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Whirlpool Corp. (WHR)

Q1 2019 Earnings Call

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James Peters

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning, and welcome to Whirlpool Corporation's First Quarter 2019 Earnings Release Call. Today's call is being recorded. For opening remarks and introductions, I would like to turn the call over to Senior Director of Investor Relations, Max Tunnicliff.

Max Tunnicliff

Senior Director-Investor Relations, Whirlpool Corp.

Thank you, and welcome to our first quarter 2019 conference call. Joining me today are Marc Bitzer, our Chairman and Chief Executive Officer; and Jim Peters, our Chief Financial Officer. Our remarks today track with a presentation available on the Investors section of our website at whirlpool.com.

Before we begin, I'll remind you that as we conduct this call, we will be making forward-looking statements to assist you in understanding Whirlpool Corporation's future expectations. Our actual results could differ materially from these statements due to many factors discussed in our latest 10-K and other periodic reports.

We want to remind you that today's presentation includes non-GAAP measures. We believe these measures are important indicators of our operations, as they exclude items that may not be indicative of or are unrelated to results from our ongoing business operations. We also think the adjusted measures will provide you a better baseline for analyzing trends in our ongoing business operations. Listeners are directed to the supplemental information package posted on the Investor Relations section of our website for the reconciliation of non-GAAP items to the most directly comparable GAAP measures.

At this time, all participants are in listen-only mode. Following our prepared remarks, the call will be open for analyst questions. As a reminder, we ask that participants ask no more than two questions.

With that, I'll turn the call over to Marc.

Marc Robert Bitzer

Chairman & Chief Executive Officer, Whirlpool Corp.

Thanks, and good morning, everyone. On slide 3, we show our first quarter highlights. As you saw in our press release, we delivered another quarter with strong results, including a record first quarter ongoing earnings per share of \$3.11. Although revenue growth was impacted by softer demand in certain countries including the U.S., Canada, Mexico, China and several European countries, we delivered global EBIT margin expansion of 30 basis points, driven by excellent price/mix progress and sustained fixed cost discipline.

Additionally, our North America region delivered very impressive results with EBIT margin expansion of 90 basis points, despite continued macro pressures. This performance gives us continued confidence in delivering our full-year guidance. It remains unchanged in total as raw material favorability is offset by lower industry demand expectations.

Turning to slide 4, I will discuss our first quarter results in more detail. Excluding currency, we delivered global revenue growth of 1% with very strong price/mix more than offset unit volume decline. Ongoing EBIT margin was 6.3% for the quarter, compared to 6% last year, driven by very strong price/mix. Finally, our first quarter free cash flow reflects normal seasonality of cash usage, and was unfavorably impacted by the time of certain payments. Overall, we are very pleased with our first quarter results and believe we are well positioned to deliver on our full-year commitment.

Turning to slide 5, we show details of our first quarter margin performance. We delivered approximately 300 basis points of margin improvement as we realized a carryover benefits of prior-year pricing actions as well as new pricing actions during the first quarter primarily in the United States. We continue to expect margin benefit from price/ mix throughout the year. It will moderate slightly on a year-over-year basis, as we begin to compare against higher pricing in the second half of 2018. These benefits were partially offset by approximately 250 basis points of cost inflation and unfavorable currency.

Now, I'll turn it over to Jim to review our regional results.

James Peters

Executive Vice President & Chief Financial Officer, Whirlpool Corp.

Thanks, Marc, and good morning, everyone. Turning to slide 7, I'll review the first quarter results for our North America region. We delivered very strong results in the quarter with revenue growth and strong EBIT margin expansion, despite a challenging macro environment, which included a 7% decline in industry demand and continued cost pressures.

Overall, we expanded EBIT margin by approximately 90 basis points as very strong price/mix was partially offset by over 125 basis points of cost inflation. Our results in North America, once again demonstrate the strength of our underlying business and our ability to overcome significant external pressures, and is a testament to our strong brand and product portfolio, fixed cost discipline and flexible supply chain.

Turning to slide 8, we review the first quarter results for our Europe, Middle East and Africa region. Excluding the impact of currency, net sales increased nearly 2%, while unit volumes increased 5%, in line with our prior guidance, and our improvement actions to stabilize volume. EBIT margins improved 40 basis points, primarily from the benefits of our fixed cost reduction actions and volume improvement, which were partially offset by lower production levels as we continue to right-size our business.

Additionally, EBIT margins were unfavorably impacted by approximately 60 basis points as we continue to liquidate our remaining inventory in Turkey. As it relates to our improvement actions, we are on track to complete the exit of our Turkish domestic sales operations, and Hotpoint-branded small appliances business by the end of the second quarter. And we continue to actively market our South Africa operations for a potential sale.

