

Whirlpool

4Q Recap: Replacement demand remains stronger than discretionary

Reiterate Rating: UNDERPERFORM | PO: 63.00 USD | Price: 110.01 USD

Revenue and EPS beat on North America share gains

Whirlpool (WHR) reported 4Q sales of \$5.1bn, above our estimate of \$5.0bn and consensus of \$5.0bn. Net sales growth of 3.4% YoY was driven by 1 point of North America share gains YoY. EBIT of \$289mn was below our estimate of \$297mn and consensus of \$305mn. EPS of \$3.85 beat our estimate of \$3.61 and consensus of \$3.71. Gross margin expanded 246bp to 15.6% (vs. BofAe 290bp), and SG&A leveraged 90bp (vs. BofAe 73bp). Cost takeout actions delivered \$350mn of benefit in the quarter and \$800mn benefit for the full year. Our most recent [Chore Charts published 10 January 2024](#) points to continued YoY declines in pricing and higher retail promotions and inventory levels, consistent with the last several months. In the core North America market, sales growth ex. FX was 1.3% YoY, driven by share gains and improved industry demand, partially offset by negative price/mix. EMEA sales declined 8.3% YoY ex. FX due to continued demand weakness in Europe.

Europe transaction expected to close in April

WHR provided full-year 2024 outlook and expects \$16.9bn revenue (down 13% and flat like-for-like compared to the prior year), \$13.00-15.00 ongoing EPS (including \$300-400mn of cost actions), cash provided by operating activities of \$1.15-\$1.25bn, free cash flow of \$550-650mn, and \$500mn debt reduction. WHR guided to 6.8% of 2024 ongoing EBIT margin, an expansion from the 6.1% for 2023. WHR expects to close the Europe transaction in April 2024.

Still cautious on North America price/mix

To reflect the sale of WHR's European business, we're lowering our 2024-2025E EPS estimates by 18%/17% and introducing 2026 estimates. We're maintaining our \$63 PO based on 6x '24E EV/EBITDA. We reiterate our Underperform rating as we remain cautious on the pressure of weakening price/mix that has been a headwind in 2023, and we also expect continued weakness in discretionary appliance demand in 2024. Although new home construction could be one positive contributing factor to overall appliance volumes, the new housing channel is a much smaller percentage of overall appliance demand than replacement & discretionary purchases. Therefore, we are modeling 0.8% YoY growth in '24 NA sales, with 8bp of YoY EBIT margin contraction to 9.0%.

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	19.82	16.66	14.14	15.26	15.99
GAAP EPS	(26.99)	9.24	14.14	15.26	15.99
EPS Change (YoY)	-25.7%	-15.9%	-15.1%	7.9%	4.8%
Consensus EPS (Bloomberg)			15.34	15.16	14.19
DPS	6.95	6.97	7.00	7.00	7.00
Valuation (Dec)					
P/E	5.6x	6.6x	7.8x	7.2x	6.9x
GAAP P/E	NM	11.9x	7.8x	7.2x	6.9x
Dividend Yield	6.3%	6.3%	6.4%	6.4%	6.4%
EV / EBITDA*	7.1x	7.9x	8.2x	7.5x	7.3x
Free Cash Flow Yield*	13.6%	6.0%	10.6%	12.3%	12.7%

* For full definitions of *IQmethod*SM measures, see page 4.

30 January 2024

Equity

Key Changes

(US\$)	Previous	Current
2024E Rev (m)	19,492.7	16,928.0
2025E Rev (m)	19,685.1	16,424.3
2026E Rev (m)	NA	16,623.1
2024E EPS	17.22	14.14
2025E EPS	18.48	15.26
2026E EPS	NA	15.99

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Stock Data

Price	110.01 USD
Price Objective	63.00 USD
Date Established	26-Oct-2023
Investment Opinion	B-3-7
52-Week Range	98.40 USD - 160.74 USD
Mrkt Val (mn) / Shares Out (mn)	6,051 USD / 55.0
Free Float	99.1%
Average Daily Value (mn)	100.06 USD
BofA Ticker / Exchange	WHR / NYS
Bloomberg / Reuters	WHR US / WHR.N
ROE (2024E)	27.0%
Net Dbt to Eqty (Dec-2023A)	222.5%
ESGMeter TM	High

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iQprofileSM Whirlpool

iQmethodSM – Bus Performance*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	10.5%	9.7%	9.3%	10.3%	10.6%
Return on Equity	29.6%	36.4%	27.0%	24.2%	22.3%
Operating Margin	6.9%	6.3%	6.9%	7.8%	8.0%
Free Cash Flow	820	366	641	741	771

