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Whirlpool Corp. (WHR)

Q2 2021 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning, and welcome to Whirlpool Corporation's Second Quarter 2021 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, Korey Thomas.

Korey Thomas

Head of Investor Relations, Whirlpool Corporation

Thank you, and welcome to our second 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 want to remind you that as we conduct this call, we'll be making forward-looking statements to assist you in better understanding Whirlpool Corporation's future expectations. Our actual results could differ materially from these statements due to many factors discussed in our latest 10-Q 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, Korey, and good morning, everyone. Before we discuss our second quarter results, I'd like to acknowledge that we are comparing to period in which the world was experiencing a [ph] greatest depth (00:01:53) of disruption from COVID-19. While lessened, disruptions from the pandemic do, in fact, remain along with volatile industry dynamics and numerous global supply chain constraints.

Having said that, our impressive results throughout this entire period, and again in Q2, demonstrates the strong execution of our global teams and the resiliency of our business model.

Now turning to our second quarter highlights on slide 4. We delivered very strong revenue growth of 32% year-over-year, which also represents growth above 2019 levels, driven by robust and sustained consumer demand and the execution of our pricing actions.

Next, our decisive response plan to address volatile industry dynamics and broad supply constraints delivered ongoing EPS of \$6.64, a \$4.57 improvement year-over-year. Ongoing EBIT margin of 11.4%, a year-over-year improvement of 640 basis points, overcoming 400 basis points of cost inflation.

Additionally, we generated positive free cash flow of \$769 million, led by strong earnings and the successful completion of a partial tender offer of our Whirlpool China business and the divestiture of our Turkey subsidiary. These global results were driven by substantial EBIT growth and margin expansion across every region.

The execution of these actions and the sustained consumer demand delivered very strong Q2 results and give us the confidence to significantly raise our guidance to approximately \$26 per share.

Turning to slide 5, we show the drivers of our second quarter EBIT margin. Price and mix delivered 600 basis points of margin expansion, driven by reduced promotions and the further implementation of a previously announced cost-based pricing actions.

Additionally, structural cost takeout actions, higher volumes and ongoing cost productivity initiatives delivered 550 basis points of net cost margin improvement. These margin benefits were partially offset by raw material inflation, particularly steel and resins, which resulted in an unfavorable impact of 400 basis points.

Lastly, increased investment in marketing and technology, and the continued impact from currency in Latin America impacted margin by a combined 100 basis points. Overall, we're very pleased to be delivering even above our long-term EBIT margin commitment and are confident this positive momentum will continue to drive outstanding results throughout 2021 and beyond.

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 7, I'll review our second quarter regional results. In North America, we delivered 22% revenue growth, driven by sustained strong consumer demand in the region. Additionally, we delivered another quarter of very strong EBIT margin, driven by volume growth and the disciplined execution of our go-to-market actions, and the previously announced cost-based price increases that were fully in place as we exited the quarter.

Demand for our products remains high, as we continue to produce in a constrained environment that we now expect to persist throughout 2021. Lastly, the region's outstanding results demonstrate the fundamental strength and agility of our business model.

Turning to slide 8, I'll review our second quarter results for our Europe, Middle East and Africa region. Double-digit growth in all key countries drove a fourth consecutive quarter of revenue growth above 10% in the region. Additionally, the region delivered year-over-year EBIT improvement of \$97 million, led by increased revenue and strong cost takeout, overcoming inflationary pressures. These results demonstrate the progress we are making towards our long-term goals.

Turning to slide 9, I'll review our second quarter results for our Latin America region. Net sales increased 76%, led by strong demand across Brazil and Mexico and the continued growth of our direct-to-consumer business. The region delivered very strong EBIT margins of 9.7% with continued robust demand and the execution of cost-based price actions, offsetting inflation and currency devaluation.

Turning to slide 10, I'll review our second quarter results for our Asia region. In Asia, revenue decline of 1% reflects the successful partial tender offer for our Whirlpool China business, which was completed in May. Additionally, as COVID cases surged in India, we were yet again faced with shutdowns, significantly impacting the industry. However, in June, as we exited the quarter, we began to see demand recover. Despite this disruption, the region delivered year-over-year EBIT growth of \$23 million, led by pricing and cost productivity actions.

Turning to slide 12, 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. While the macroeconomic environment remains uncertain and volatile, 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 and are now expecting to drive net sales growth of approximately 16% and EBIT margin of 10.5-plus percent.

Additionally, we now expect to deliver \$1.7 billion in free cash flow or 7.5% of net sales, driven by higher earnings and the completed divestitures. Excluding the impact of divestitures, we expect to deliver on our long-term goal of free cash flow at 6% of net sales.

