

22-Apr-2021

Whirlpool Corp. (WHR)

Q1 2021 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning and welcome to the Whirlpool Corporation's First Quarter 2021 Earnings Conference 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, Roxanne Warner.

Roxanne Warner

Head of Investor Relations, Whirlpool Corp.

Thank you, and welcome to our first quarter 2021 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 whirlpoolcorp.com.

Before we begin, I 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 also 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 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 a 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, Roxanne, and good morning, everyone. Before we discuss our first quarter business results, I'd like to take a moment to discuss the volatile industry dynamics and our decisive response plan. In the first quarter, global semiconductors and resin shortages amplified existing supply constraints and, thus, impacted our product availability.

Further, we are faced with rapidly rising inflationary pressures primarily in steel and resins. To address these issues, we swiftly responded with necessary actions to protect margins and product availability. We announced significant cost-based price increase in various countries across the globe, ranging from 5% to 12%.

Additionally, we reset our supply chain model to constraint-driven logic that constantly adjust production based on component availability. I strongly believe that we have the right actions in place to protect our operating margins. These actions propelled our Q1 results and give us high confidence to significantly increase our full year ongoing earnings per share guidance by 18% to a range of \$22.50 to \$23.50.

Now, turning to our first quarter highlights on slide 5. We delivered strong revenue growth of 24% driven by sustained consumer demand and previously announced cost-based pricing actions. Additionally, we delivered record ongoing EBIT margin of 12.4%, the third consecutive quarter of double-digit margins.

Further, we generated positive free cash flow of \$132 million as a result of strong earnings and lower working capital levels. Lastly, we successfully delivered on our long-term gross debt leverage target of 2 times.

Turning to slide 6, we show the drivers of first quarter EBIT margin, price/mix delivered 575 basis points of margin expansion, driven by reduced promotions and previously announced cost-based pricing benefits. Additionally, we delivered margin improvement of 375 basis points from net cost related to a carryover impact of structural cost takeout actions and higher volume as we begin to compare against the impact of COVID-19 in the prior year.

These margin benefits were partially offset by raw material inflation, particularly steel and resins resulting in an unfavorable impact of 225 basis points. Lastly, increased investments in marketing and technology and continued currency devaluation in Latin America impacted margins by combined 125 basis points. Overall, we're very pleased to be delivering on our long-term EBIT margin commitment and we're confident this positive momentum will continue to drive outstanding results throughout 2021.

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

James W. Peters

Chief Financial Officer & Executive Vice President, Whirlpool Corp.

Thanks, Marc, and good morning, everyone. Turning to slide 8, I'll review our first quarter regional results. In North America, we delivered 20% revenue growth driven by continued strong consumer demand in the region. Additionally, we delivered another quarter of record EBIT margin driven by strong volume growth and the flawless execution of our go-to-market actions. Lastly, we continue to optimize our supply chain operations, resulting in

modest sequential share gains. The region's outstanding results continue to demonstrate the fundamental strength and agility of our business model.

Turning to slide 9, I'll review our first quarter results for our Europe, Middle East and Africa region. Strong demand and share gains in key countries drove a third consecutive quarter of double-digit revenue growth in the region. Additionally, the region delivered year-over-year EBIT improvement of \$36 million led by increased revenue and strong cost takeout. These results, again, demonstrate the effectiveness of our ongoing strategic actions.

Turning to slide 10, I'll review our first quarter results for our Latin America region. Net sales increased 18% with revenue growth, excluding currency of 35%, led by strong demand across Brazil and Mexico. The region delivered very strong EBIT margins of 8.5% with continued strong demand and the early impact of cost-based pricing actions, offsetting significant currency devaluation.

Turning to slide 11, I'll review our first quarter results for our Asia region. In Asia, we delivered strong year-over-year net sales growth led by demand across the region and share gains in China. Additionally, we delivered significant EBIT expansion across both India and China, led by go to market and continued cost productivity actions; however, uncertainty remains as COVID-19 cases continue to surge in India.

Turning to slide 13, Marc and I will discuss our revised full-year 2021 guidance. I will now turn it over to Marc to begin.

Marc Robert Bitzer

Chairman & Chief Executive Officer, Whirlpool Corp.

Thanks, Jim. So while macroeconomic environment remains uncertain, we are confident that sustained strong consumer demand and our previously announced cost-based pricing actions will offset the impact of global supply constraints and rising input costs. We are raising our guidance for net sales growth from 6% to now 13% and EBIT margin from 9% to now approximately 10%.