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	1.3x	1.0x	1.6x	1.5x	1.4x
Asset Replacement Ratio	1.2x	1.5x	1.6x	1.3x	1.3x
Tax Rate	4.7%	NM	NM	10.0%	10.0%
Net Debt-to-Equity Ratio	225.6%	222.5%	150.2%	123.0%	99.3%
Interest Cover	7.2x	3.5x	3.3x	4.3x	4.4x

Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	19,724	19,455	16,928	16,424	16,623
% Change	-10.3%	-1.4%	-13.0%	-3.0%	1.2%
Gross Profit	3,073	3,170	2,784	2,743	2,776
% Change	-30.2%	3.2%	-12.2%	-1.5%	1.2%
EBITDA	1,739	1,557	1,508	1,633	1,686
% Change	-37.1%	-10.5%	-3.1%	8.3%	3.3%
Net Interest & Other Income	(190)	(351)	(349)	(301)	(301)
Net Income (Adjusted)	1,112	919	786	848	889
% Change	-33.5%	-17.4%	-14.5%	7.9%	4.8%

Free Cash Flow Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	1,121	927	821	888	929
Depreciation & Amortization	475	361	370	379	389
Change in Working Capital	173	(40)	85	14	(7)
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	(379)	(333)	(35)	(40)	(40)
Capital Expenditure	(570)	(549)	(600)	(500)	(500)
Free Cash Flow	820	366	641	741	771
% Change	-50.3%	-55.4%	75.1%	15.7%	4.0%
Share / Issue Repurchase	(900)	4	0	0	0
Cost of Dividends Paid	(390)	(384)	(389)	(389)	(389)
Change in Debt	2,496	(412)	(500)	(750)	0

Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	1,958	1,570	1,772	1,374	1,756
Trade Receivables	1,555	1,529	1,330	1,291	1,306
Other Current Assets	2,881	3,108	2,719	2,637	2,667
Property, Plant & Equipment	2,102	2,234	2,464	2,585	2,696
Other Non-Current Assets	8,628	8,871	8,557	8,494	8,519
Total Assets	17,124	17,312	16,843	16,381	16,945
Short-Term Debt	248	800	800	800	800
Other Current Liabilities	5,683	6,148	5,426	5,274	5,330
Long-Term Debt	7,363	6,414	5,914	5,164	5,164
Other Non-Current Liabilities	1,324	1,413	1,413	1,413	1,413
Total Liabilities	14,618	14,775	13,553	12,651	12,707
Total Equity	2,506	2,537	3,290	3,730	4,238
Total Equity & Liabilities	17,124	17,312	16,843	16,381	16,945

* For full definitions of iQmethodSM measures, see page 4.

Company Sector

Retailing-Hardlines

Company Description

Whirlpool is a leading global appliance manufacturer, with 2022 revenue of \$20 billion. North America is WHR's largest market. Laundry appliances have historically made up roughly 30% of revenues, as do refrigerators/freezers. Cooking accounts for just under 20% of revenues, with Other products accounting for just over 20% of sales.

Investment Rationale

We expect pulled-forward demand during the pandemic to push out the NA replacement cycle until 2024+ while discretionary demand remains a medium-term headwind, partially offset by improving new home construction trends. Input cost moderation should more than offset productivity headwinds as capacity utilization declines with volumes, but WHR's balance sheet is strained after the acquisition of InSinkErator, limiting shareholder-friendly actions in the medium term.

Stock Data

Average Daily Volume 909,549

Quarterly Earnings Estimates

	2023	2024
Q1	2.68A	1.71E
Q2	4.20A	3.28E
Q3	5.41A	4.23E
Q4	3.85A	4.91E

Price objective basis & risk

Whirlpool (WHR)

Our PO of \$63 is based on an EV/EBITDA of about 6x on our '24E, which is a discount to the hardline retail average of 9x, but is in line with where low-growth consumer brands and building products peers trade. We expect near-term uncertainty related to slowing discretionary demand, higher promotions, and a volatile environment in international markets to constrain WHR's valuation multiple in the medium term.

Upside risks are an acceleration in the US appliance demand cycle from increased appliance usage and structural long-term tailwinds to housing, better-than-expected productivity gains, lower-than-expected raw material and other input costs.

Downside risks are weaker-than-expected US appliance demand, higher-than-expected raw material costs, increased pressure on pricing and mix trends, inability to achieve cost savings targets, and continued pressures in international markets.