Finally, we're significantly raising our EPS guidance to approximately \$26, a year-over-year increase of over 40%.

Turning to slide 13, we show the drivers of our revised EBIT margin guidance. We continue to expect 600 basis points of margin expansion, driven by price and mix, as we demonstrate the disciplined execution of our go-to-market strategy and capture the benefits of our previously announced cost-based pricing actions. We have increased our expectation for net cost to 175 basis points, as we realized further efficiencies from higher revenues and strong cost takeout initiative.

As we closely monitor cost inflation globally, particularly in steel and resins, we continue to expect our business to be negatively impacted by about \$1 billion, with the peak increases to materialize in the third quarter.

Increased investments in marketing and technology and unfavorable currency, primarily in Latin America, are expected to impact margins by 125 basis points.

Overall, based on our track record, we are confident in our ability to continue to navigate this uncertain environment and deliver 10.5-plus percent EBIT margin, representing our fourth consecutive year of margin expansion.

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 14, we show our updated industry and regional EBIT guidance for the year. We have increased our North America industry expectation to 10-plus percent to reflect the continued demand strength. We continue to expect to see demand strength, driven from broader home nesting trends and an undersupplied housing market.

Additionally, we have updated the EBIT guidance of our North America region to reflect the benefits of increased cost efficiencies, which are more than offsetting increased costs from logistics, labor and operational inefficiencies of producing in a heavily constrained environment. This brings our EBIT guidance for North America to approximately 17%.

Lastly, we continue to expect to deliver strong growth and significant EBIT expansion across our international regions, with each region contributing to our global EBIT margin of 10.5-plus percent.

Turning to slide 15, we will discuss the drivers of our updated 2021 free cash flow. We now expect to drive free cash flow of approximately \$1.7 billion, an increase of \$450 million. Driven by expectations for stronger top line growth and improved EBIT margins, we increased our cash earnings guidance by \$250 million. Next, we have reflected the benefit from the divestitures completed in the quarter. This represents free cash flow generation of 7.5% of sales, delivering above our long-term goal of 6%.

Turning to slide 16, we provide an update on our capital allocation priorities for 2021. We continue to expect to invest over \$1 billion in capital expenditures and research and development, highlighting our commitment to driving innovation and growth in the future. This includes industry-leading, externally recognized innovation, such as our newly launched 2 in 1 removable agitator in our top load laundry machine in North America, and the launch of new products in EMEA, such as our new built-in refrigerator, which is recognized as the quietest built-in fridge in the marketplace.

Next, with a clear focus on returning strong levels of cash to shareholders and a signal of our confidence in the business, we expect to increase our rate of share repurchases in the second half of 2021 to at or above \$300 million.

Lastly, we repaid a \$300 million maturing bond and issued our inaugural sustainability bond, focusing on actions to drive positive environmental and social impacts. This milestone further advances our global sustainability strategy and reflects our core philosophy that sound corporate citizenship and environmental performance are

good for business, and underscores our leadership position in our industry as we continue our constant pursuit of improving life at home.

Now on slide 17, I'll turn it back over to Marc to summarize our key messages.

Marc Robert Bitzer

Chairman & Chief Executive Officer, Whirlpool Corp.

Thank, Jim, and let me just recap what you heard over the past few minutes. Q2, again, impressively demonstrated our ability to operate in a very volatile environment and deliver very strong operating results. Sustained healthy market demand and strong operational execution give us the confidence to increase our guidance for revenue, EBIT, earnings per share and free cash flow. Next, we remain unwavering in our commitment to drive strong shareholder value and return cash to shareholders.

Lastly, as we look beyond 2021, we firmly believe we have demonstrated that our business has structurally improved and well positioned to again build on our record results.

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

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Your first question comes from the line of Susan Maklari with Goldman Sachs.

Susan Maklari

Analyst, Goldman Sachs & Co. LLC

Q

Thank you. Good morning, everyone, and congrats on a good quarter, guys. My first question is around the volumes in North America. It seems like you trailed the industry a bit overall during the quarter. Can you talk to what drove that? And how you're thinking about the back half of the year and the potential to maybe kind of get back to that outperformance we saw in the first quarter and regain some of that market share?

Marc Robert Bitzer

Chairman & Chief Executive Officer, Whirlpool Corp.

A

... Marc. So I think what you basically state here is, on a sequential basis, we were not able to further improve our market share in Q2 in North America, which ultimately comes entirely back to supply chain constraints, which we discussed and which we talked about.