In addition, with higher earnings, we now expect to deliver free cash flow of approximately \$1.25 billion instead of \$1 billion. Finally, we're also raising our EPS guidance significantly to \$22.50 to \$23.50, a year-over-year increase of 25%.

Turning to slide 14, we show the drivers of our revised EBIT margin guidance. We expect 600 basis point of margin expansion driven by price/mix as we continue to be disciplined in our go-to-market strategy and capture the benefits of our previously announced cost-based pricing actions. We continue to forecast net cost takeouts to favorably impact margins by 150 basis points as we realize the carryover benefits of our 2020 cost reduction program and ongoing cost initiative.

The global material cost inflation in particular in steel and resins will negatively impact our business by about \$1 billion. We expect cost increases to peak in the third quarter. Increased investments in marketing and technology and unfavorable currency, primarily in Latin America, are expected to impact margins by 75 basis points each. Overall, based on our track record, we're confident in our ability to navigate this uncertain environment and deliver approximately 10% EBIT margin.

Now, I'll turn it over to Jim to highlight our regional industry and EBIT margin expectations.

James W. Peters

Chief Financial Officer & Executive Vice President, Whirlpool Corp.

Thanks, Marc. Turning to slide 15, we show our updated industry and regional EBIT guidance for the year. We have slightly increased our global industry expectation to 5%, reflecting the demand strength in North America. We have updated the EBIT guidance of our North America and Latin America regions to reflect the benefits of pricing actions and continued demand strength. This brings our EBIT guidance for North America to 15.5-plus percent and Latin America to approximately 8%.

Lastly, in March, Galanz launched its formal partial tender offer for majority stake in Whirlpool China. Our EBIT guidance for Asia assumes Galanz's partial tender offer is successfully closed in the second quarter. Based on this assumption, we would expect to see approximately seven months of Whirlpool China revenue and EBIT removed from the region's results. This is approximately \$300 million in net sales and approximately \$15 million of EBIT loss. With the deconsolidation of Whirlpool China business and continuation of our profitable India business, we anticipate an increase in Asia's EBIT margin to 5% plus.

Turning to slide 16, we will discuss the drivers of our 2021 free cash flow. With expectations for stronger top-line growth and improved EBIT margins, we increased our cash earnings guidance by \$250 million. From a working capital perspective, we expect to see inventory build throughout the year as we compare against record low levels in 2020 and unlock bottlenecks in our supply chain.

Lastly, we now expect \$150 million from the sale of a majority of our shares in Whirlpool China in addition to the continued optimization of our real estate portfolio. Overall, we now expect to drive free cash flow of approximately \$1.25 billion or 5.7% of sales, in line with our long-term goal of 6%.

Turning to slide 17, we provide an update on our capital allocation priorities for 2021. We continue to expect to invest over \$1 billion in capital expenditures in research and development, highlighting our commitment to driving innovation and growth in the future.

Additionally, with a clear focus on returning strong levels of cash to shareholders, we increased our dividend for the ninth consecutive year. Also, we have increased our share buyback program by \$2 billion, bringing our remaining authorization to \$2.4 billion. Lastly, we have delivered on our long-term gross debt leverage goal of 2 times.

Now, on slide 18, I'll turn it back over to Marc to summarize our key messages.

Marc Robert Bitzer

Chairman & Chief Executive Officer, Whirlpool Corp.

Thanks, Jim, and let me just recap what you heard over the past few minutes. We are highly confident in our ability to manage through the supply constraint and cost inflationary environment. We have consistently demonstrated our ability to be agile, take decisive actions and deliver strong operating results despite challenging market conditions.

I firmly believe that we have the right actions in place to protect our operating margins, which is once again demonstrated in our record Q1 results. With increased demand and price/mix expectations, we significantly increased our guidance for revenue, EBIT, earnings per share and free cash flow. Lastly, we remain unwavering in our commitment to drive strong shareholder values and return cash to shareholders.

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

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] Your first question comes from Michael Rehaut from JPMorgan. Your line is open.

Michael Rehaut

Analyst, JPMorgan Securities LLC

Q

Thanks. Good morning, everyone, and congrats on the results.

Marc Robert Bitzer

Chairman & Chief Executive Officer, Whirlpool Corp.

A

Thanks, Michael.

Michael Rehaut

Analyst, JPMorgan Securities LLC

Q

First question I had was on the real impressive progress, I think, around the North American top line, and you talked about driving those results were continued improvements in supply chain, allowing for some modest share gains. I was hoping you could talk to the fact that it appears that you, obviously, grew maybe a touch in excess of the market. But from a volume perspective, I mean there's obviously a price/mix component. So maybe, number one, you could talk about your volume growth roughly and how you're thinking about share right now, if you were able to match the AHAM shipment growth.