Now, we turn to slide 9 to review the first quarter results for our Latin America region. Excluding the impact of currency, net sales increased approximately 7%, driven by unit volume growth, share gains and positive price/mix, despite negative industry demand in Mexico. EBIT margin benefited from the carryover impact of our previously announced cost-based price increases plus additional improvements through continued cost discipline. These actions offset unfavorable currency of over 100 basis points. Lastly, prior-year results were favorably impacted by the monetization of approximately \$22 million in certain tax credits.

We now turn to the first quarter results for our Asia region, which are shown on slide 10. Including the impact of currency, net sales decreased to 12%. Our India business had another excellent quarter and delivered solid unit volume growth with share gains and EBIT margin improvement. However, this was offset by significant volume weakness due to sharp decline in industry demand along with increased brand investments in China as we transition from Sanyo-branded products to the Whirlpool brand.

Now, I'd like to turn it back over to Marc to review our guidance.

Marc Robert Bitzer

Chairman & Chief Executive Officer, Whirlpool Corp.

Thanks, Jim. On slide 12, our guidance assumptions for 2019 remain unchanged. In line with our long-term goals, we expect to drive organic net sales growth of approximately 3%. As before, we expect to deliver ongoing EBIT margins of 6.5% to 6.8%, a 40 basis point improvement compared to 2018. Consistent with our previous guidance, we expect free cash flow of \$800 million to \$900 million, progressing strongly towards our long-term cash conversion goal of 5% to 6% of net sales. Our first quarter results strengthened our confidence in delivering on our full year financial commitments and we continue to expect to deliver ongoing earnings per share of \$14 to \$15.

Turning to slide 13, we show we updated drivers of our EBIT margin guidance. We expect approximately 150 basis points of improvement related to continued price and mix benefits in 2019, in line with our previous guidance. We now expect to deliver net cost improvement of 50 basis points, based on revised industry demand and related lower production volume expectations.

Although macroeconomic pressures remain elevated, raw material inflation has slowed down, leading us to revise our cost inflation guidance favorably by 25 basis points for the full year. In total, our margin guidance remains unchanged, and we continue to expect meaningful margin expansion versus the prior year.

Now, Jim will cover our regional guidance and cash priorities.

James Peters

Executive Vice President & Chief Financial Officer, Whirlpool Corp.

Thanks, Marc. On slide 14, we show our regional industry and EBIT margin guidance for the year. Our regional industry guidance ranges are unchanged with the exception of North America. Based on weaker-than-expected U.S. industry in the first quarter, we are revising our guidance range to negative 2% to flat for the full year. Although industry demand guidance is unchanged for the remaining regions, we are trending towards the low-end of the range in Latin America and Asia, as Mexico and China both experienced negative industry demand in the first quarter.

In North America, we continue to expect EBIT margins of at least 12% as benefits from price/mix actions are partially offset by lower industry demand and raw material and tariff inflation. As we look to the second quarter, we have two items that will cause North America margins to more closely resemble the first quarter rather than the normal sequential quarterly improvement that you would expect. We plan to reduce production volumes to right-size inventory levels and increase marketing investments in support of product launches.

In EMEA, we remain confident in our ability to deliver above-breakeven results for the full year as we continue focusing on restoring volume and right-sizing our business. We anticipate exiting the second quarter at a breakeven rate, meaning third quarter results should reflect the first full quarter of positive EBIT in the year. Lastly, our guidance for Latin America and Asia remains unchanged.

Turning to slide 15, I will discuss the drivers of our 2019 free cash flow. With margin guidance unchanged, we continue to expect cash earnings to positively impact free cash flow, partially offset by the sale of our Embraco compressor business. We remain committed to driving sustainably lower working capital, which is expected to result in \$200 million of working capital improvement in 2019.

We continue to anticipate lower restructuring cash outlays, leaving guidance unchanged at \$100 million for the year. And as previously discussed, our first quarter free cash flow was unfavorably impacted by the timing of certain items, primarily the partial French Competition Authority payment of approximately \$50 million. The remaining balance of approximately \$50 million will be paid in the second quarter. In total, we remain committed to delivering free cash flow of \$800 million to \$900 million, excluding the anticipated proceeds from the sale of Embraco.

Turning to slide 16, we show our capital allocation priorities. Our capital allocation priorities for the year remain unchanged. We will continue to make significant progress towards our year-end gross debt to EBITDA target of 2.0 times. In addition, we raised our quarterly dividend for the seventh consecutive year, which is a reflection of our confidence in the business and our ability to generate strong free cash flow going forward.

Lastly, we repurchased approximately \$50 million of common stock in the quarter and anticipate a similar level of quarterly repurchases for the remainder of the year.

