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Recommendation: **BUY**

UConn Student Managed Fund

Whirlpool Corporation (NYSE: WHR)

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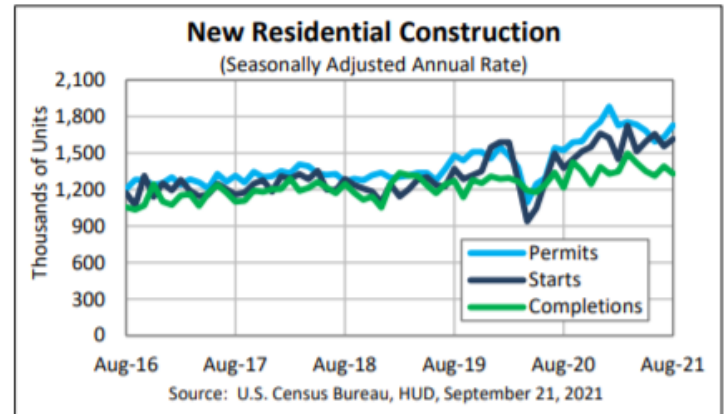
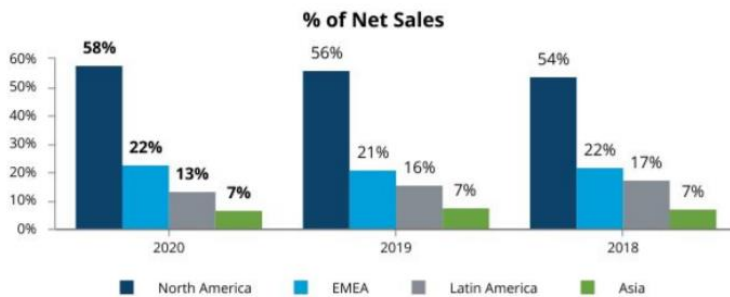
Target Price: \$267.57
 Current Price: \$198.72
 Stop loss: \$160.00
 52 Week High/Low: \$257.68/\$171.33

Market Cap (\$B): \$12.8B
 Dividend Yield: 2.82%
 Beta: 1.42
 ROE: 42.66%

P/E Ratio (TTM): 6.79
 EV/EBITDA: 5.1
 EBITDA Margin: 11.33%
 Gross Margin: 19.79%

Company Overview

Whirlpool is the world's largest manufacturer of home appliances. Whirlpool sells appliances that focus on laundry, refrigeration, cooking appliances and dishwashing. Whirlpool serves customers in North America, LatAm, EMEA and Asia. The Fortune 500 company has annual revenue of approximately \$21 billion, 92,000 employees, and more than 70 manufacturing and technology research centers around the world.



Industry Outlook

As of 2021, the United States household appliance industry revenue is projected to reach \$19,416 million. The projected annual CAGR through 2025 of 6.2% implies revenues will be \$26,190 million in 2025.

The home appliance industry is correlated with homebuilding. From 2010 through 2020 new home construction fell 6.8 million units short of what was needed to meet household formation growth in the United States. Freddie Mac estimates that the national deficit of single-family homes stands at 3.8mm. Long-term historical average is 1.5 million units a year. At 2.1mm units a year, it would take a decade to close the gap

People are also using their home appliances more due to recent changes in consumer behavior driven by the COVID-19 pandemic. 57% of US consumers surveyed are spending on average an extra 7.5 hours at home each day. 54% of consumers report they are cooking more and of those 54%, 71% state they plan to continue cooking more. Two out of five consumers report they are doing laundry more since the COVID-19 pandemic started. There is a new emphasis in laundry on sanitization. "This whole buzzword of sanitization is something that has become such a big state in the mind of the consumers. It is here to stay. What we saw SARS did for Southeast Asia in terms of completely changing basic human behaviour...we will potentially see the equivalent of this (COVID-19) impact for us" - Kumar Guarav VP of Marketing for Whirlpool.

Investment Thesis

In 2017, Whirlpool's high quality management team initiated a successful campaign to reduce fixed costs and develop a cost-based pricing model. Whirlpool achieved this by making several divestitures over the next three years that re-focused the business on sales to consumers rather than businesses. Between 2017 and 2020, Whirlpool incurred \$1 billion in restructuring costs however margins have steadily improved since this time. Whirlpool is now able to fully realize the benefits from this campaign.

Furthermore, Whirlpool, as a leader in its industry, is poised to benefit from several positive trends in its industry outlook. 45-50% of Whirlpool's sales are for appliances destined for new homes. We forecast homebuilding to be significantly above average over the next 2-3 years due to a deficit in the current market. Consumer preferences also changed recently due to the COVID-19 pandemic with consumers spending more time doing household chores resulting in them using their appliances more. We expect these changes in consumer behavior to be long-lasting even as lockdown restrictions end. Finally, Whirlpool has a strong presence in smart appliances - an industry that is forecasted to have a ~19% CAGR over the next five years.