And number two, how you think about your excess backlog? This was a area that, I think, at the end of the year, you're at seven, eight weeks. If you were able to make any progress there and if – given some of the continued challenges in the supply chain and the extraordinary industry growth, if that's pushed out now by, let's say, a quarter, if that backlog still remains fairly elevated?

Marc Robert Bitzer

Chairman & Chief Executive Officer, Whirlpool Corp.

A

Michael, it's Marc. So, let me try to answer both of your questions. First, on [ph] MENAR (00:14:47) top line, obviously, we are very, very pleased with the 20% growth in Q1, and it was right run rate, certainly much better than Q4 and Q3. So, we feel we have the right momentum. To be clear on two parameters, we gained moderate share, sequential, i.e. Q1 versus Q4; however, on a year-over-year basis, we have not gained share, just to be clear.

We will also – there's a reason why we don't provide unit volumes anymore. Having said that, of a 20%, there is a healthy component of price/mix, it's roughly in line with what we show from the corporation, but there's also underlying growth. Now, the comparison to AHAM and the AHAM T6 or T7, that's part of the reason why we stopped communicating volume, first of all, as you know, even in the AHAM numbers, there's quite a bit of noise about the calendar days, which is very complicated to get into. And two, it's always a question about the T5, T6, T7. Having said that, we feel good about where we are right now from the run rate in Q1, both on volume and revenue. And we're pretty confident we can sustain that growth relative to the market on a full year basis.

Now, to the second part of the question on the excess backlog, I think if I heard you correctly, you were saying are we one quarter away from resolving the backlog? We're not, that's a simple answer. Now, let me give you a much more qualified perspective on this one. In our January earnings call, I think we were referring to seven or eight weeks of order backlog. That had its peak pretty much around October, November last year, and then slowly started to moderate towards January. And that's why we felt, yeah, we're on track to kind of really bring that down quite a bit, which obviously we absolutely want to do because we have consumers waiting for our products.

So, two things happened since – or actually three things. One is the consumer demand did not only stay strong, actually it grew. And that's why we updated our full year expectation on industry. Keeping also in mind, when we refer to these full year industry numbers, these are, in a certain way, constrained industry shipments. I think the unconstrained consumer demand will be well above the 6%, which we guide right now. So, A, you have a demand which didn't slow down, actually got stronger. Two, you had two major events on the supply chain. One was a Texas winter storm, which unfortunately impacted big part of the petrochemical production and, subsequently, resins and what it means for our supply chain.

Two, you had the semiconductor issue, which I know in other industries has been already a major headache in Q4 and Q1. Because of different sourcing strategy which we have, we were largely mitigating these effects. But like the nature of any hedge, you can't escape it forever. And that semiconductor shortage was amplified also by, again, a little bit of a Texas winter storm, because there's one or two important factories for us, and you have a Japan fire, which also unfortunately impacted us. So, you put a COVID-constrained supply chain, plus semiconductors, plus resins against a stronger consumer demand, it's stress on the system. And what it ultimately translates into the back orders, unfortunately, will remain elevated for some time to come.

I would expect right now and, admittedly, it's very difficult to forecast it, but right now, we should assume that Q2, Q3 will be on similar elevated levels. And right now, it looks like Q4, we should see some moderation on this one. Sorry, it was a long answer, but I think it's probably helpful to give you a little bit more perspective on all these moving parts in the supply chain.

Operator: And your next question will come from Sam Darkatsh from Raymond James. Your line is open.

Sam Darkatsh

Analyst, Raymond James & Associates, Inc.

Q

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

James W. Peters

Chief Financial Officer & Executive Vice President, Whirlpool Corp.

A

Good.

Marc Robert Bitzer

Chairman & Chief Executive Officer, Whirlpool Corp.

A

Good morning Sam.

James W. Peters

Chief Financial Officer & Executive Vice President, Whirlpool Corp.

A

Good morning, Sam.

Sam Darkatsh

Analyst, Raymond James & Associates, Inc.



Two questions actually regarding the raws, the raw material inflation guidance. The first would be – and I don't normally would ask this question in April, but these are not normal times. I'm thinking about fiscal 2022 RMI, if all commodities' prices and what have you were to remain static in perpetuity, just flat from here on out, what would you guess as to what fiscal 2022 RMI looks like right now?