Now, we will end our formal remarks, and open it up for questions.

QUESTION AND ANSWER SECTION

Longbow Research. Please go ahead. David S. MacGregor Analyst, Longbow Research LLC Yes. Good morning, everyone. Marc Robert Bitzer Chairman & Chief Executive Officer, Whirlpool Corp. Good morning, David. James Peters Executive Vice President & Chief Financial Officer, Whirlpool Corp. Good morning, David. David S. MacGregor Analyst, Longbow Research LLC And congratulations on a good quarter in a tough environment. But I guess, I wanted to talk about the price/mix. And your implied price/mix is about 810 basis points and how much of that was price versus what was realized from an improved mix? And I guess, how sustainable do you feel your pricing is given your reduced North American industry volume guidance? And I have a follow-up.

Operator: Thank you. [Operator Instructions] Your first question comes from the line of David MacGregor from

David, it's Marc. Let me just take this question. So, I'm not exactly sure, which 800 basis points you're referring to. First of all, again, the ASV, the average sales value, is not necessarily what we would refer to, but margin impact coming from price/mix. So, our price/mix overall in terms of the margin impact was significantly positive. It's been one of the strongest we ever recorded at the company. It's been, as a side note, not only in North America, but also other regions and across most categories. That is ultimately still a reflection of – as you know, we have cumulative significant material cost increases over two years in the tune of \$650 million, and we had several rounds of cost-based price increases.

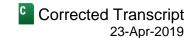
As you know, I can't give a forward-looking statement on pricing, but the need for us in terms of mitigating this cumulative material cost impact is still there. Yes, we got a little bit of relief – a small relief on the increase in material cost, but the fundamental cost inflation is still in place. And we executed what we had to do from a price increase, and I would say our team has done a very good job in managing these price increases.

I would also like to emphasize with all the new product introductions, we have opportunities for price/mix. We've done that so far, and I think there's more price/mix opportunity, particularly with the new products coming out there, which should help us on a full-year basis.

Marc Robert Bitzer

Chairman & Chief Executive Officer, Whirlpool Corp.

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David S. MacGregor

Analyst, Longbow Research LLC

Okay. Second question just on Europe, can you give us a little more detail on your first quarter efforts to get relisted with European retailers and will we see evidence of that success in the second quarter results?

Marc Robert Bitzer

Chairman & Chief Executive Officer, Whirlpool Corp.

Yeah. So, David, I mean, as you know, this Q4 earnings release in January, we indicated we want to have or we should expect to see about 5% volume growth in Europe and that's what we've seen. So, I would say Q1 marks the first quarter where we kind of stemmed this volume decline, which is I would say an early indication of success of getting relisted on a number of floors. But it would be also – first I want to say a lot more needs to be done. We are – the 5% up in Q1, we're still below where we have been one or two years ago, so there still more to be done, but I would read the Q1 numbers from a relisting perspective as an encouraging first milestone and, hopefully, we'll see more milestones along the way.

Operator: Your next question comes from the line of Sam Darkatsh from Raymond James. Please go ahead.

Sam Darkatsh

Analyst, Raymond James & Associates, Inc.

Good morning, Marc. Good morning, Jim. How are you?

Marc Robert Bitzer

Chairman & Chief Executive Officer, Whirlpool Corp.

Good, Sam. Good morning.

James Peters

Executive Vice President & Chief Financial Officer, Whirlpool Corp.

Hi, Sam.

Sam Darkatsh

Analyst, Raymond James & Associates, Inc.

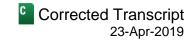
Two questions. First, I wanted to explore production versus shipments in North America. I think – last year, I think your production was down maybe, call it, 10% versus shipments, which is a really significant drag on last year's margin. Jim, could you help color in terms of what that might have been from a quantification standpoint in terms of what the headwind was last year from that lower production? I know you're mentioning that you're going to cut production in the second quarter. But your 2019 guidance, what does that assume for production versus shipments in 2019, maybe excluding the second quarter reset?

James Peters

Executive Vice President & Chief Financial Officer, Whirlpool Corp.

Yeah. Well, Sam, overall our assumption for 2019 is that production will be slightly lower than shipments, because we've targeted additional working capital takeout, which obviously primarily comes from inventory. So, the assumption for the full year is a similar level of not to the extent we had in 2018. Now, specifically, Q1 in North America, if you look at what the U.S. industry did, and again it was below our expectations, so we had to adjust our production late in the quarter and most of that will actually be adjusted out to reduce our production levels to

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shipment levels in the second quarter. Year-over-year, it's not going to be a significantly material amount, but we will have a little bit lower production in Q2. And then, pretty similar for the rest of the year, if you look at where we're assuming the industry is, as you get to the back half of the year, production level should be relatively similar year-over-year.