You will probably also ask who was the beneficiary. It's still largely similar what we've seen in Q1. Chinese-based production is a little bit less constrained than, call it, the Americas, and to some extent Europe, and that's still the beneficiary. And as you know, we largely produce in US, what we sell in US.

Having said that, going forward, sequentially, we do expect to gradually increase our shares. I'm saying gradually because the supply chain constraints will not immediately disappear. They gradually get better, but we will be fundamentally faced with the supply constraint for some quarters to come. Now, again, every quarter becoming slightly better.

Susan Maklari

Analyst, Goldman Sachs & Co. LLC

Q

Okay, that's helpful. And then my next question is, in the revised margin guide for this year, you did increase the benefit that you can see in terms of some of the cost reductions and the carryover from last year. Can you just talk to what is driving that? Are there any incremental projects that you're taking on? And what is the potential, going forward, to continue to see some of that benefit coming through?

James W. Peters

Chief Financial Officer & Executive Vice President, Whirlpool Corp.

A

Yeah. And Susan, this is Jim. And kind of like we said at the beginning of the year and you highlighted is that we had approximately \$100 million of just carryover from the prior year, which is about 50 basis points. And then, with additional actions that we've taken, which were more in our normal cost management programs, where we look across the board at different areas of spending, for opportunities to reduce. And think about, typically, on an annual basis, we target between 50 to 150 basis points of incremental cost reduction. And so what we're seeing right now as we improved our guidance for the year is, one, we see some of the programs that we implemented last year as well as early this year delivering more than we expected. And then the second thing that we're seeing on that is we did identify some – but there's no one large opportunity. It's just multiple opportunities that have delivered more than we expected. And then the third thing is we expect to see some of the restructuring benefits increase within the back of the year.

Operator: Your next question comes from the line of Eric Bosshard with Cleveland Research.

Eric Bosshard

Analyst, Cleveland Research Co. LLC

Q

Good morning.

Marc Robert Bitzer

Chairman & Chief Executive Officer, Whirlpool Corp.

A

Good morning, Eric.

James W. Peters

Chief Financial Officer & Executive Vice President, Whirlpool Corp.

A

Good morning.

Eric Bosshard

Analyst, Cleveland Research Co. LLC

Q

Two questions. First of all, in terms of the market share performance, and this is maybe more of a strategic question, as you look out over the next year or two in an environment where promotions at some point will increase a bit, how important is market share performance for you relative to profitability? How are you thinking about managing sort of those two vectors, if you will?

Marc Robert Bitzer

Chairman & Chief Executive Officer, Whirlpool Corp.

A

Eric, it's Marc. First of all, again, on a global level and I'll also put that in context, outside in the US, we feel pretty good about also market share performance in Q2. So, we picked up slightly market share in Europe. We're very

solid in South America and India. We also have a really strong market share position. So, it is predominantly the US production constraints, which kind of didn't allow us to further expand our market share in Q2.

In the long-term, we've got to do both. We've got to deliver strong financial performance while expanding our market share, and we're confident we can do that. Having said that, I think what you particularly need to hold us accountable is the revenue growth, and revenue growth is not always unit market share because where is – with our business model and how we explore it, there are multiple opportunities to get additional revenues beyond the pure unit growth. And that's particularly what you need to focus on. And that's why I also feel very good about what we guided this year with \$22.5 billion, which is a very, very strong organic growth, no matter where you come from. And I would also expect and I would hope for similar growth rates also going forward. Not to the same magnitude this year because you have a baseline effect, but we will go for strong organic growth also going forward.

Eric Bosshard

Analyst, Cleveland Research Co. LLC

Q

Great. And then secondly, you've raised guidance, I think, twice pretty meaningfully. As you take a step back and look at 2021, what has been so notably different than what you thought coming into the year? Obviously, there was, I guess, some degree of uncertainty. But what's been most different in 2021? Is it your execution? Is it how the market has behaved? Can you just talk a bit about that?

Marc Robert Bitzer

Chairman & Chief Executive Officer, Whirlpool Corp.

A

Yeah, and Eric, first of all, every quarter is kind of different, and I think we got a little bit used to that over the last one and a half years that you wake up and there's something new news. But I think fundamentally, it still comes back to on [indiscernible] (00:19:01) side, the massive raw material cost inflation, which frankly was stronger than we expected. On the other hand, I think we got the reading right already in Q1, and you see that because we didn't have to further change it. So I would say we saw that – it's still bad news, but we recognized that earlier probably than most. And two, the recognition that this whole, what I call, this upside-down world with constraints everywhere will last a lot longer than probably everybody was hoping for.