Investment Risks

A primary area of risk for Whirlpool is the rising costs of its raw material, however Whirlpool has shown success in passing these costs off to the consumer using its cost-based pricing program. Another risk is meeting consumer demand due to supply constraints; however, Whirlpool's geographical footprint of manufacturing sites helps mitigate this risk.

Financial Performance

In 2020, Whirlpool delivered full-year GAAP net earnings of \$1.08 billion (margin of 5.6%), compared to 2020 net earnings of \$1.2 billion (net earnings margin of 5.8%). On a GAAP basis, net earnings margins were impacted by increased restructuring costs. In 2019, a \$511 million gain on the sale of their Embraco compressor business favorably impacted net earnings. Solid cash provided by operating activities of \$1.5 billion, compared to \$1.2 billion in 2019, was driven by higher earnings and working capital improvement. In Q1 2021, Whirlpool saw net sales growth of ~32% driven by increased consumer demand and cost-based price initiatives

Breakdown	TTM	12/31/2020	12/31/2019	12/31/2018	12/31/2017
> Total Revenue	21,771,000	19,456,000	20,419,000	21,037,000	21,253,000
Cost of Revenue	17,011,000	15,606,000	16,886,000	17,500,000	17,651,000
Gross Profit	4,760,000	3,850,000	3,533,000	3,537,000	3,602,000
> Operating Expense	2,097,000	1,939,000	2,211,000	2,264,000	2,191,000
Operating Income	2,663,000	1,911,000	1,322,000	1,273,000	1,411,000
> Net Non Operating Interest Inc...	-120,000	-168,000	-19,000	-300,000	-249,000
> Other Income Expense	-73,000	-288,000	249,000	-994,000	-275,000
Pretax Income	2,470,000	1,455,000	1,552,000	-21,000	887,000
Tax Provision	548,000	384,000	354,000	138,000	550,000
> Net Income Common Stockhold...	1,911,000	1,081,000	1,184,000	-183,000	350,000

Valuation Assumptions & Key Financials

We recommend a BUY rate for WHR based on a target price of \$267.57 per share. This target price reflects a 34% margin of safety based on its closing price of \$197.77 on October 8, 2021. We calculated WACC as 7.03%, assuming a terminal growth rate of 1% and a 5.9x exit EV/EBITDA

Perpetuity Growth Method - Value per Share	
Terminal Year Free Cash Flow	1,526
WACC	7.03%
Perpetuity Growth Rate	1.00%
Terminal Value	25,571
Present Value of TV	18,209
(+) Present Value of Free Cash Flows (@ WACC)	5,672
(=) Current Enterprise Value	23,882
(-) Total Debt	6,134
(+) Preferred Stock	134
(+) Cash and Marketable Securities	2,968
(=) Equity Value	20,850
Shares outstanding	63
Estimated Value per Share (USD)	333
Current Price (USD)	199
Estimated Upside	134
	MOS 67%

Terminal EBITDA Method	
Terminal EBITDA at year 2025	2,722
WACC	7.03%
Exit Enterprise Value / EBITDA	5.9
Terminal Value	16,033
Present Value of TV	11,417
(+) Present Value of Free Cash Flows (@ WACC)	5,672
(=) Current Enterprise Value	17,090
(-) Long Term Debt	6,134
(+) Preferred Stock	134
(+) Cash and Marketable Securities	2,968
(=) Equity Value	13,924
Shares outstanding	63
Estimated Value per Share (USD)	222
Current Price (USD)	199
Estimated Upside	23
	MOS 12%

ESG Considerations

Whirlpool focuses its ESG efforts on creating efficient appliances that reduce energy consumption. In April 2021 the company issued its first Sustainable Bond for \$300mm that is tied to ESG metrics.

Sustainability ⓘ

ESG Risk Rating Assessment



ESG Risk Rating



Highest Controversy Level (1 = Low, 5 = Severe)

2 Moderate
Incidents: Business Ethics, Employee, Customer

Top 3 Material ESG Issues

Product Governance
Overall

E&S Impact of
Products & Services
Overall

Carbon
Own Operations

ESG Risk Rating is as of Sep 01, 2021. Sustainalytics Subindustry: Home Appliances. Sustainalytics provides Morningstar with company ESG ratings and metrics on a monthly basis and as such, the ratings in Morningstar may not necessarily reflect current Sustainalytics' scores for the company. For the most up to date rating and more information, please visit: [sustainalytics.com/esg-ratings/](https://www.sustainalytics.com/esg-ratings/)