Marc Robert Bitzer

Chairman & Chief Executive Officer, Whirlpool Corp.

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Sam, its Marc. Maybe just to add an additional comment before we get into your second question, again, on last year's impact, volume leverage is a factor in our industry, okay. In our business – and most of you guys tend to work with \$0.10 to \$0.15 per inventory dollar, which is in total not a wrong number, but you need to keep in mind, it can be very, very different product by product and that just depends on fixed cost intensity on respective factory and where the factory load is, but it is a factor.

And last year's inventory reduction as such was a drag on our overall profit, which we knew about and that's just the reality. Q1 from an inventory perspective looks good year-over-year. It's still up versus year-end. And in all transparency kind of the market was a touch softer than we expected and particularly North America. And you also know you can't just from one week to another adjust inventory levels and we will do so in Q2, because very simply, we committed – we don't want to have elevated inventory levels and we will deal with it whenever we feel it's kind of time to adjust it and we will do that in Q2. So that will be an impact on our overall profitability. Having said that, it is baked into our guidance.

Sam Darkatsh

Analyst, Raymond James & Associates, Inc.

Thank you. Second question, Marc, I know you mentioned that your inventories, at least domestically, are a little higher than you expected. How would you characterize the channel inventories also? Are we going to see some drawdowns at retail as well?

Marc Robert Bitzer

Chairman & Chief Executive Officer, Whirlpool Corp.



Yeah, Sam. I mean from – and again, we – as you know, we have some information that particularly refers to the inventory related to our products with most of the retailer. I would say, right now the inventory level is actually pretty balance. Last year, at the same period, there were some inventory moves and driven by a number of factors out there, which kind of probably elevated the Q1 sell-in number from industry a little bit. Right now, I would say the inventory [ph] buffer trade (18:22) is reasonably balanced, so we don't see significantly elevated inventory levels right now versus retailers, and that's pretty much across the board.

Sam Darkatsh

Analyst, Raymond James & Associates, Inc.



Thank you.

Operator: Your next question comes from the line of Michael Rehaut from JPMorgan. Please go ahead.

Michael Jason Rehaut

Analyst, JPMorgan Securities LLC



Thanks. Good morning, everyone. Thanks for taking my question. First question, I just want to make sure, because there – we've got some questions last night, this morning around the inventory levels and appreciate the

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guidance and the thoughts around there. So, just want to get a sense then when you say that, to clarify, I guess that second quarter North American margins to be similar to the year ago, that's about 40 basis points, so the sequential decline, are we to take it that that is the full impact of the inventory drawdown or the reduction in inventory, the reduced production levels? And perhaps, you could just give a sense of what are some of the pluses and minuses there, because obviously you had a strong 90 bp year-over-year improvement. Now, you're talking about flat, perhaps it's more of a 90 basis point impact, just trying to get a sense of the degree of magnitude and what type of dollar inventory reduction you're shooting for as a result.

Marc Robert Bitzer

Chairman & Chief Executive Officer, Whirlpool Corp.

Michael, it's Marc. First of all, on the – let me start with the North American margin. As you know, we don't give quarterly guidance on the total on the regions. Having said that, we guided the full-year North America to 12-plus-percent EBIT margin, and starting the year with Q1 with 12.3%, I would probably say, we're somewhere between confident and very confident on the 12-plus. Okay. That's a reality. And I don't think you should expect any irregular or abnormal moves in any of the quarter of the year. So we see that right now and we've demonstrated that over last year a very steady, very strong performance. So, any kind of inventory moves are baked in in this

And the other comment I want to make on inventory is, let's not take without of proportion. So we, year-over-year, our company inventories are down. That's a good starting point, but I think we – you've seen it also over last two years, we've been very disciplined in managing our working capital. That was a big part of our cash flow story, and we want to – the moment we see even a slight increase of inventory versus what we want to have, we will adjust it. So, it is not a big, a massive move, but it's something which we will do in Q2. And as such, you should not see a big impact in the margin, but more steady margin also on a sequential basis.

James Peters

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Executive Vice President & Chief Financial Officer, Whirlpool Corp.

Yeah, I mean, Michael, this is Jim. I think, as Marc pointed out, if you look at our overall working capital, last year, we were close to, as a percentage of sales, on net working capital 7% in Q1, and now we're closer to 4.5%. If you look at our cash flow statement, you see we built an incremental \$100 million of inventory this year versus last year and that's really indicative of the amount that we look to get out sooner in the second quarter here, so not a massive amount, but an amount that we're focused on reducing in the near-term.

