**Zacks** Our Research. Your Success.

Jul 28, 2020

## Whirlpool Corporation (WHR)

**$165.72** (As of 07/27/20)

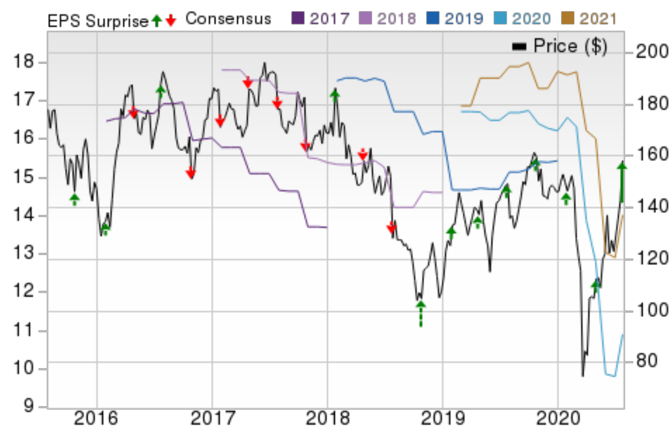
Price Target (6-12 Months): **$191.00**

| | | |
|---|---|---|
| Long Term: 6-12 Months | **Zacks Recommendation:** (Since: 07/27/20) Prior Recommendation: Neutral | **Outperform** |
| Short Term: 1-3 Months | **Zacks Rank:** (1-5) | **1-Strong Buy** |
| | Zacks Style Scores: | VGM:A |
| | Value: A \| Growth: C \| Momentum: B | |


## Summary

Shares of Whirlpool have outpaced the industry in the past three months driven by solid second-quarter 2020 results. The company reported earnings beat for the eighth straight quarter in the second quarter. Further, it witnessed solid recovery in demand across all regions in June. It is also poised to gain from rising demand for home and kitchen products. Notably, management issued positive sales view for 2020. The company has chalked out plans to protect margins and enhance liquidity position to navigate through this recent scenario. These endeavors are likely to generate more than $500 million of net cost takeout. However, COVID-19 disruptions along with higher prices impacted margins in the second quarter. Also, both the top and bottom lines fell year over year with sales decline across all regions due to muted demand due to the COVID-19 crisis.

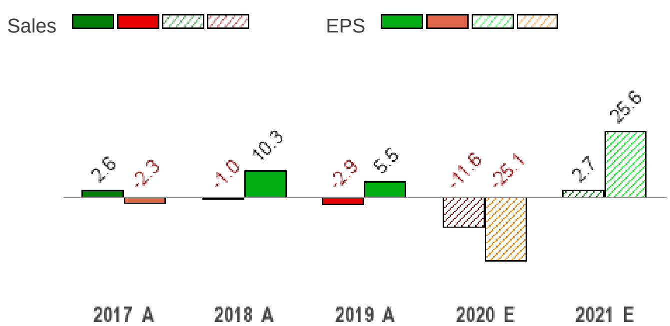

## Price, Consensus & Surprise




## Data Overview

| | |
|---|---|
| 52 Week High-Low | **$166.06 - $64.00** |
| 20 Day Average Volume (sh) | **840,551** |
| Market Cap | **$10.3 B** |
| YTD Price Change | **12.3%** |
| Beta | **1.98** |
| Dividend / Div Yld | **$4.80 / 2.9%** |
| Industry | **Household Appliances** |
| Zacks Industry Rank | **Top 11% (29 out of 253)** |
| Last EPS Surprise | **190.5%** |
| Last Sales Surprise | **13.2%** |
| EPS F1 Est- 4 week change | **22.5%** |
| Expected Report Date | **10/27/2020** |
| Earnings ESP | **10.7%** |
| P/E TTM | **12.0** |
| P/E F1 | **13.8** |
| PEG F1 | **2.6** |
| P/S TTM | **0.6** |

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




## Sales Estimates (millions of $)

| | Q1 | Q2 | Q3 | Q4 | Annual* |
|---|---|---|---|---|---|
| 2021 | 4,319 E | 4,494 E | 4,814 E | 5,164 E | 18,548 E |
| 2020 | 4,325 A | 4,042 A | 4,426 E | 5,092 E | 18,060 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 | $3.23 E | $3.89 E | $4.33 E | $4.55 E | $15.06 E |
| 2020 | $2.82 A | $2.15 A | $3.25 E | $4.20 E | $11.99 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.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 07/27/2020. The reports text is as of 07/28/2020.