Now, I think the best thing is we recognized that earlier. We adjusted our actions. We took strong actions. And I think this Q2 and the prior quarters demonstrate we can operate very successfully in this upside down environment. And I think that's also why you may see a very different financial performance from us compared to some other players.

James W. Peters

Chief Financial Officer & Executive Vice President, Whirlpool Corp.

A

Yeah. I think the other thing, Eric, and this is Jim, if you just look at market highlights there, as I mentioned earlier, we are seeing more benefits on at least some of the cost takeout areas that we've been able to realize. And additionally, the pricing that we previously announced and took at the end of the first quarter and into the second quarter has been successful in covering off those higher material costs. And so to Marc's point, we did expect materials to be a significant headwind this year. They were larger, but we've really been able to offset it with the go-to-market actions we've taken.

Operator: Your next question comes from the line of Michael Rehaut with JPMorgan.

Michael Rehaut

Analyst, JPMorgan Securities LLC

Hi. Good morning, everyone.

Q

Marc Robert Bitzer

Chairman & Chief Executive Officer, Whirlpool Corp.

Good morning.

A

Michael Rehaut

Analyst, JPMorgan Securities LLC

First, a quick clarification, if I'm able to before I ask my couple of questions here, on the share loss, I don't want to beat it with dead horse. But previously you've noted that you haven't lost any shelf space in North America. And when I say share loss, I mean, obviously, just a slight sequential miss. But from a shelf space standpoint, are things – do things remain stable as you've highlighted previously?

Q

Marc Robert Bitzer

Chairman & Chief Executive Officer, Whirlpool Corp.

Short answer is, absolutely yes. I mean, to give you a little bit more color, Michael, we did not lose floor space period, [ph] which relatively (00:21:12) I think is a reflection. We feel really good about our product portfolio, about the products which we brought to the market with several innovative features. And that just helped us to absolutely protect our floor space, which is a crucial element, because, obviously, it is a little bit of a different challenge if you would have lost floor space and trying to regain market share, but we have the floor space. So, kind of 'dialing up' once you get the production is considerably easier than in other situations. So we feel very good about the floor space, but, yes, we've got to work through resupply constraints.

A

Michael Rehaut

Analyst, JPMorgan Securities LLC

Great, no, that's helpful. And I think it's an important distinction. Just going into the two key questions here. First, you mentioned that you expect raw material inflation to peak in the third quarter. You were positive price cost in the second quarter, noting that your previous price increase is – cost based price increases kind of in effect going into full force mid-year. Can we expect with a higher raw material headwind in the third quarter that price cost might still be positive as your prior price increases also gain momentum, or would it flip negative in the third quarter?

Q

James W. Peters

Chief Financial Officer & Executive Vice President, Whirlpool Corp.

Yeah, Michael. It won't flip negative, but I think you'll begin to see that it will be reduced because, remember, last year, in the back half of the year, as we talked about price/mix, included in there is allowances. And so you began to see the promotional spend come down significantly in the back half of last year. And then, as that tapers off, the impact of that now by middle of this year, the price increases begin to fill that area. And so we don't expect to be – we expect to still be price/mix positive through the back half of the year.

A

Operator: Your next question comes from the line of Sam Darkatsh with Raymond James.

Q

Good morning. This is [ph] Josh (00:23:14) filling in for Sam. Thanks for taking our questions this morning. Congrats on the quarter.

Marc Robert Bitzer

Chairman & Chief Executive Officer, Whirlpool Corp.

Good morning, [ph] Josh. (00:23:19)

A

James W. Peters

Chief Financial Officer & Executive Vice President, Whirlpool Corp.

Morning.

A

Q

Inventories were up fairly sharply in 2Q versus 1Q despite fairly flat sequential sales and supply chain issues. Could you explain what caused that change in inventory? Was it raws or finished goods?

James W. Peters

Chief Financial Officer & Executive Vice President, Whirlpool Corp.

Yeah, and this is Jim. I'd say it's a combination of things, but you have to realize also that we were starting off a very low base of inventory in terms of where we were. So as we've said, around the globe, we're in different states with our supply chain, and some of our supply chains are actually able to keep up with some of the market demand. So we're able to build back some of the inventory, the normal buffers that we have. So I would say it's no one particular area, but it's just the beginning of us in certain countries around the world, beginning to get our inventories back to healthy levels, which we had expected to do. But as Marc would have talked about earlier, from a supply chain perspective in the US, we're still trying to catch up. And we would expect to continue to build small amounts of inventory, go forward.

A

Q

Got it. And your Latin America industry unit guidance of 2% to 4% seems to suggest a substantial drop in second half sales and margin. Do we have our math right on that? And if so, how long might that softness occur, and given that much of demand may have been stimulus driven?