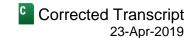
Michael Jason Rehaut

Analyst, JPMorgan Securities LLC

That's very helpful. And the stability overall in the operating margins is pretty notable and impressive, so congrats on that.

I guess, secondly, as you look to continuing to execute the actions in Europe, obviously, you got progress there from a volume standpoint this quarter. Still kind of working your way through some of the other restructuring items as you gave us that update as well. How should we think about the longer term margin targets that you've set? I think initially, two or three years ago, it was that 8% number for EMEA. I think now you've kind of ratcheted back to like a 4%, 5% number. But how should we think about the timing over the next couple of years in terms of achieving that mid-single-digit margin target? Should we be pushing it out? Is it on track? Anything around the timelines of how to think about kind of that improvement walk of profitability over the next couple years?

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Marc Robert Bitzer

Chairman & Chief Executive Officer, Whirlpool Corp.

Michael, it's Marc. So, again, let me maybe also put that in context. Obviously, with having made a loss in Europe for the last several quarters, our 80% or 70% of our focus is on the operational levers to turn around the business. And that has been largely around recovering volume, doing additional restructuring actions, exiting Turkey, domestic markets and the small domestic appliance under Hotpoint brand and potentially selling the South Africa business. All these actions are on track, but not completed.

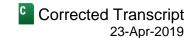
I would say probably with the exception of South Africa, most of these ones will be completed for our Q2, so I feel good about where we are from an operational turnaround. And as Jim indicated and as we repeatedly said, we expect the full year in Europe to break even or 0% to 1% operating margin. And we expect to exit Q2 with a number which is close to breakeven. So we're, I would say, from an operational perspective, on track. We've also, while we're doing these operational priorities, we have redefined our strategy for Europe last year, and that is starting to take place. We would put several actions in place and that is largely focused around how we regain lost market share in particular in the kitchen business, which is a very profitable business, and how we can further mix up the business.

Now, we always said these strategies take longer to implement, but I feel good about where we are from first step. Now, with all of that in mind, you know we lost time against the same as 8% target. We lost probably two years, and that's just what we lost. So we still believe the business is structurally capable of delivering 8% EBIT margin. As evidenced by some competitors, so this industry in Europe can deliver 8% EBIT margin, but we lost time.

On the exact timeline about what we expect in the mid-term and long-term, I would actually ask, Michael, we will give an update at our Investor Day in New York, so we will show you both the mid-term targets and the long-term targets. The long-term target will be 8%, but we'll give you more specific timeline about what we expect over next two or three years.

Michael Jason Rehaut Analyst, JPMorgan Securities LLC	Q
Okay. Thank you.	
Operator: Your next question comes from the line of Susan Maklari from Cr	edit Suisse. Please go ahead.
Susan Maklari Analyst, Credit Suisse Securities (USA) LLC	Q
Thank you. Good morning.	
Marc Robert Bitzer Chairman & Chief Executive Officer, Whirlpool Corp.	A
Good morning.	
James Peters Executive Vice President & Chief Financial Officer, Whirlpool Corp.	A
Hi, Susan.	

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Susan Maklari

Analyst, Credit Suisse Securities (USA) LLC

My first question is just around broader U.S. demand. It seems like, from an unit level, that the industry is sort of implying that there's a much softer economic backdrop than what we're actually seeing. I mean, inspite of housing sort of being weaker in the first quarter, you're still seeing unemployment and GDP and all those kinds of things that are supportive. And so, can you just help us maybe understand where the disconnect is? How you're feeling about the business as you exited the first quarter? And maybe how we should think about these two opposing dynamics coming together as we move through the year?

Marc Robert Bitzer

Chairman & Chief Executive Officer, Whirlpool Corp.

Yeah. Susan, it's Marc. Let me take this one. So, the U.S. demand in particular, I mean as you've seen, the trailing four quarters have been negative. And Q1 and Q4 last year from the sell-in was soft and, frankly, also a little bit softer than we did expect. I would say first of all – and we indicated that already little bit in Q4, but also Q1, the sell-through is stronger than the sell-in right now, which is partially a reflection of last year around the same time it was quite a bit of elevated inventory [ph] buffer trade (26:36) driven by a number of factors. That is one element.

And right now, I would say the trade customers out there, they don't start Q2 with an elevated inventory level. It's pretty much normalized. So, there's some inventory moves, but sell-through is not as soft as you right now would read from a pure sell-in.

Now, having said that, the overall market has been, call it, sluggish or moving sideways or slightly down. That is ultimately driven by two factors. One is the two basic components of demand being replacement and discretionary demand. The replacement one – and we started seeing that already last year. We're now comping from replacement against the low cycle of pretty much 10 years ago. We knew they're coming in. The offsetting item was always the discretionary demand, which is coming largely from housing and remodeling. And as you've seen, the housing market over the last six months has been soft, not very soft, but it's been kind of softer than most people expected. And when you see existing home sales of 5.1 million and housing starts of below 1.2 million, that is probably a little bit softer – a touch softer than most people expected, including us.