And then, the second question, you had a terrific – obviously, a terrific price versus RMI spread in the first quarter, was 3.5 points, the difference between 5.75% and 2.25%. How do you envision that spread in Q2 and Q3 as your lead times are, obviously – I mean, industrial lead times are, obviously, still extended, I would think that that spread would continue. Just give us a sense of how you envision those two metrics, if you could. Thank you.

Marc Robert Bitzer

Chairman & Chief Executive Officer, Whirlpool Corp.



Sam, good morning. It's Marc. Let me, first, maybe start on the raw materials and then maybe Jim can also offer his perspective. I don't start with 2022 because that is far out in the current environment, to be very honest, with so much uncertainties associated with that. But let me give you our perspective on the dynamics of how raw materials seem to unfold and also, first of all, emphasizing there's a big difference between absolute levels of raw materials and increases year-over-year. So when I refer increases year-over-year, we do expect a continuous increase in Q2, also strong increase in Q3. And probably, the increases seem to likely peak in Q3 and then will start moderating it from there on down.

The level of moderation, however, will still mean a level of absolute raw material cost, which will be significantly increased. And I think that's also largely what we will carry into 2022. But again, there's – Sam and I hope we appreciate the last 10 weeks, the world has dramatically changed in raw materials. And I don't think we're in a stable environment right now. But that's right now our best scenario. Again, Q2, further increase; Q3, peaking; Q4, probably slightly moderating in terms of the increases, but still being on a very high absolute level.

James W. Peters

Chief Financial Officer & Executive Vice President, Whirlpool Corp.



Yeah. And Sam, I would align with Marc on that, that that's kind of the pattern we see. So if you think about it year-over-year, a big part of the materials cost that we're seeing inflation right now will, obviously, be in the number. And so as we look towards 2022, that's why we can't really give any guidance at this point, nor would we, but we do think we'll remain at least on a higher material environment for a period of time.

And then your question on the spread from Q2 to Q3, listen, what you see from an overall price/mix perspective, as we've shown, the first quarter kind of aligns with the guidance we've given for the full year. So, what it says is, as you go through – but materials are still a little bit lower and that's to the seasonality that Marc talked about, as we go throughout the year, materials will be more of a headwind. But we expect the pricing to take hold and that will be a bigger driver of the price/mix versus the reduced promotional environment that now that year-over-year is coming down as a benefit. But the two offset each other and that's why we believe we'll be flat on a price/mix throughout the year.

Marc Robert Bitzer

Chairman & Chief Executive Officer, Whirlpool Corp.



Sam, it's Marc again. And also, actually, I read the headline of your note this morning, where you say assuming price can offset RMI, which I think is the core of everything. I think the little differentiation that would make is, as

opposed to saying assuming, we have been offsetting RMI in price in Q1 and we will do so going forward. That's why we guided to 5 points material, negative on a full year base, and 6 points of pricing. Again, it's a have been and we will.

Operator: Your next question will come from Susan Maklari from Goldman Sachs. Your line is open.

Susan Maklari

Analyst, Goldman Sachs & Co. LLC

Q

Thank you. Good morning and also congratulations on a great quarter. I know there's a lot of hard work going into that. My first question is just going back to the inflation point, can you talk to us a little bit about what changed since we heard from you at the end of the fourth quarter. You took a big step up going from the \$250 million to \$300 million to the \$1 billion. Talk us through what's different there. And then also, how should we think about the possibility that we get further changes as we move through the year? How confident are you in this \$1 billion guide that you've given us now.

James W. Peters

Chief Financial Officer & Executive Vice President, Whirlpool Corp.

A

Yeah. Susan, this is Jim. I'll start off and let Marc kind of add. And what we'd say at least on your second question there in terms of confidence, this is what we see right now and based on our best forward-looking estimate, best information we have. And obviously, we've updated that now, but we wouldn't expect to see something inflate at the rate we've seen within the first quarter here, which leads to what your first question was, is from back in January till now what we've seen is a significant increase in steel prices. And I think you'll hear many producers out there talking about that over the next few weeks as they've seen that. But also, to some of the things Marc talked about earlier, especially around what's causing some of the issues within our supply chain, the lack of resins and all that, that also caused – as you think about the Texas storms and the rising oil pricing, and that has caused a higher cost within our resins base also. So, steel and resins are probably the two biggest drivers. And then you think about all the components we have that may contain pieces of that. So, it's pretty broad based throughout our supply portfolio.

Marc Robert Bitzer

Chairman & Chief Executive Officer, Whirlpool Corp.