Marc Robert Bitzer

Chairman & Chief Executive Officer, Whirlpool Corp.

[ph] Josh, (00:24:37) I can take it. I think your observation is correct. I mean, I would say Latin America has surprised us to be positive over the last several quarters relative to what everybody was expecting. And at this point, we certainly can't exclude that they will beat that number easily and to be very transparent. So – and again, as you know, these markets are a little bit more volatile than some of the North American or European markets, but right now, you have to – right now, we have strong momentum. There is a little bit more caution going forward because you're also comping some pretty big numbers in all transparency. But right now, so far, we've seen strength out of both Brazil and Mexico with some plus or minus. So long story short, there could be an upside revision on that guidance, volume guidance for Latin America.

A

Operator: Your next question comes from the line of David MacGregor from Longbow Research.

David S. MacGregor

Analyst, Longbow Research LLC

Yes, good morning.

Q

Marc Robert Bitzer

Chairman & Chief Executive Officer, Whirlpool Corp.

Good morning, David.

A

David S. MacGregor

Analyst, Longbow Research LLC

Congratulations on a good quarter. Yeah. Let me just start off by just looking at your free cash flow, which is obviously very strong and you've got some asset sales in there as well, but still really strong underlying cash generation. I wanted to ask you about inorganic growth, and just where M&A may stand right now in terms of priority for the capital allocation strategy. And your competitor on their call this quarter was calling a fact that there just isn't a lot to buy out there right, that it's kind of quite. So I just, I guess, wanted to just sort of take your temperature on how does your funnel look? I know you run a gated process there, but where do things stand on development and just where M&A may stand as a priority right now?

Q

Marc Robert Bitzer

Chairman & Chief Executive Officer, Whirlpool Corp.

Yeah. David, it's Marc, and maybe also Jim should chime in later on. So first of all, let me zoom up before we talk about M&A capital allocation. Our capital allocation policy and guidance is unchanged. And by the way, that's why we included in all clarity on every earnings call in the presentation. So, first priority is always fund the business. We are investing capital slightly more than the prior two years, part of that is capacity expansion, part of that is new product. So that takes a little bit. We also know, as you know, in April, we increased dividends for the ninth consecutive year, and that should be also capital allocation priority going forward and will be. And we kind of – we refinanced that. We didn't pay down massive debts, and right now, we have a pretty healthy cash balance. So, which then obviously [ph] lead some question (00:27:19) what do you do with the additional capacity which we have, one, and Jim alluded to this one earlier in his prepared remarks, is we are kind of – the second half will be higher on the share buybacks than the first half. Jim mentioned the number of \$300 million plus, and we can debate about how big the plus will be, but that's – right now, we just consider our company both on past performance and performance which we guide to and what we consider our long-range plan, it's – our company's a good investment. And that's why we're dialing up with share buybacks. And M&A is – we always said, it's certainly, by definition, opportunistic. We have certain targets on our list, but these targets need to be available and they also need to be available at a justifiable price, which is not always a given. Obviously, this is the wrong forum to talk about some immediate M&A and there's nothing imminent to be clear. But I would just say a strong balance sheet gives you optionality, and that's a good thing and that's a situation which we're in, but we are – these optionality will not make us unnecessarily trigger-happy. So we'll be very prudent in how we take certain capital allocation decisions.

A

James W. Peters

Chief Financial Officer & Executive Vice President, Whirlpool Corp.

A

Yeah. David, this is Jim. And just to echo what Marc has said is, the criteria that we use to evaluate potential acquisitions have not changed. And – but what we have done is we positioned ourselves as a company, both from a balance sheet strength perspective and from a having the integration of previous acquisitions behind us and those businesses on the right trajectory in terms of performance, we've positioned ourselves to be ready and able if the right opportunity would come along at some point in time.

David S. MacGregor

Analyst, Longbow Research LLC

Q

Good, thanks for that answer. As a follow-up question, I guess, I want to talk a little about Europe and maybe specifically, if we could talk a little about the pricing environment over there. Again, your competitor called out the fact that pricing had been rather slight in the first half, slightly positive and that they expected a much more pronounced pricing benefit in the second half. So just wondering if you concur with that view. And as well, just thinking about 2022 in Europe, if demand was flat, would you still be more profitable than you were in 2021, just based off all the other initiatives that you've implemented?

Marc Robert Bitzer

Chairman & Chief Executive Officer, Whirlpool Corp.