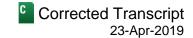
Having said that, and we said that in both the last two earnings calls, we believe the fundamental dynamics of the U.S. housing market are still intact. And that is largely driven – we always said that housing market has been supply-constrained from the early days on. It's still supply-constrained. And what happens now is that with mortgage rates rise over last year and the appreciation of home prices was probably a little bit faster than what you would expect in a cycle, that led to a little bit of suppression of demand, in particular Q4, and we saw some of that in Q1.

Having said that, the fundamental demand from demographic development, household formation, if you look at the age of both rental and own housing stock is very encouraging in terms of driving demand going forward. So, we just don't see the housing market coming down. We see it stabilizing and potentially growing at low-single digit over the next couple of years. And that's why we also still are fundamentally confident that the U.S. overall client demands remain stable.

Susan Maklari

Analyst, Credit Suisse Securities (USA) LLC

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Okay. Thank you for the color. That's helpful. My second question is just around the update in terms of the inflation and the raw material side of things. Can you just give a little more color on what's been going on especially with steel and resins? And then, within that also, what are you including in terms of tariffs? I know that the 25% step-up was initially in there. Would that seeming to be much, much less likely in there? How do we think about the role that that's playing in the \$200 million to \$250 million?

Marc Robert Bitzer

Chairman & Chief Executive Officer, Whirlpool Corp.



And, Susan, again it's Marc. So, as you've heard from our pre- comments, overall, we see less of a headwind from a raw material tariff side, and we – that's why we slightly adjusted the margin walk, and we basically took the kind of headwinds down by a 0.25 margin point from a full-year basis. That part is largely coming from raw materials, but not only – let me just give you a little more color.

On the raw material side, I would say, steel by and large where we expected and we kind of – trends pretty much confirm what we have in mind. Having said, but in Q1 we still had year-over-year increases. Raw and plastics are stable, but frankly, there is a little bit uncertainty around the recent appreciation of oil prices, and we've got to see how that all plays out. And the other raw materials gave us a little bit of relief. And relief versus our original inflation assumption, it is still in total year-over-year increase, and we should not lose sight of that. So, I would say the biggest part of our reduction of headwinds came from probably slightly better outlook than raw material.

On a tariff, there is a marginal change, which is also included in these numbers, and that is largely coming from the list three on Section 301 tariffs, where we originally had 25% as of April in mind. And from what it looks right now, it will probably remain at 10% at least for the time being, until we get new news. I think in an earlier call, we said that impact on its own is only about \$2 million or \$3 million every month. So, yes, that is a slight positive impact, and that is the other component in why we reduced the overall raw material and tariffs.

I just also want to – in that context also remind, again, there's other uncertainties on raw materials and tariffs and other elements, so we still have oil price, which is right now at \$66. The currencies are concerned around the world. To give you one example, the Brazilian real is at BRL 3.93. And at mid-quarter Q1, it was around BRL 3.65. So, there are other moving pieces. Again, we included all these moving pieces factored within, and that's why we feel this confidence that our guidance right now is the right guidance for the year.

Susan Maklari

Analyst, Credit Suisse Securities (USA) LLC



Okay. Thank you.

Operator: Your next question comes from the line of Curtis Nagle from Bank of America. Please go ahead.

Curtis Nagle

Analyst, Bank of America Merrill Lynch



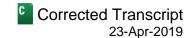
Good morning. Thank you very much. Would you guys be able to give the demand split in the U.S. between replacement housing and discretionary? I believe at least the last numbers I saw were something in the order of 50%, and then 25% and 25%, is that – does that still hold?

Marc Robert Bitzer

Chairman & Chief Executive Officer, Whirlpool Corp.



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Yeah. Curtis, it's Marc. First of all, there's a big caveat – there is no scientific definition of replacement market versus discretionary market. In our definition, we can give you – and Max can give you a follow-up, we right now would estimate that 2019, about 54% or 55% of the total market is about replacement, rest is discretionary.

I think the more important thing is the absolute numbers. On replacement side, we've seen that now, I would say, over the last one-and-a-half years that replacement side stabilizes, starts coming down and that is simply a reflection of the appliance demand kind of 10 years ago, which is a typical replacement cycle kind of getting into a trough. And the discretionary side, right now, is I would say, moving sideways. And we would have expected by now, but discretionary side would probably show a little more strength than we originally had in mind.

James Peters

Executive Vice President & Chief Financial Officer, Whirlpool Corp.

