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Whirlpool Corp. (WHR)

Q2 2022 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning, and welcome to Whirlpool Corporation's Second Quarter 2022 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

Senior Director-Investor Relations, Whirlpool Corp.

Thank you, and welcome to our second quarter conference call. Joining me today are Marc Bitzer, our Chairman and Chief Executive Officer; Jim Peters, our Chief Financial Officer; and Joe Liotine, our Chief Operating 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-K, 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 with a better baseline for analyzing trends in our ongoing business operations.

Additionally, price increases or pricing actions referenced throughout this call reflect previously announced cost-based price increases. 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 our 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 I get into the results of the quarter, I'd like to step back and share with you the progress that we're making structurally improving Whirlpool for the better. We have a clear line of sight on the long-term success of the business and on driving shareholder value. Whirlpool has become a stronger entity today versus historically. We operate in healthy, long-term growing markets and our long-term growth outlook remains unchanged. Our brands are strong and consumers use them daily and will use them even more in the future.

Based on the initiatives that we are taking, Whirlpool will exit the current and temporary industry headwinds at our highest operating performance. Likewise, we're focused on simplifying and transforming our business portfolio through pruning of underperforming assets by investing in high-margin businesses. We are operating in unprecedented times, but thanks to our strong balance sheet, transformation efforts and the hard work of the team, Whirlpool continues to perform better today than in past, and we'll see record performance over the medium term.

Today, we will discuss our second quarter results and highlight how we continue to successfully manage our business despite near-term pressures, while at the same time, remaining focused on delivering towards our value creation goals over long term. We are operating in a dynamic world marked by rapid cost inflation, a war and geopolitical tensions, as well as broader economic uncertainty and a subsequent negative impact on consumer sentiment.

Throughout the past years, we have demonstrated that we take needed actions early and decisively, and we have done so again in the second quarter. We're confident in the actions we've taken to mitigate industry headwinds, including our focus on enhanced operating margins with strong global cost-based pricing and broad cost reduction initiatives throughout the world. And our strong margins, not only in Q2, are evidence that these initiatives are working. We are prepared for our near-term pressures and remain focused on delivering over long term regardless of the circumstances.

Turning to slide 4, I will review our second quarter results. Our performance this quarter showed yet again some of our best results ever. I'm convinced that we have built a new Whirlpool that is stronger and better prepared for the future. In particular, we delivered solid ongoing EPS of \$5.97 and 9% ongoing EBIT margins, with ongoing EPS approximately 50% better than the second quarter of 2019, even in the face of historic levels of cost inflation and a demand slowdown.

We experienced mid-single digit to double-digit demand slowdown in key countries in the second quarter alongside a rapidly strengthening dollar, and yet we impressively delivered relatively stable revenue of down 2%

excluding the impact of currency. Even more impressive, North America delivered over 14% margins, demonstrating the structurally higher profit levels of the region.

Next, with the confidence we have in our business and the strength of our balance sheet, we continued to fund innovation growth, while returning approximately \$400 million to shareholders in the quarter. Additionally, we signed an agreement for the divestiture of Whirlpool Russia business, triggering \$747 million of one-time almost entirely non-cash charges. We expect the Russia sale to close in the third quarter and we believe it to be the best course of action for our employees, shareholders and overall business.

Lastly, the near-term impact on demand from consumer sentiment led us to revise our full year ongoing EPS guidance to \$22 to \$24. However, to put it into context, this guidance represents the second highest full year ongoing EPS in the history of the company, despite inflation running at 40-year highs and the additional headwinds that we've been discussing. Our free cash flow guidance of \$1.25 billion remains unchanged. Again, we are confident in the actions we have in place to manage the near-term pressures by remaining focused on delivering over long term.