A

And David, it's Marc again. Let me try to split it in two pieces on pricing and more of a long-term margin development in Europe. So I can't speak for our competitors. I can speak for ourselves. We – as I mentioned before, we did recognize the significant inflationary pressures coming at us probably early than everyone's, okay? As a consequence, we had to make the decisions, which we ultimately communicated. If you have this cost coming at you, you can't mitigate it, you have to raise prices. That's a decision which we've taken already early in the year, and we communicated. And consequently, we basically raised prices in most parts of the world, but also obviously in Europe, not only once, but in some cases, even twice. So we – and the good thing is what we communicated, we implemented, and we start seeing the benefits. To be clear, not yet all of that because some of that will fully materialize in Q3. But what we communicated, we implemented.

So, again, if you would look at whatever reliable market data you have either in Europe or in other parts of the world, you probably would come to the conclusion that we're a little bit ahead of the competition and just facing that reality.

Now, with regards to the long-term margin development, I would say Europe is exactly where we wanted to have it from a turnaround plan. We said this year will be around 2.5% operating margin. And we also indicated, next year, you should probably expect around 4%. And that's just consistent with our trajectory, which we forecast for Europe. And I'm pleased that they're delivering despite all the ins and outs, which we have on inflation and everything else.

So I feel very good about where we are from a long-term turnaround and the long-term value creation scenario for Europe, and it's right now consistent with what we communicated to you a couple of quarters ago.

James W. Peters

Chief Financial Officer & Executive Vice President, Whirlpool Corp.

A

Yeah. And I think, David, just to add to that, I think some of the continuing cost benefits that we'll see within EMEA as those – as we continue to drive our cost savings programs there, we'll see more benefits in the back half of the year into next year. And additionally, you said, even without volume gain, we still expect to improve the mix there. And that's another thing that we've talked about is a lot of our product investments there have been to ensure that we improve our mix and grow our share of the built-in market there.

Operator: Your next question comes from the line of Ken Zener with KeyBanc.

Kenneth Zener

Analyst, KeyBanc Capital Markets, Inc.

Good morning, everybody.

Q

James W. Peters

Chief Financial Officer & Executive Vice President, Whirlpool Corp.

Good morning, Ken.

A

Marc Robert Bitzer

Chairman & Chief Executive Officer, Whirlpool Corp.

Good morning, Ken.

A

Kenneth Zener

Analyst, KeyBanc Capital Markets, Inc.

What a year. A couple of questions about, first, on raw material. It's a twofold question. But so you – I think people were surprised that with steel moving up, you had anticipated that generally, the assumption given your guidance. Were there any different tools that you kind of deployed to understand that? Or what gave you that confidence to assume steel prices or what are your insight, I guess, it's led to your proper thinking early, and the implication of that into FY 2022, because you said that raw material pricing is not going to peak until the third quarter? As I look out into our FY 2022 estimate, it seems logical to assume that you'll have quite a bit of this pricing still in. How should we think about that, those two components of raw material and the price you pursued to get it?

Q

Marc Robert Bitzer

Chairman & Chief Executive Officer, Whirlpool Corp.

So, Ken, maybe let me try to take a stab at your question. So first of all, on raw material and steel specifically, I mean in all transparency, compared to what we thought last year, November, we would be, we were somewhat surprised by the magnitude of raw material increase. But then, frankly, as you know from last earnings call, we saw that picture pretty much in February, and it's since stabilized, which, again, was a little bit earlier probably than most saw it. You're also right, steel is just a big part of our cost base and that's where we saw a significant portion of the raw material, not everything, because we also saw on resins and logistic costs, but significant portion.

A

To answer your question about how did you know, I mean, it basically comes back to data and experience, okay. It's not that we started buying steel this year. We've done that for about 109 or 110 years. So we know steel, [ph] virtually experienced, (00:34:05) but we also have a lot of data. And we have – we know the cost model by steel mill everywhere, we know what our contracts are, we know how they're running. But having said that, the steel market is always – there's a spot element to it, there's a structural element. So you've still got to take several [ph] faction (00:34:22) into account. And it will – despite our abilities, will still always include some surprises. But right now, I think where the steel market right now is, this is pretty much where we unfortunately "forecasted" it will be.

James W. Peters

Chief Financial Officer & Executive Vice President, Whirlpool Corp.

Yeah. And then maybe to the second part of your question about as you look towards next year, yes, with the peaking in the third quarter, obviously, there could be some incremental materials, but we've also taken a lot of

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the pricing we've taken, we've implemented throughout Q2 here. And so there also will be continuing pricing benefits as we go into next year to offset those continuing material headwinds.

Kenneth Zener

Analyst, KeyBanc Capital Markets, Inc.