A

Yeah. Your split on the discretionary, you had 25/25 on the – typically it's more about 15% as new housing, and the remainder is remodels and other discretionary, so just to give you the full split out there.

Curtis Nagle

Analyst, Bank of America Merrill Lynch

Q

Okay. Great. That's very helpful. I appreciate it. Yeah – and then I guess just as a follow-up on China. I guess, first, how much were volumes down? And look I guess, I mean, if things don't progress, I know you're going through a transition in terms of brands. If you don't start to seeing progress, would you consider exiting the market just given you guys are probably positioned may be number five or so in terms of market share? To climb up probably is – it would take a while and it may take a while to actually start earning some profitability there. So, yeah, I guess, how are you thinking about positioning in that market?

Marc Robert Bitzer

Α

Chairman & Chief Executive Officer, Whirlpool Corp.

So, Curtis, it's Marc. And so, first of all, as you indicated, China was a soft Q1. And obviously, in our overall Asia numbers, it shows unit down 10%. That is a reflection of India, Southeast Asia, but when including Hong Kong, there's a very strong performance in Q1, strong market share, strong EBIT performance, but China was soft. The China soft – we alluded to a brand transfer, I would first start from market environment.

As you know, the market data in China are not 100% accurate always, and they come with a certain delay, but right now, it's fair to assume that the China market in total was either high-single digit down or low-double digit down, so we saw a significant market softness, which doesn't make it easier. We are in the midst of the brand's transfer and that will be with us for a number of year. And we saw a very strong growth of Whirlpool brand, but we of course then see the opposite effect on the Sanyo brand, which is coming down.

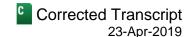
So, the net effect between industry, brand transfer, we have significant volumes down in China, we are committed to do the brand transfer, that's why you've also seen significant more investment and brand advertising in China in Q1 and you will see that going forward. So, we are committed to make this brand transfer successful, and keep also in mind when we talk about China, China for us is a very important production base. We produce microwave pretty much throughout the world. We have a very sophisticated and strong four-door refrigerator coming out of China. We have more and more exports. So, China is for us beyond the domestic market, which of course is challenging, I agree. It's a very important – and also long-term important production base for us.

Curtis Nagle

Analyst, Bank of America Merrill Lynch

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Okay. Fair enough. Thanks very much. Operator: Your next question comes from the line of Mike Dahl from RBC Capital Markets. Please go ahead.		
Good morning. Thanks for taking my questions.		
Marc Robert Bitzer Chairman & Chief Executive Officer, Whirlpool Corp.	A	
Good morning, Mike.		
James Peters Executive Vice President & Chief Financial Officer, Whirlpool Corp.	A	
Good morning.		
Michael Dahl Analyst, RBC Capital Markets LLC	Q	
Good morning. I wanted to follow up, Marc and Jim, just as a clarification, the America margins. I thought in the opening remarks, the comments were that quarter margins in North America rather than year ago margins. So, I just we still a pretty solid number in the context of the pressures that you're talking a	at margins would be resemble first vanted to clarify that, because 12.3% is	
James Peters Executive Vice President & Chief Financial Officer, Whirlpool Corp.	A	
Yes, Mike. This is Jim. And I think when you look at it quarter-over-quarter, expect North America to be 12%-plus. So, it implies that we're going to – we give quarterly guidance, but that we're going to be closer to that number thr first quarter, we did have a slight benefit. And as I say, slight benefit of som	e don't – as Marc said earlier, we don't roughout the year and that, within the	

Michael Dahl

Analyst, RBC Capital Markets LLC

should think about it that way.

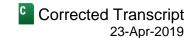
Got it. Okay. And my second question, I think you guys adopted new lease accounting this year. And I was hoping you could give us a little more detail on what if any impact that had on the P&L, where it's coming from. Sundry expense was an income line, so I don't know if there was something impacting that or if it's somewhere else, but just any detail you can give us on the lease accounting and maybe also the sundry?

shipment levels that we'll correct in the second quarter, but it won't be a significant deviation. So I think you

James Peters

Executive Vice President & Chief Financial Officer, Whirlpool Corp.

Yeah. So, if you step back, Mike, on this and look, lease accounting was a U.S.-wide change that was made to the accounting rules that you had to adopt by now. And effectively, you put all your leases now on your balance sheet rather than having this off balance sheet. So we put over \$800 million on our balance sheet that then there's an offset for a future payable on that. The impact to the P&L is nothing because you are currently flowing that through as a lease expense. You still flow that through in a similar way, still have similar cash payments. It's just



the way that you now have to put these on your balance sheet versus you had them off your balance sheet before.