A

Yeah, Susan, just to echo what Jim is saying. As you know, our two biggest components in the direct purchase is steel and resin. Okay. Steel, if you look at the spot prices in steel just for the last eight weeks has seen a dramatic increase. Take North America, they went up to \$1,500. These are levels, I mean, unheard of. Now, we do not buy spot. But ultimately, the way our contracts are shaped up, we can't escape spot trends forever. And so, ultimately, you see also something around this one. And resins is our second-biggest buy, which is obviously a reflection of; A, higher oil prices; and two, these constraints coming out of Texas, they certainly don't lead to lower prices. So, put these two together, plus then the subsequent or cascading impact it has on strategic components which we buy, because our suppliers also have to pay for steel, et cetera. So, you put that all together, that led to that fairly dramatic change.

Now, with regards to the question about the confidence level, I right now can only characterize it that is our very best estimate at this point. I wouldn't characterize it as extremely pessimistic or optimistic. I think it's well balanced. But of course, I mean in the current world, which we're living right now, there's always uncertainty. I mean, we saw that the last eight weeks, but I do believe it's fair to assume \$1 billion is about the right number for this year.

Operator: And your next question will come from Eric Bosshard from Cleveland Research. Your line is open.

Eric Bosshard

Analyst, Cleveland Research Co. LLC

Q

Good morning.

Marc Robert Bitzer

Chairman & Chief Executive Officer, Whirlpool Corp.

A

Good morning, Eric.

Eric Bosshard

Analyst, Cleveland Research Co. LLC

Q

A little bit of clarity, if you could, price/mix promotion, I know you put all of them in a bucket. But just interested in what the slope of the curve of each of those looks like? And specifically, what I'm trying to get a sense of is, seems like the North American price increases began in 2Q, and I'm not sure when the peak benefit arrives there. But seems like more of that's in front of us. And so, I was a little surprised that the 575 basis point in that bucket in this first quarter feels like it can get larger than that as we work through the year. Perhaps, there's some assumption about a change in promotions through the year. But if you could just expand a little bit on the assumptions within those three contributors, that would be helpful.

Marc Robert Bitzer

Chairman & Chief Executive Officer, Whirlpool Corp.

A

Eric, it's Marc. And as you know, we're not typically breaking down how much of price/mix is promotional, how much is list and how much is really SKU mix. And it's always a combination of all three factors. If you look at, I would say, the last nine months of three quarters where we had significant positive pricing, that came both from mix because we got coming out of this immediate crisis in Q2, we got more and more mix benefits and, frankly, also the strong reduction of promotion investments. I think that now, in Q1, got increasingly augmented with the effect of price increases, which we have already in some markets. But frankly, in Q1, you still have quite a bit of effect of reduction of promotion.

Now, coming with 2Q and Q3, where we already slowed down promotion last year, of course, year-over-year, you'll have less [ph] effect (00:28:04). It doesn't mean that we go back to promotion, it's just you don't have an additional positive benefit. As you go into Q2, Q3, that's when you'll see much more impact of list price increases throughout the year.

Eric Bosshard

Analyst, Cleveland Research Co. LLC

Q

And then related to that, the promotional plans are getting built for 4th of July and there's probably some perspective on what the back half of the year might look like with promotions. Can you just give a sense – you referenced that not going back to where they were, but what are your plans, what are the retailers' plans? Where is that going relative to where it was last year and where it was historically?

Marc Robert Bitzer

Chairman & Chief Executive Officer, Whirlpool Corp.

A

Eric, as you know, we don't give a guidance or perspective on future price and future promotion. I think the two things which I would, just in general terms, make as a comment. We've now for multiple years had a promotional

strategy which was strongly based on value creation. When we can create value, we promote; when we don't, we don't.

Coupled with this one is – and coming back to the earlier comments which I made to Michael about the supply chain, our supply chain will be constrained. It doesn't make sense to promote products which you can't produce. So, now, again, promotion plans will always change, but right now I think we're assuming, we're supply constrained for an extended time period. And as such, I don't think we have very aggressive plans.

Operator: And your next question will come from Mike Dahl from RBC Capital Markets. Your line is open.

Michael Dahl

Analyst, RBC Capital Markets LLC

Q

Marc, Jim, thanks for the colors so far, really helpful. My question is another one around cost, but thinking about logistics. You've maintained your expectation for net cost to provide 150 basis point net tailwind. We've obviously seen a lot of moving pieces on transportation and logistics as well in terms of inflation. So, can you kind of talk through, underneath the surface, were there incremental changes that you were able to find additional productivity or cost outs to offset that? Just any sort of qualitative or quantitative commentary you could provide there would be great? Thanks.