Good. Yeah, it seems like you guys always get too little credit for your raw material management. I guess just stepping back, given the – obviously, sales went up in North America, supply constraints are more persistent. So if you could just kind of address why you think that the supply constraints have remained? Is it just a function of higher demand? And then, as that relates to your margin, which I think, historically, you guys have talked about 15% incremental on revenue, it's obviously higher, which I assume is a direct connection of higher demand, tight supply, i.e. low promotional activities because you guys were looking more for a 14% margin in the back half, which are now higher. Could you talk to your view, if that's the proper logic, that margins were up because of lower promotions and demand, if you see that normalizing really into next year, just so we have a little better sense of that thinking right now as it relates to the promotional activity and that supply constraint? Thank you very much.

Marc Robert Bitzer

Chairman & Chief Executive Officer, Whirlpool Corp.



So, Ken, let me also split in two pieces in my answer. One is what you call the normal. And the first one is more why we think the supply constraints will last and what the source of that is. The supply constraints are fundamentally driven by similar elements as we've seen in prior quarters, with now a slightly different emphasis on one item in particular. Fundamentally, you talk about three issues: labor shortages, broader component shortages, because other suppliers also have labor shortages, other issues in the factory. And thirdly, very specifically was either resins, because of the Texas storm and semiconductors. These are the fundamental sources.

Now, in the first quarter, it was predominantly broader components, labor shortage and resins. In the second quarter, we saw more and more of a semiconductor, while other – some of the other sources kind of got less and less.

Having said that, all of that will be around us for some time. I think the labor shortages are increasingly manageable. I think the other component shortage get less. But the semiconductor challenges will not go away anytime soon. I think you may see that well into 2022. And again, it's difficult to forecast, but that's not going to go away short term.

Now, which leads me then to the broader comment, and many of you have commented or asked about the new normal or normalized or whatever you want to call it. And I think the two messages which I really want to pass on is, one is whatever the new normal is, it will happen a lot later than most people assume. We always – I understand what everybody hopes for a new normal to be next quarter, it's not going to be. So this environment in which we are right now successfully operating will be around us for a lot longer than most people assume.

Two, in our specific case, and I hope you have seen this one, our new normal will look very different from a previous normal because we've taken structural fixed cost actions, consumer preference has shifted, certain business models around e-commerce have changed. Our new normal will be not comparable to the pre-COVID normal. So I know that was a broader comment, but I think it's important to make that point here.

Operator: Your next question comes from the line of Curtis Nagle with Bank of America.

Curtis Nagle

Analyst, BofA Securities, Inc.



Great. Thanks very much. Most of my questions have been asked, but maybe I'll just – just a follow-up. So just sticking on the margin question, Marc. So I think the math is 19% in the first half, I think about 15% implied in the second half, given the 17% or so for the full year. I guess why would it be kind of materially lower? Like, you've just kind of gone through a lot of this, demand expectations are pretty good. The promotion's probably not coming back certainly in any material way. You've got pricing offsetting inflation. So what – I guess, what am I missing? And I'm not saying you're to put up like a 19% margin, of course, but it is a big difference, I guess. So what am I missing?

James W. Peters

Chief Financial Officer & Executive Vice President, Whirlpool Corp.



Yeah, and Curt, this is Jim. I'd say, as you kind of step back from it to begin with, we're extremely happy with our North America margins. And we did say that, as you look at this material costs, with there, we benefited from a lower promotional environment for a period of time and now we're getting the benefits from pricing, but we did talk about that materials would eventually hit a peak within Q3. And so...

Curtis Nagle

Analyst, BofA Securities, Inc.



Yeah.

James W. Peters

Chief Financial Officer & Executive Vice President, Whirlpool Corp.



... that's the big difference as you look at the first quarter, second quarter and third quarter, and that's where it begins to really hit, that the two go into equilibrium. So that – I don't think you're necessarily missing anything. It's just the timing of as material cost increases begin to come in. And that's what we expect for the full year. And obviously, this is with – as we talked about with the demand and the supply chain constraints there, too, is it's really critical for us is just trying to increase our capacity within there because that's also what will help our margins structurally go forward in the back half of the year.

Curtis Nagle

Analyst, BofA Securities, Inc.



Okay. And then – yeah, go ahead.

Marc Robert Bitzer

Chairman & Chief Executive Officer, Whirlpool Corp.



Curt, just – maybe just one comment in addition to Jim. And again, zooming out from a pure margin question, again, just look at the EPS and the guidance which we've given, which basically implies in the back half, we're basically guiding towards \$6 a quarter. That is – I mean, we didn't have a lot of a \$6 quarters in our history. Actually, they all happened pretty much in the last one or two years. So there is no deterioration. This is a very, very strong absolute EPS performance in the back half. So there is no slowdown, and we feel very good about where the business is right now running on all fronts.