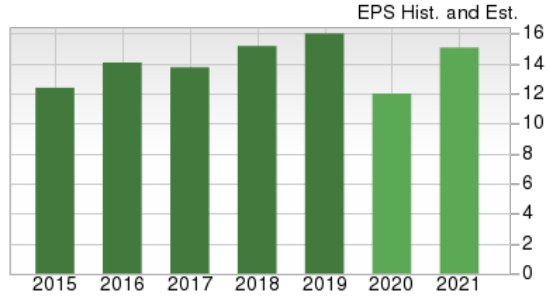
## Overview

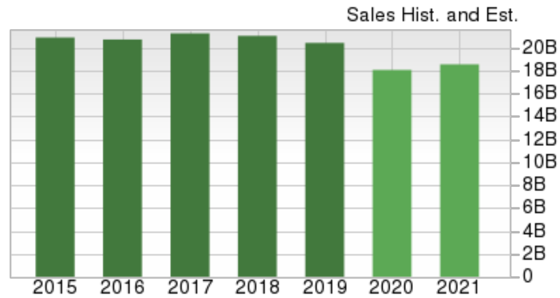
Benton Harbor, MI-based Whirlpool Corporation founded in 1955 is one of the largest manufacturers of home appliances in the world. The company manufactures products in 14 countries and markets products in nearly every country around the world.

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.




The company is on track with its cost-based price increments and cost-reduction initiatives, which focus on improving business efficiency and boosting margins. Apart from these, the company remains well positioned to capture increasing demand of customers for the home and kitchen products. One home appliance that might boost the company's performance is the HEPA Air Purifier, which is capable of removing as much as 99.97% of particles from the air.

## Reasons To Buy:

Whirlpool expects more than $500 million of net cost takeout through cost-saving endeavors. It also remains well positioned to capture increasing demand for the home and kitchen products.

- **Earnings Surprise Trend**: Shares of Whirlpool have gained 35.3% in the past three months, outperforming the industry's growth of 26.7%. The stock benefited from its robust earnings surprise trend for the eighth straight quarter in second-quarter 2020. The company delivered adjusted earnings of $2.15 per share that surpassed the Zacks Consensus Estimate of 74 cents. The better-than-expected bottom line results reflect the company's resilience toward the crisis mainly driven by the cost containment efforts, which are providing cushion.

- **Upbeat Sales View**: Although sales declined 22.1% year over year during second-quarter 2020, the metric surpassed the Zacks Consensus Estimate. Further, the company witnessed solid recovery in demand across all regions in June, which contributed to year-over-year global margin expansion for the month.Driven by the positive trend, management favorably revised its sales view for 2020. It now envisions 2020 sales decline of roughly 10-15%, compared with the earlier projection of 13-18% decline. Meanwhile, organic sales are likely to drop 7-12% as compared to the prior view of a decline of 10-15%.

- **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. Year-to-date, it has generated roughly $180 million in cost savings. Moving ahead, the company targets more than $500 million of net cost takeout from actions like 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 customer demand 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 Jun 30, 2020, the company had cash and cash equivalents of $2,546 million, which reflects an increase of about 30.4% 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 18% sequentially to $4,866 million as of Jun 30, 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.

## Risks

- **Stock Valuation Looks Stretched**: Considering Price-to-Earnings (P/E) ratio, Whirlpool looks pretty overvalued when compared with the broader industry. The stock has a trailing 12-month P/E of 11.97x compared with 10.38x for the industry. Its trailing 12-month P/E ratio is above the median level of 9.06x while it is below the high level of 11.97x scaled in the past year. These factors profess that the stock's valuation is quite stretched.