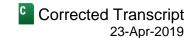
In terms of the sundry, what we had within that line is we had a – and we carve this out of ongoing, so it's only in our GAAP results. We had a significant gain in Latin America on a legal case we won regarding some operational taxes. So we recognized about an \$85 million gain, and that's net of income taxes on it, and legal success fees. And again, that's carved out, but that sits down in that interest and sundry line. So, again, it's nothing that affects our ongoing results within there.

Michael Dahl Analyst, RBC Capital Markets LLC	Q
Okay. Thank you.	
Marc Robert Bitzer Chairman & Chief Executive Officer, Whirlpool Corp.	A
Thanks, Michael.	
Operator: [Operator Instructions] Your next question comes from the go ahead.	e line of Ken Zener from KeyBanc. Please
Kenneth Zener Analyst, KeyBanc Capital Markets, Inc.	Q
Good morning, everybody.	
Marc Robert Bitzer Chairman & Chief Executive Officer, Whirlpool Corp.	A
Morning, Ken.	
James Peters Executive Vice President & Chief Financial Officer, Whirlpool Corp.	A
Morning.	
Kenneth Zener Analyst. KeyBanc Capital Markets. Inc.	Q

Nice North America margins as well as new pics in your presentation. I'm sure you're going to be addressing this stuff at your Analyst Day, so I only really have one question for you. But given the strength of your North America margins, obviously, that alleviates up. I think near-term pressure, people thought, might have occurred from new production coming into America. It's going to be a long debate obviously. But my question to you is operationally. So, you held guidance – you've obviously got a lot of price.

What other levers would you have had to offset the decline in U.S. production, but for the tailwind you had from the lower input costs? So, I mean, except for the lower input cost, would you have had to cut production? Or I mean are there other levers that you could have pulled? And I think it just goes to kind of the operating flexibility that the platform might have, and no way am I taking obviously anything away from the price strength you had. I'm just wondering if you could address that one piece. Thank you very much.

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Marc Robert Bitzer

Chairman & Chief Executive Officer, Whirlpool Corp.

Yeah. So, Ken, let me maybe try to take that on. And again, we will give a more strategic perspective on North America in Investor Meeting. But just operationally, first of all, I want to emphasize, if you look at North America margins, this has not been a one-quarter-wonder. We had now very strong margin for an extended period. And particularly, if we look at the trailing four quarters, the industry was down. And in North America also, even though we don't show regional inventory, over last four quarters we took even inventories down in a broader negative industry.

So, I would say the team has successfully and impressively demonstrated that we can expand margins despite this tough environment. So, in any given quarter, you have some pluses and minuses, industry, et cetera, but over last four quarters, we have a sustained margin run rate and we're now kind of on 12% to 12%-plus. So I feel very good about it.

It would be a little bit too easy to just say that's entirely and only because of pricing. Yes, I feel very, very good about pricing. The team has done an excellent job in executing price, remaining disciplined, staying focused on value creation or any kind of promotions, so we've done that very well. But we've also had our fixed cost base very well intact. In such an environment or in particular two or three years ago, you would have been tempted to expand fixed cost and in particular with strong margin. We were very disciplined in managing the fixed costs and we will remain so also in the near future.

The other element and that's in particular the lever going forward, we are getting better in finding more traction in managing down this massive cost inflation, which again is not just raw materials and tariffs. It is logistic costs and everything else. It's been very painful. We start seeing now, I would say, progress in managing these costs down and, of course, going forward, we have to turnaround the negative cost environment and find actions, which are now controlled to mitigate whatever inflationary pressure we have around us. So, in short, I would really emphasize that the cost takeout opportunities, despite a still broad inflationary environment, which we will add to the equation beyond managing price/mix in a disciplined manner.

Kenneth Zener

Analyst, KeyBanc Capital Markets, Inc.

Thank you very much.

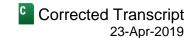
Operator: There are no further questions at this time. I turn the call back over to management for closing remarks.

Marc Robert Bitzer

Chairman & Chief Executive Officer, Whirlpool Corp.

Yeah. Again, first of all, I want to thank you all for your questions, very good questions. As you've seen before, we finished a very strong Q1. We're not going to get carried away. We feel very good about the year, and we feel very good about the pricing progress. We feel very good about our North American margins, coupled with strong performance in Latin America. I think you've all seen that our European turnaround actions are on track, yet a lot still needs to be done, but we remain confident on full year.

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So, with that in mind, I really look forward to hopefully seeing many of you at our Investor Day in New York, where in particular we can all spend a little bit more time talking about your rightful questions about the mid-term, the long-term and what our margin guidance is by region and for the company total.

So, with that, I thank you all, and wish you a very nice day.

Operator: Thank you. This concludes today's conference call. You may now disconnect.

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