James W. Peters

Chief Financial Officer & Executive Vice President, Whirlpool Corp.

A

Yeah, Mike, this is Jim, and maybe I'll kind of start with this and say that – and I think you kind of already alluded to what we're using here, as we do see increased logistics cost, like many other manufacturers out there. However, we've also been able to take advantage of other opportunities within certain cost buckets within our P&L. And you know that net cost, obviously, is a whole bunch of different areas there. And so as we look at right now, what we would say is that our production volumes are very healthy, obviously, with the level of revenue that you see today. And additionally, as we look at the cost actions we took last year and the amount of carryover and the benefit we're able to retain, that is at or above the level that we saw previously. So, those are the kind of things that we're using to offset what is a higher logistics cost environment.

Michael Dahl

Analyst, RBC Capital Markets LLC

Q

Got it. Thanks.

Operator: And your next question will come from David MacGregor from Longbow Research. Your line is open.

David S. MacGregor

Analyst, Longbow Research LLC

Q

Yes. Good morning, everyone, and congratulations on all the progress, and really kudos on navigating through these supply channel issues. It's impressive execution. I guess, I wanted to step back a little bit with my first question and just ask about with all the progress in growing the North American margins, what's your latest thinking in terms of the longer-term normalized margin for the North American business? And I guess, a lot of moving parts here and not a lot of forward visibility, but just trying to think about sort of a steady state, with everything you've been able to accomplish in terms of the cost-outs and everything else, how we should think about kind of a steady state normalized margin for the North American business?

Marc Robert Bitzer

Chairman & Chief Executive Officer, Whirlpool Corp.

A

David, it's Marc. I mean if you step back a little bit in time and also the last couple of years, whenever we hit a new record margin in North America, we were asked about is that the peak. And that question has been pretty steady for the last three or four years, and I think our North America team has impressively demonstrated we can push it further. So, now, we increased the full year margin guidance to 15.5% plus and I think let the team work and demonstrate how much the plus can be over time.

Now, obviously, as this year passes with a lot of, as you said, moving parts and big elements, we will then have to redefine what is a really a long-term steady state margin objective for North America. But I would say, the progress of the last couple of years has certainly encouraged us to think differently about what can be steady state margins in North America. And I would expect that in the next investor meeting, which we will have the appropriate time announced when it we will, [ph] when we'll (00:33:01) give a perspective of our long-term guidance – margin guidance.

James W. Peters

Chief Financial Officer & Executive Vice President, Whirlpool Corp.

A

Yeah. And just to add to that, David. I think the one thing that I like to highlight for folks, too, that you would've seen in 2020 in Q2 with North America is we had a significant volume loss and our margins still stayed above 12% in there. So, to Marc's point, I think we have a very healthy business there that can now deal with many of the volume shifts and the volatility in other areas. And as we look forward, we expect that to continue to be a significant contributor.

David S. MacGregor

Analyst, Longbow Research LLC

Q

Okay. Good. And the second question for me is just with regard to Europe. And can you just talk about some of the progress over there and what you may have been able to achieve recently in terms of new listings and price increase traction and so on and so forth? I thought the incremental margins seemed a little light, but overall, certainly directionally, the margins are moving in the right direction. So, can you just talk about some of the elements of your progress there?

Marc Robert Bitzer

Chairman & Chief Executive Officer, Whirlpool Corp.

A

So, David, I mean, first of all, the Q1 again showed a really nice year-over-year progress. Keeping also in mind, Q1 is seasonally weakest quarter in Europe. We didn't make a profit in Q1 in Europe for the last three years and we made a profit now. Admittedly, it is not same level as Latin America, North America, but it's a profit and a really impressive year-over-year improvement. Also, the 2.5% which we guided for this year, to be honest, that's perfectly in line with what we had in mind as our turnaround plan. Now, we all know that is not the end state, that's not the final target, but it's exactly in line with what we had in mind for our turnaround plan.

That is largely driven – yeah, the European team also demonstrates good discipline in cost. We're also faced with the same cost inflation in Europe as we are in North America, maybe not to the exactly same magnitude, but it's almost the same. And frankly, we got nice progress in regaining market share in several key countries in Q1. Now, the European market also has been very strong in Q1, but I think even against the strong market, we grew market share. As I said repeatedly in the past, the biggest element of progress where we need to continue to demonstrate progress throughout the next couple of years is on the build in of the kitchen business in Europe,

where it always takes a little bit longer to regain market share, but I think we had some nice really impressive wins already in Q1 around the kitchen business.