- **EBIT Decline Y-o-Y**: During second-quarter 2020, adjusted operating profit (EBIT) decreased 42.1% year over year to $210 million. We note that adjusted operating margin contracted 180 basis points (bps) to 5.2%. This can be attributed to COVID-19-related disruptions of about 300 bps, which more than offset the company's stringent cost saving initiatives. Further, unfavorable price impacted the margin to the tune of 75 bps owing to negative product mix stemming from changes in consumer spending amid the COVID-19.

- **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.

## Last Earnings Report

### Whirlpool Beats on Q2 Earnings, Updates 2020 View

| Quarter Ending | 06/2020 |
|---|---|
| Report Date | Jul 22, 2020 |
| Sales Surprise | 13.20% |
| EPS Surprise | 190.54% |
| Quarterly EPS | 2.15 |
| Annual EPS (TTM) | 13.85 |

Whirlpool Corporation posted better-than-expected second-quarter 2020 results. The quarter marked a positive earnings surprise for the company for the eighth straight quarter. However, both top and bottom lines fell year over year. Although strict cost-containment actions provided some cushion to the stock.

That said, management highlighted that the company witnessed solid recovery in demand across all regions in June. Impressively, this contributed to year-over-year global margin expansion for the month. Notably, the company also revised its full year outlook.

### An Insight Into Q2

The company delivered adjusted earnings of $2.15 per share that surpassed the Zacks Consensus Estimate of 74 cents but declined 46.4% from the year-ago quarter's $4.01. On a GAAP basis, it reported earnings of 55 cents per share, significantly down from $1.04 registered in the prior-year period.

Net sales of $4,042 million declined 22.1% from the year-ago period but exceeded the Zacks Consensus Estimate of $3,571 million. Organic net sales fell 13.8% to $4,191 million.

Adjusted operating profit (EBIT) decreased 42.1% to $210 million from $363 million in the year-ago quarter. We note that adjusted operating margin contracted 180 basis points to 5.2%. This can be attributed to COVID-19-related disruptions of about 300 basis points, which more than offset the company's stringent cost discipline.

### Regional Performance

Net sales from North America dropped 12.5% year over year to $2,501 million. On a currency-neutral basis, sales for the region declined 12.3%. The segment's operating profit fell 10.6% to $316 million, while operating margin expanded 20 basis points to 12.6%. The uptick can be attributable to aggressive cost actions and deferred marketing spend, which more than offset the muted demand.

Net sales from EMEA (Europe, Middle East and Africa) declined 19% to $836 million. On a currency-neutral basis, sales for the region fell 17%. Notably, the segment's operating loss for the quarter under review came in at $66 million wider than the loss of $16 million in the year-ago period, due to adverse impacts of reduced volumes. However, improved demand in June is helping the segment get back on track.

Net sales from Latin America plunged 51.1% to $434 million. On a currency-neutral basis, sales for the region declined 39%. However, the segment's organic net sales fell 4.1% due to soft demand in Mexico, which somewhat offset gain in share. The segment reported an operating profit of $11 million, down from $56 million in the year-ago period. Moreover, operating margin contracted 380 bps to 2.5%. Management stated that unfavorable currency and reduced volumes offset cost-containment efforts. The region's operating profit includes $23 million related to the Embraco compressor business.

Net sales from Asia decreased 37.1% to $271 million from the prior-year quarter's figure due to shut down in India in April/May with recovery taking place in the month of June.. On a currency-neutral basis, sales for the region fell 33.7%. The segment reported an operating loss of $18 million against an operating profit of $15 million in the prior-year period. The downside mainly resulted from sluggish demand in the region, which more than offset cost-cutting efforts.

### Financial Position

As of Jun 30, 2020, Whirlpool had cash and cash equivalents of $2,546 million, long-term debt of $4,886 million and shareholders' equity of $3,018 million, excluding non-controlling interest of $907 million. Management highlighted that the company has roughly $2 billion available in remaining committed credit facilities. The company generated negative free cash flow of $873 million during six-month period ended on Jun 30.