Turning to slide 5, we show the drivers of our second quarter EBIT margin. Led by our fully executed cost-based price actions across the globe, we successfully delivered positive price/mix, resulting in 675 basis points of margin expansion. Net cost negatively impacted our margin by 175 basis points, largely driven by increased logistics and energy costs, alongside operational inefficiencies from supply disruptions. Lastly, and in line with our expectations, raw material inflation continues to be a significant headwind, negatively impacting margins by 750 basis points. This is a very solid performance, addressing the challenging environment and delivering operating margin of 9%.

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

Joseph T. Liotine

President & Chief Operating Officer, Whirlpool Corp.

Thanks, Marc, and good morning, everyone. Turning to slide 7, I'll review the results for our North American region. In the quarter, the industry continued to be negatively impacted by softening consumer sentiment alongside the constrained supply chain. The industry slowdown we experienced in the second quarter was greater than expected. However, as we implemented operational improvements, we realized sequential share gains, as our share position improved throughout the quarter. We believe the fundamental strength of consumer demand trends remain intact, as we continue to see elevated cooking appliance usage over 2 times above pre-pandemic levels.

We were able to largely offset the negative impact of the industry decline with the strong execution of cost-based price increases. We delivered 14.1% EBIT margins despite inflationary pressures alongside the negative impact of operational inefficiencies, and temporary volume deleveraging. We remain confident in the strength of our business and our ability to deliver strong results in any environment.

Turning to slide 8, I'll review results for Europe, Middle East and Africa region. The revenue decline was largely attributed to reduced volume, which was negatively impacted by the war in Ukraine, including our operations in Russia slowing to a near shutdown. Excluding currency, the region's revenue declined by approximately 10%.

[ph] Through some (00:08:34) strong execution of pricing actions drove 270 basis points of sequential margin expansion, but was more than offset by lower volumes and cost inflation, resulting in the EBIT margin contraction of 2.3 points in the quarter.

Next, as part of our strategic review of EMEA, we announced the pending divestiture of our Russia business. This is a stand-alone business with localized production and sales offices, positioning it well to be sold as a unique entity. We continue to expect to conclude the strategic review of our EMEA business by the end of the third quarter.

Turning to slide 9, I'll provide additional detail regarding the pending sale of our Russia business. In June, we entered into a share purchase agreement to sell our Whirlpool Russia business. We expect the sale to conclude in the third quarter, subject to customary closing conditions.

As a result of this transaction, we recorded \$747 million of non-recurring, primarily non-cash charges, including \$346 million, primarily associated with the write-down of Russia assets, which triggered a comprehensive assessment, resulting in a \$384 million goodwill and intangible asset impairment in the EMEA region.

We are pleased with our team's ability to navigate and find a solution that furthers our portfolio transformation and represents the best course of action for our employees located in Russia.

Turning to slide 10, I'll review results for our Latin America region. Net sales growth of 3%, driven by strong execution of cost-based price increases, fully offsetting expected industry softness. The region delivered strong EBIT margins of 7.2%, once again demonstrating the consistency in which this region delivers results in any environment.

Turning to slide 11, I'll review our Asia region. Revenue growth of 26% is largely attributed to higher volumes in India, as the region was impacted by COVID-related shutdowns in the prior-year period. The region delivered a significant EBIT improvement of \$19 million, resulting in EBIT margins of 6.8%, driven by cost-based pricing actions and higher volumes, fully offsetting cost inflation.

Now, on slide 12, I'll turn it over to Jim to discuss our full year 2022 guidance.

James W. Peters

Chief Financial Officer & Executive Vice President, Whirlpool Corp.

Thanks, Joe, and good morning, everyone. Now, turning to slide 13, I'll review our updated guidance for 2022. We have revised our full year guidance to reflect the larger-than-expected industry slowdown. While there is no change to our expectation for long-term growth, including a robust multiyear appliance demand outlook, we have adjusted our 2022 guidance to reflect the current environment. As a result, we now expect a revenue contraction of approximately 5% to 6% and ongoing EBIT margins of approximately 9% for the year. This represents a full year ongoing EPS range of \$22 to \$24. Next, we continue to expect to generate significant free cash flow of approximately \$1.25 billion or around 6% of net sales.