Operator: And your next question will come from Ken Zener from KeyBanc. Your line is open.

Kenneth Zener

Analyst, KeyBanc Capital Markets, Inc.

Morning, everybody.

Q

Marc Robert Bitzer

Chairman & Chief Executive Officer, Whirlpool Corp.

Morning, Ken.

A

James W. Peters

Chief Financial Officer & Executive Vice President, Whirlpool Corp.

Morning, Ken.

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Kenneth Zener

Analyst, KeyBanc Capital Markets, Inc.

Just amazing margins in North America. So, a lot of hard work there. One of the things I had discussing with clients [ph] last night (00:35:49) is you have your five brands in North America, versus some of your competitors are more mono brand. With this backlog still persisting and supporting very strong net pricing functions in the US, are you seeing that in particular categories – and I haven't been parsing out AHAM, but I mean freezer sales up, things like that, I mean, is there really a dramatic shift in the mix of products, i.e., freezers versus some other types as opposed to with homeowners having record – near 30, 40-year equity levels in their house, are they just spending more? Could you give us a little feel on how that higher home equity is translating to demand in your business is my first question.

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Marc Robert Bitzer

Chairman & Chief Executive Officer, Whirlpool Corp.

Hey, Ken. It's Marc. So, let me try to answer. First of all, on the mix of product and then maybe a broader comment on the fundamental nature of demand, which we're seeing. The mix of product, of course, in Q2 and, to some extent, Q3 last year, we saw a lot of, call it, COVID emergency products, okay, the microwave, the small fridge or replacement products because the washer broke down, that mix has gradually shifted and continues to shift towards a richer mix, i.e., people are investing in the home. There's disposable income and people are upgrading or investing. So, it's not the COVID purchase anymore quote-unquote, it's really structural investment in the home. And that's a good thing to see.

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The broader comment I want to make, in the past, some people were referring to asking us, well, what you see right now on demand, is that pull forward? Frankly, I don't think pull forward describe adequately what's going on, because pull forward implies there's a fixed amount of the years you get out of an appliance, and if you buy this year, you don't buy next year. And that is not an adequate description. I think we need to think more in terms of appliance from consumer perspective, how much use, how much mileage, how many cycles you get out of an appliance. And what last year showed with people spending so much time at home, the consumption was higher, literally the consumption. So, what happened last year and what happens this year is people spending so much

time at home, the appliance consumption is higher. So, it's not pull forward, it's an accelerated use which drives a lot of demand and which we expect also to continue for quite some time.

Kenneth Zener

Analyst, KeyBanc Capital Markets, Inc.

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Right. It's really interesting, because I mean I tried fixing my dishwasher, it wasn't draining and something reset and it did rather quickly, which is good. But it seems like that at home really is a tailwind well into 2022 as well. And I think you've been very clear in your guidance that second half margins domestically will normalize, something in that sub-15%, but where we are in FY 2022 remains uncertain. Do you think the promotional activity that we're comping or set – that's already in next year's numbers or last year's numbers, is that something that – is there any reason promotional activity wouldn't return, in your opinion, given what's happened in the last 12 months in terms of competitors, domestic capacity or categories? It seems like you've really helped yourself up in the margins by your cost actions in the past [indiscernible] (00:39:24).

Marc Robert Bitzer

Chairman & Chief Executive Officer, Whirlpool Corp.

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So, Ken, let me maybe first start on the demand. We do believe – and I'm not particularly referring to North America, but it's similar in other regions. What we're seeing right now is the demand is a sustained and multiyear demand trend. It's not a blip. It's a strong up-cycle. And in particular for North America, you have the general consumer trend of investing in the home. People also going forward will spend more days at home. Just think about all these flexible work policies. People will spend more time at home, which ultimately drives higher investments in the home and accelerated use of appliance in the home.

Couple that with the housing market in US, which I think some people refer to golden age of housing, housing demand will not slow down in the next couple of years; if at all, it will increase. So put that together, you will have multiyear strong consumer demand in US. And you heard us before talking about consumer demand. To be honest, in all the years I've been doing the earnings call, this is probably the year I'm most bullish about mid- and long-term consumer demand trends in North America.

So, I'm not worried about consumer demand. On the promotional environment, I can only repeat what I said before. We have our policy, that policy is unchanged. I can't comment what our competitors are doing and I won't, and that's a pure speculation. But right now, from everything you heard from us before, in a supply constrained environment, you should assume we will not be very aggressive on the promotion side.

James W. Peters

Chief Financial Officer & Executive Vice President, Whirlpool Corp.