Analyst Certification

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US - Retail Hardline Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Arhaus, Inc.	ARHS	ARHS US	Jason Haas, CFA
	Boot Barn	BOOT	BOOT US	Jason Haas, CFA
	Driven Brands	DRVN	DRVN US	Jason Haas, CFA
	Five Below Inc.	FIVE	FIVE US	Jason Haas, CFA
	Floor and Decor Holdings, Inc.	FND	FND US	Robert F. Ohmes, CFA
	Genuine Parts	GPC	GPC US	Jason Haas, CFA
	Lowe's Companies, Inc.	LOW	LOW US	Elizabeth L Suzuki
	Mattel	MAT	MAT US	Jason Haas, CFA
	Mister Car Wash	MCW	MCW US	Jason Haas, CFA
	Ollie's	OLLI	OLLI US	Jason Haas, CFA
	O'Reilly Automotive, Inc.	ORLY	ORLY US	Jason Haas, CFA
	Petco	WOOF	WOOF US	Jason Haas, CFA
	PROG Holdings Inc	PRG	PRG US	Jason Haas, CFA
	Rollins Inc.	ROL	ROL US	Jason Haas, CFA
	Tempur Sealy International Inc.	TPX	TPX US	Jason Haas, CFA
	The Home Depot, Inc.	HD	HD US	Elizabeth L Suzuki
	Upbound Group Inc.	UPBD	UPBD US	Jason Haas, CFA
NEUTRAL				
	AutoZone Inc.	AZO	AZO US	Jason Haas, CFA
	Hasbro	HAS	HAS US	Jason Haas, CFA
	Sonos, Inc.	SONO	SONO US	Jason Haas, CFA
	Williams-Sonoma	WSM	WSM US	Jason Haas, CFA
UNDERPERFORM				
	Advance Auto Parts, Inc.	AAP	AAP US	Jason Haas, CFA
	Best Buy Co., Inc.	BBY	BBY US	Robert F. Ohmes, CFA
	Snap-on	SNA	SNA US	Elizabeth L Suzuki
	Tractor Supply Company	TSCO	TSCO US	Jason Haas, CFA
	Whirlpool	WHR	WHR US	Jason Haas, CFA



iQmethodSM Measures Definitions

Business Performance

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

EV / EBITDA

Numerator

$\text{NOPAT} = (\text{EBIT} + \text{Interest Income}) \times (1 - \text{Tax Rate}) + \text{Goodwill Amortization}$

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

Numerator

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

$\text{EV} = \text{Current Share Price} \times \text{Current Shares} + \text{Minority Equity} + \text{Net Debt} +$

Other LT Liabilities

Enterprise Value

Denominator

$\text{Total Assets} - \text{Current Liabilities} + \text{ST Debt} + \text{Accumulated Goodwill}$

Amortization

Shareholders' Equity

Sales

N/A

N/A

Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

Denominator

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

$\text{Market Cap} = \text{Current Share Price} \times \text{Current Basic Shares}$

Sales

Basic EBIT + Depreciation + Amortization

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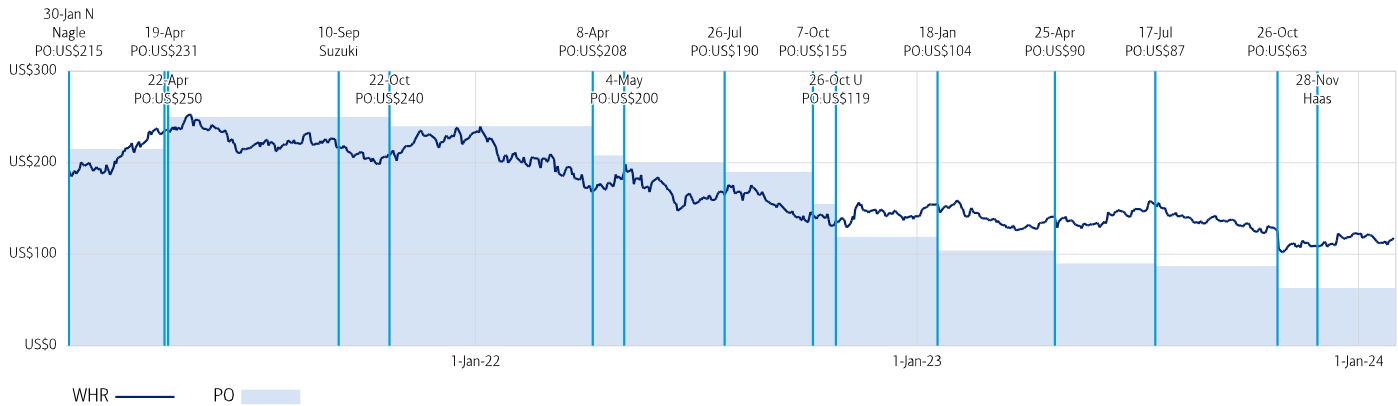
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Whirlpool (WHR) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

Equity Investment Rating Distribution: Retailing Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	96	57.83%	Buy	39	40.63%
Hold	32	19.28%	Hold	12	37.50%
Sell	38	22.89%	Sell	18	47.37%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2} Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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