the company strengthened its balance sheet by repaying the \$1-billion term loan.

In the first nine months of 2019, Whirlpool bought back shares worth \$100 million and paid out dividends of \$229 million.

Guidance

Despite global economic uncertainties, the company remains confident to accomplish long-term financial targets. Moreover, it is smoothly progressing to revive the EMEA segment. Encouragingly, management reiterated its adjusted earnings per share view for 2019. In fact, the company is now trending toward the higher end of \$14.75-\$15.50 mentioned earlier. In 2018, it recorded earnings of \$15.16 per share.

Moreover, on a GAAP basis, the company now anticipates earnings of \$16.80-\$17.55, down from previously mentioned \$17.80-\$18.55. Management cut its GAAP earnings view as additional product warranty and liability costs were somewhat offset by adjustments to gains from the Embraco sale.

For 2019, the company still expects to generate operating cash flow of \$1.4 billion and free cash flow of \$800 million. Moreover, it expects capital expenditure of \$625 million.

Quarter Ending **09/2019**

Report Date	Oct 22, 2019
Sales Surprise	-1.07%
EPS Surprise	0.25%
Quarterly EPS	3.97
Annual EPS (TTM)	15.84

Valuation

Whirlpool shares are up 23.4% for the trailing 12-month period. Over the past year, the Zacks sub-industry and the the Zacks Consumer Discretionary sector are up 21.2% and 20.9%, respectively.

The S&P 500 index is up 25.1% in the past year.

The stock is currently trading at 9.4X forward 12-month earnings, which compares to 8.84X for the Zacks sub-industry, 20.48X for the Zacks sector and 19X for the S&P 500 index.

Over the past five years, the stock has traded as high as 14.74X and as low as 6.3X, with a 5-year median of 10.47X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$160 price target reflects 9.84X 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	9.4	8.84	20.48	19
	5-Year High	14.74	13.34	23.35	19.34
	5-Year Low	6.3	6.37	16.16	15.17
	5-Year Median	10.47	9.91	20.11	17.44
P/S F12M	Current	0.48	0.37	2.38	3.52
	5-Year High	0.72	0.46	3.19	3.52
	5-Year Low	0.31	0.33	1.81	2.54
	5-Year Median	0.56	0.38	2.54	3
EV/EBITDA TTM	Current	6.58	5.83	12.71	12.12
	5-Year High	9.87	9.44	17.76	12.86
	5-Year Low	3.26	2.92	11.07	8.48
	5-Year Median	7.22	6.73	12.43	10.67

As of 01/13/2020

Industry Analysis Zacks Industry Rank: Top 43% (110 out of 254)



Top Peers

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

Industry Comparison Industry: Household Appliances				Industry Peers		
	WHR Neutral	X Industry	S&P 500	ELUXY Neutral	HBB Neutral	HWDJY Neutral
VGM Score	C	-	-	B	C	D
Market Cap	9.66 B	2.98 B	24.31 B	7.16 B	239.23 M	5.45 B
# of Analysts	4	2.5	13	2	1	1
Dividend Yield	3.14%	1.19%	1.76%	1.43%	2.03%	0.99%
Value Score	B	-	-	A	B	D
Cash/Price	0.10	0.15	0.04	0.15	0.01	NA
EV/EBITDA	8.56	6.82	14.12	6.57	7.30	NA
PEG Ratio	1.77	2.32	2.05	NA	NA	NA
Price/Book (P/B)	2.45	3.21	3.34	3.21	4.48	8.80
Price/Cash Flow (P/CF)	4.04	8.40	13.66	8.40	8.96	20.12
P/E (F1)	9.46	11.92	18.82	14.41	9.32	19.85
Price/Sales (P/S)	0.47	0.47	2.64	0.52	0.34	NA
Earnings Yield	10.60%	6.93%	5.29%	6.93%	10.73%	5.04%
Debt/Equity	1.20	0.47	0.72	0.47	0.55	NA
Cash Flow (\$/share)	37.78	2.08	6.94	5.93	1.98	1.77
Growth Score	D	-	-	C	F	D
Hist. EPS Growth (3-5 yrs)	7.29%	5.52%	10.56%	8.94%	NA	NA
Proj. EPS Growth (F1/F0)	5.08%	19.55%	7.49%	19.55%	31.03%	5.92%
Curr. Cash Flow Growth	43.78%	11.93%	14.83%	-19.65%	-3.98%	NA
Hist. Cash Flow Growth (3-5 yrs)	12.31%	-0.68%	9.00%	-0.68%	NA	NA
Current Ratio	0.87	1.19	1.23	0.94	1.19	NA
Debt/Capital	54.46%	33.63%	42.99%	31.86%	35.40%	NA
Net Margin	5.15%	2.75%	11.08%	2.75%	1.80%	NA
Return on Equity	28.06%	16.55%	17.16%	16.06%	24.14%	NA
Sales/Assets	1.09	1.09	0.55	1.25	2.17	NA
Proj. Sales Growth (F1/F0)	-1.43%	0.22%	4.23%	-0.36%	0.22%	5.97%
Momentum Score	C	-	-	F	B	B
Daily Price Chg	2.07%	0.31%	0.73%	1.14%	0.63%	-2.82%
1 Week Price Chg	2.58%	0.00%	0.39%	1.03%	-3.30%	0.00%
4 Week Price Chg	2.47%	-1.41%	1.84%	3.69%	-3.28%	-2.82%
12 Week Price Chg	-4.90%	-3.56%	6.48%	-6.60%	-2.21%	32.81%
52 Week Price Chg	23.28%	15.20%	23.15%	9.94%	-35.05%	43.16%
20 Day Average Volume	568,066	8,373	1,578,594	1,585	40,113	6
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	-4.82%	0.00%	0.00%
(F1) EPS Est 4 week change	0.00%	0.00%	0.00%	-8.72%	0.00%	-0.83%
(F1) EPS Est 12 week change	-3.18%	-2.00%	-0.48%	-7.25%	5.56%	-0.83%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	NA	NA	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	B
Growth Score	D
Momentum Score	C
VGM Score	C

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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