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Washing(ton) machines

Grant's herein lifts its fatwa on Whirlpool Corp. for reasons related not to Benton Harbor, Mich., where WHR makes its headquarters, but to Washington, D.C., the capital of rent-seeking. Punitive new tariffs on imported washing machines and washing-machine parts tilt the investment case to the "don't be short" side.

We made our bearish argument on the grounds that the appliance-maker was facing intense foreign competition, that the U.S. appliance-market cycle was peaking and that Whirlpool's earnings quality was subpar ([Grant's, Feb. 10, 2017](#)). Little has changed, not even the WHR share price, which has declined by 1% against a 23% rally in the S&P 500.

In the 12 months through Sept. 30, 2017, North America generated 55% of Whirlpool's sales but 83% of total operating profit. Those outsize margins (twice the global average) explain both the influx of overseas competition and the Trump administration's response to it.

Samsung Electronics and LG Electronics, conspicuous new arrivals in Whirlpool's backyard, may come to rue their timing. "Appliances have a useful life of eight to 12 years," observes colleague Evan Lorenz. "The housing boom fed an appliance boomlet that ended in 2005. Following the housing bust, major appliance shipments declined by 24% from 2005 to 2012. Replacing the washers, dryers and other white goods bought in the mid-aughts has supported an echo boomlet that now looks long in the tooth.

"From an earnings perspective, the story has played out as we expected,"

Lorenz proceeds. "In the quarter ended Sept. 30, Whirlpool's North American operating margins fell by 40 basis points from the third quarter of 2016. Then, too, the company has missed Street estimates every quarter since we published (the company posts fourth-quarter results on Jan. 24, the day after we went to press). Note the following three headlines on J.P. Morgan Securities reports summarizing Whirlpool's quarterly results:

- "Europe Drives 1Q Miss and 2017 Guidance Reduction, But North America Very Solid – ALERT"

- "2Q EPS Below St.; 2017 Op. EPS Guidance Reduced on Raw Mtrls, Europe/China But \$1B FCF Reit. – ALERT"

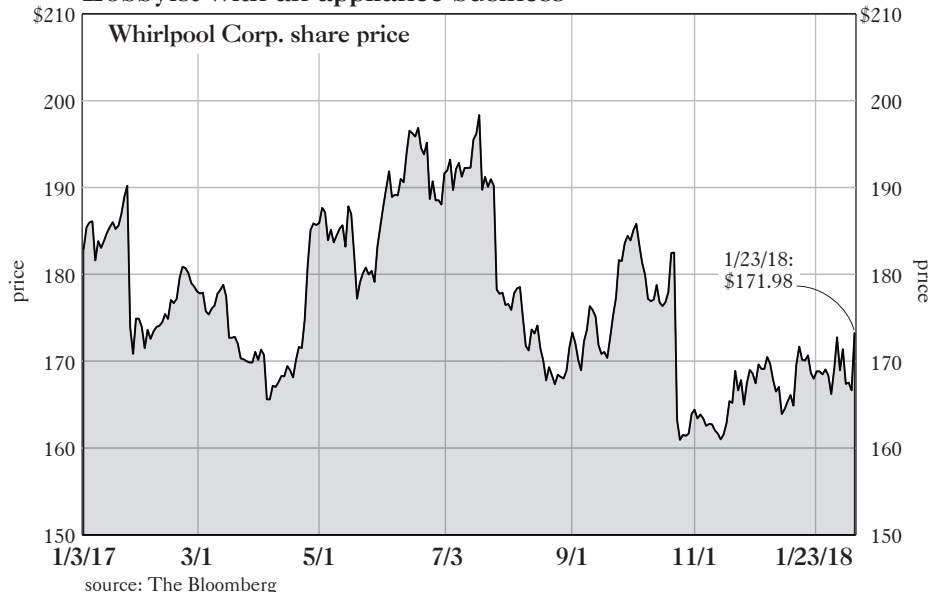
- "3Q EPS Below Street; 2017 Guid-

ance Cut on Unfavorable Price/Mix and Raw Materials – ALERT"

Our change of view also has nothing to do with improvements at Whirlpool, neither in earnings quality nor in financial strength. In the first nine months of 2017, a rise in leverage ratios accompanied the repurchase of \$550 million of shares and the posting of negative \$404 million in free cash flow.

Monday's tariff news happened to coincide with a Whirlpool press release in which the front office promised to hire 200 workers at the Whirlpool factory in Clyde, Ohio. And there was a cherry on top of this corporate sundae. It was placed there by *Fortune* magazine, which, for the eighth straight year, named Whirlpool "One of the World's Most Admired Companies."

Lobbyist with an appliance business



“Everyone will pay more with fewer choices,” was Samsung’s official reply to the washer tariff (20% on the first 1.2 million imported units, 50% on imports beyond that figure).

“On the bright side,” says Lorenz, “this may help Chair Jerome Powell in reaching the Fed’s 2% inflation target.”

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