### Guidance

The company has updated its 2020 guidance. It envisions 2020 sales to fall roughly 10-15% as compared to the earlier guided view of a sales decline of 13-18%. Meanwhile, organic sales are likely to drop 7-12% as compared to the prior view of a decline of 10-15%.

Also, management highlighted that it is on track to generate cost savings of $500 million in 2020, driven by strategies undertaken in the wake of the ongoing COVID-19 crisis.

## Recent News

**Whirlpool's Board Approves Dividend – May 13, 2020**

Whirlpool Corporation's board has approved its quarterly cash dividend of $1.2 per share, to be payable Jun 15, 2020 to shareholders of record as on May 15.

## Valuation

Whirlpool shares are up 12.3% in the year-to-date period and nearly 11.2% for the trailing 12-month period. Stocks in the Zacks sub-industry is up 4.3% but the Zacks Consumer Discretionary sector is down 8% in the year-to-date period. Over the past year, the Zacks sub-industry is up 3.3% but the sector is down 3.8%.

The S&P 500 index is up 0.7% in the year-to-date period and 7.7% in the past year.

The stock is currently trading at 13.07X forward 12-month earnings, which compares to 11.46X for the Zacks sub-industry, 33.77X for the Zacks sector and 22.49X for the S&P 500 index.

Over the past five years, the stock has traded as high as 13.18X and as low as 4.17X, with a 5-year median of 10.15X. Our Outperform recommendation indicates that the stock will perform better than the market. Our $191 price target reflects 15.06X 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 | 13.07 | 11.46 | 33.77 | 22.49 |
| | 5-Year High | 13.18 | 11.87 | 33.77 | 22.49 |
| | 5-Year Low | 4.17 | 5.61 | 16.12 | 15.25 |
| | 5-Year Median | 10.15 | 9.57 | 19.85 | 17.52 |
| P/S F12M | Current | 0.58 | 0.35 | 2.29 | 3.55 |
| | 5-Year High | 0.71 | 0.46 | 3.22 | 3.55 |
| | 5-Year Low | 0.2 | 0.33 | 1.68 | 2.53 |
| | 5-Year Median | 0.52 | 0.38 | 2.5 | 3.02 |
| EV/EBITDA TTM | Current | 6.27 | 4.39 | 10.46 | 12.04 |
| | 5-Year High | 8.87 | 8.52 | 17.79 | 12.85 |
| | 5-Year Low | 3 | 2.73 | 8.33 | 8.25 |
| | 5-Year Median | 6.84 | 5.98 | 12.23 | 10.88 |

As of 07/27/2020

## Industry Analysis **Zacks Industry Rank:** Top 11% (29 out of 253)


## Top Peers

| Company (Ticker) | Rec | Rank |
|---|---|---|
| Best Buy Co., Inc. **(BBY)** | Outperform | 1 |
| AO WORLD PLC **(AOWDF)** | Neutral | 2 |
| Electrolux AB **(ELUXY)** | Neutral | 2 |
| Hamilton Beach Brands Holding Company **(HBB)** | Neutral | 2 |
| Illinois Tool Works Inc. **(ITW)** | Neutral | 3 |
| Target Corporation **(TGT)** | Neutral | 3 |
| Walmart Inc. **(WMT)** | Neutral | 3 |
| HOWDEN JOINERY **(HWDJY)** | Underperform | 5 |