Curtis Nagle

Analyst, BofA Securities, Inc.



Yeah. No, fair enough. And maybe just kind of a quick verification, just going back on the raw mats question. So, yeah, I totally understand and appreciate you guys are quite good at managing and, I guess, anticipating cost increases. But just looking at like steel, I suppose, right, I think the 28% higher at least for hot-rolled steel. I know that's not exactly what you use in terms of your production, but they're 20% higher from April. Did you just anticipate that and that's why you're not increasing from \$1 billion? Is it limited by the [ph] collars? (00:41:33)
What – how should I think about that?

Marc Robert Bitzer

Chairman & Chief Executive Officer, Whirlpool Corp.

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Curtis, again, we anticipated structural pricing trends on the steel, now – but week by week, spot prices, that's driven by a lot of other factors. Sometimes the short-term availability, et cetera. So I'm not reading too much into this published CRU spot price because they're not – in our view, not necessarily indicative of long-term pricing trends. But having said that, there's still long-term trends point upwards. And I know you guys already probably want to know what's for 2022, we don't know and we don't communicate fully until we have the earnings call. But I would say, if current trends persist, there will be a carryover of inflation into next year. And we should – I mean at the appropriate point, we will quantify how much of a carryover will be there.

Operator: Your next question comes from the line of Mike Dahl with RBC Capital Markets

Christopher Kalata

Analyst, RBC Capital Markets LLC

Q

Hi. This is actually Chris Kalata on for Mike. Thanks for taking my questions. So my first question, I just wanted to follow up on the net cost benefit you're expecting particularly in the back half of the year, even with the increase to the full year, it seems like given the strength to date, that would inflect or imply an inflection to a headwind in the back half of the year. Is that just conservative? And what's driving that?

James W. Peters

Chief Financial Officer & Executive Vice President, Whirlpool Corp.

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No, I'd say the big thing you got to look at in the first half of the year, especially in the second quarter, you got a benefit from production being increased across the globe. Think about the second quarter of last year. We had factories that were either shut down or slowed down due to COVID restrictions in many parts of the world. Now, when you get into the back half of this year, the factories were up and running at full speed during that time period. So you're not getting necessarily the volume leverage benefits year-over-year that you would have seen before.

Additionally, within there, as we look at some of the other costs that have increased, while we've increased some of our cost-saving initiatives, when you look year-over-year in the back half of the year, you do have other things such as labor costs and transportation costs that still do provide a little bit of a headwind from that perspective. But the biggest driver is just the volume leverage as you look at it comparing 2020 to 2021.

Christopher Kalata

Analyst, RBC Capital Markets LLC

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Got it. That makes sense. And just for my follow-up, just going back to the supply constraints. In addition to the unit drag from component shortages, has there been any mix headwind to associate with these challenges? I think a competitor call out that the semiconductor shortage was particularly impactful for their higher-priced appliances. Is that something you guys are seeing or incorporating in your forward outlook?

Marc Robert Bitzer

Chairman & Chief Executive Officer, Whirlpool Corp.

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Without getting into the details about where exactly semiconductor end up with, but, of course – it's not like – and that's a misperception out there. It's not like one semiconductor fits every single SKU. I mean, that will be nice if they're all universal applicable and you can move them just from left to right. Of course, you are sometimes hit by specific ones and where we had the shortages either because of a factory fire in Japan or prior in Texas, they sometimes hit your product groups, which you didn't want to hit, et cetera, so that's – but that's just in the nature of these extremely supply chain constraints. But it's not like you can move very easily semiconductors from one place to another because sometimes very, very highly specified to – according to the specific application of that product.

Marc Robert Bitzer

Chairman & Chief Executive Officer, Whirlpool Corp.

So let me maybe just wrap up here, given that we're kind of coming to the end of the questions. First of all, I appreciate you all joining. Good questions. And obviously, we're available for follow-up. I just want to recap, as you've seen, we had truly outstanding results in Q2 as we had truly outstanding results in the prior quarters, and we're guiding towards outstanding results in the back half of the year. So we feel very good about where we are from financial performance. As evidenced by your questions, we're living in what I call an upside down world. And I think that will be around us for some time to come. But I think we absolutely have demonstrated we are able and capable to perform very successfully in this upside down environment, which ultimately, it's a testimony of our agility, but also the resilience of our business model.

So we feel very good where we are, we feel very good about our future, and looking forward to talk to you either next earning call or in between. Thanks a lot.

Operator: Ladies and gentlemen, that does conclude today's conference call. You may now disconnect.

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