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Yeah. And just to step out a little bit here too and echo what Marc said is obviously mentioned that our strategy on promotions to make sure that they're value-creating has not changed, and we don't see that changing go forward. The other thing is, I think, as you think about these different dynamics go forward in future years and why you can't exactly predict them, what you can look at and see is the actions that we've taken, whether over recent years and our ability to offset these kind of things and deal with them has just gotten better. And we've talked earlier about whether it was cost-based price increases we took in 2012, 2018, that we're taking now, I think that's just a continued demonstration of our ability to adjust to the environment around us and still maintain and expand our margins.

Operator: And your next question will come from Curtis Nagle from Bank of America. Your line is open.

Curtis Nagle

Analyst, Bank of America Merrill Lynch

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Great. Thanks for taking my question. Maybe I'll just pivot a little bit in terms of some stuff we haven't talked about yet. Thinking about, I guess, just kind of any changes in terms of the behavior of kind of how people buy appliances, obviously, and COVID has generally shifted a lot more behavior online. I think for a while now, the buying journey per se has sort of been online, maybe goes to store and goes from there. But in terms of just the number of people who are purely buying appliances online don't visit the store, whether that's [ph] through (00:42:24) Depot, Lowe's, whatever, how has that changed over the past year or so? What percentage is that now relative to couple of years ago? Kind of where do you think that goes?

Marc Robert Bitzer

Chairman & Chief Executive Officer, Whirlpool Corp.

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Yeah. Curtis, it's Marc. So, obviously, the consumer trends in terms of buying online or purely online are vastly different country by country. Okay? You have some countries where it's already almost 50%, like in China. You have UK, where it's reaching 30%. US, on a multiyear perspective, has been more around 12%. Obviously, last year was increased.

Now, to also clarify, there is a big difference between pure online purchase and kind of mix, because pretty much every consumer goes online anyhow to – as a pre-buy and pre-information. And of course, the pure online transaction has significantly increased, in particular, Q2 and Q3. But I would say, in the US, less so than in other markets, and that's simply a reflection, because many retailers remained open, which has not been the same in other countries.

So, I think, will that settle back a little bit to pre-COVID levels? I would say, not entirely. I think what COVID brought is a structural percentage point change in terms of how many people will just buy purely online. So, we may not see the COVID peak in terms of online sales going forward over the next – in the mid-term, but it certainly will not go back to pre-COVID. So, I think, coming out of this one – and again, the dust has not settled, but I would not be surprised if you see in the US online – pure online transaction in the ballpark of 15% or 20% already this year.

Curtis Nagle

Analyst, Bank of America Merrill Lynch

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Okay. Thanks very much, Marc, and good luck for the rest of the year.

Marc Robert Bitzer

Chairman & Chief Executive Officer, Whirlpool Corp.

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Okay.

James W. Peters

Chief Financial Officer & Executive Vice President, Whirlpool Corp.

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Thank you.

Marc Robert Bitzer

Chairman & Chief Executive Officer, Whirlpool Corp.

Thanks, Curtis. So, I think that pretty much marks the end of our questions. So, let me maybe just close here. And usually, when you close these kind of calls, you repeat the confidence and you repeat everything you said. I'm

actually going to keep that part pretty short, because as you saw before, we increased our guidance from \$18.55 to midpoint \$23, more than \$4.50. You don't do that if you're not confident. We are confident, and I hope we expressed it adequately in the last hour or so.

I rather want to use this closing here actually to thank our employees and give you a little bit of color. We always expect a lot from our employees. But what our employees are right now delivering and committing is beyond the extraordinary. And what I mean with that is we have still – COVID is still very real. I know US is getting out of the woods slowly, but it's very real throughout the world. And on top of that, we have these constraints and challenges which we just talked about.

To give you a little bit of picture on the COVID is very real, we have factory in Manaus. We had to shut it down because we had to give the industrial oxygen to the local hospital because they ran out of normal oxygen. We have India fully being hit by the COVID wave and we have several thousand employees in India. We have in the month of April 576 colleagues who got positively diagnosed. So, it is very real and that means a lot of pain and anxiety for a lot of our employees. While at the same time and what we so easily and casually describe as supply chain constraint, it's hard to express what amount of stress that puts on an organization.

So, I'm sitting here and just I want to tell our employees it's not lost. We certainly do recognize the extraordinary effort being put into this one, and our organization is delivering. And I just want to express my thanks.

And I guess, that marks the end of our Q&A. Thank you, everybody. Bye.

Operator: Thank you, everyone. This will conclude today's conference call. You may now disconnect.

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