## Industry Comparison Industry: Household Appliances

| | WHR | X Industry | S&P 500 | ELUXY | HBB | HWDJY |
|---|---|---|---|---|---|---|
| | | | | Industry Peers | | |
| **Zacks Recommendation (Long Term)** | Outperform | - | - | Neutral | Neutral | Underperform |
| **Zacks Rank (Short Term)** | 1 | - | - | 2 | 2 | 5 |
| **VGM Score** | A | - | - | D | A | F |
| Market Cap | 10.30 B | 2.63 B | 22.74 B | 5.93 B | 196.85 M | 4.43 B |
| # of Analysts | 5 | 1 | 14 | 2 | 1 | 2 |
| Dividend Yield | 2.90% | 1.22% | 1.8% | 3.78% | 2.47% | 0.61% |
| **Value Score** | A | - | - | C | A | D |
| Cash/Price | 0.26 | 0.26 | 0.07 | 0.26 | 0.01 | NA |
| EV/EBITDA | 5.75 | 6.97 | 13.03 | 6.97 | 5.55 | NA |
| PEG Ratio | 2.59 | 2.48 | 3.03 | 4.13 | NA | NA |
| Price/Book (P/B) | 2.62 | 3.35 | 3.17 | 3.35 | 3.69 | 6.07 |
| Price/Cash Flow (P/CF) | 6.49 | 6.98 | 12.05 | 7.01 | 6.95 | 14.24 |
| P/E (F1) | 13.82 | 21.48 | 21.90 | 33.80 | 6.93 | 36.57 |
| Price/Sales (P/S) | 0.55 | 0.50 | 2.38 | 0.50 | 0.30 | NA |
| Earnings Yield | 7.24% | 4.94% | 4.30% | 2.95% | 14.43% | 2.73% |
| Debt/Equity | 1.43 | 0.73 | 0.76 | 0.98 | 0.64 | 0.83 |
| Cash Flow ($/share) | 25.53 | 2.19 | 7.01 | 5.47 | 2.09 | 2.03 |
| **Growth Score** | C | - | - | F | A | D |
| Hist. EPS Growth (3-5 yrs) | 4.90% | -3.07% | 10.85% | -6.91% | NA | NA |
| Proj. EPS Growth (F1/F0) | -25.04% | -44.12% | -7.56% | -46.46% | 14.75% | -53.25% |
| Curr. Cash Flow Growth | -33.06% | -7.73% | 5.47% | -7.73% | 11.58% | NA |
| Hist. Cash Flow Growth (3-5 yrs) | 1.93% | -0.14% | 8.55% | -2.39% | NA | NA |
| Current Ratio | 0.98 | 1.57 | 1.31 | 1.03 | 1.27 | 2.15 |
| Debt/Capital | 58.91% | 45.48% | 44.41% | 49.39% | 38.86% | 45.48% |
| Net Margin | 4.42% | 3.20% | 10.45% | 3.20% | 3.06% | NA |
| Return on Equity | 22.08% | 10.81% | 15.13% | 4.43% | 34.44% | NA |
| Sales/Assets | 1.00 | 1.06 | 0.54 | 1.11 | 2.00 | NA |
| Proj. Sales Growth (F1/F0) | -13.56% | 0.00% | -2.00% | -11.02% | 0.00% | -18.27% |
| **Momentum Score** | B | - | - | A | A | F |
| Daily Price Chg | 4.92% | 0.00% | 0.48% | 2.04% | -0.21% | 0.00% |
| 1 Week Price Chg | 10.80% | -0.05% | 0.37% | -0.10% | 42.38% | 0.00% |
| 4 Week Price Chg | 30.33% | 0.02% | 5.61% | 14.92% | 18.20% | 0.00% |
| 12 Week Price Chg | 56.31% | 18.95% | 13.36% | 48.85% | 17.62% | 6.17% |
| 52 Week Price Chg | 11.21% | -2.58% | -3.30% | -19.69% | -7.85% | 2.70% |
| 20 Day Average Volume | 840,551 | 16,306 | 1,917,592 | 3,794 | 59,351 | 3 |
| (F1) EPS Est 1 week change | 17.33% | 0.00% | 0.00% | 0.00% | 13.51% | -12.22% |
| (F1) EPS Est 4 week change | 22.49% | 24.58% | 0.21% | 187.34% | 13.51% | -46.98% |
| (F1) EPS Est 12 week change | -6.08% | 13.51% | -2.00% | 41.88% | 13.51% | -46.98% |
| (Q1) EPS Est Mthly Chg | 24.84% | 22.17% | 0.00% | NA | 19.51% | 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 | C |
| Momentum Score | B |
| 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.

## Disclosures

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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.