Turning to slide 14, we show the drivers of our full year ongoing EBIT margin guidance. We have increased our expectation of negative net cost by 50 basis points to a negative 150 basis points, reflecting the added inefficiencies resulting from temporarily reduced volumes and additional logistic and energy costs. Next, with the strengthening of the dollar, we now expect a negative currency impact of 25 basis points, driven primarily by Brazil and India. All other drivers remain unchanged, including our expectations of previously announced cost-based price actions driving 725 basis points of margin, fully offsetting raw material inflation, which we expect to peak in the second and third quarters. We are confident that we have the right actions in place to deliver approximately 9% ongoing EBIT margin.

Turning to slide 15, we show our regional guidance for the year. We are reducing our global growth expectations to negative 6% to negative 4%, reflecting updated industry expectations for North America in 2022. In North America, our near-term growth expectations are negative 7% to negative 5%, with a second half industry performance in line with the second quarter.

Looking beyond 2022, we remain confident in the fundamentals of the demand environment for North America, supported by: one, broader home nesting trends; two, an undersupplied housing market; three, a strong replacement cycle; and four, continued elevated levels of consumer engagement with our appliances.

Regarding our EBIT guidance, we expect North America to deliver approximately 15% EBIT margin, which remains in line with our long-term expectations for the region. Our industry and EBIT margin expectations for EMEA, Latin America and Asia remain unchanged.

Turning to slide 16, we will discuss the drivers of our 2022 free cash flow. We continue to expect to generate significant free cash flow of \$1.25 billion, with cash earnings of approximately \$2 billion and a modest level of inventory supply recovery, while funding innovation through our capital investments. These investments are in line with our target of approximately 3% of net sales.

This supports our planned introduction of over 100 new products this year, including our newly launched Shave Ice Attachment in time for summer as we create new ways for our consumers to engage with our iconic KitchenAid stand mixer.

Lastly, we anticipate minimal cash outlays related to restructuring, as these actions have been largely completed. This performance, along with our strong balance sheet, positions us with significant optionality and flexibility. We repurchased approximately \$300 million of our stock in the second quarter, bringing us to over \$800 million year-to-date. We are on track to return \$1.5 billion in buybacks and dividends to shareholders in 2022.

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

Marc Robert Bitzer

Chairman & Chief Executive Officer, Whirlpool Corp.

Thank you, Jim. And let me recap what you heard over the past few minutes. We have the right global actions in place to deliver strong second half. Our raw material inflation expectations remain unchanged, and we do expect raw material inflation to peak in the second and third quarter.

Our previously announced cost-based price increase have been fully executed. And we expect to exit the year with our existing pricing actions fully offsetting raw material inflation. Additional cost actions, including hiring freezes, have already been initiated. We are prepared and expect to successfully navigate a near-term industry slowdown in 2022.

The long-term fundamental strength in consumer demand remains unchanged. Consumers continue to use their appliance at an elevated rate, alongside strong replacement demand and an undersupplied housing market.

We are progressing in our portfolio transformation, focusing on high-growth, high-margin businesses. We're very pleased with the divestiture of our Russia business and expect to conclude our strategic review of Europe within the next few months.

Lastly, we are on track to return approximately \$1.5 billion in cash to shareholders in 2022. And we have reduced our outstanding share count by over 10% in the last four quarters alone. These actions demonstrate our confidence in the sustainability of our high margin and strong cash-generating business and our commitment to creating shareholder value.

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

QUESTION AND ANSWER SECTION

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

Michael Rehaut

Analyst, JPMorgan Securities LLC

Q

Thanks. Good morning, everyone.

Marc Robert Bitzer

Chairman & Chief Executive Officer, Whirlpool Corp.

A

[ph] Good morning, Mike (00:17:26).

Michael Rehaut

Analyst, JPMorgan Securities LLC

Q

I wanted to focus first on North America. And obviously, the big driver of the change in guidance is part and parcel of the second quarter, but also the back half. What do you see in terms of – it's a pretty decent drop-off in the full year expectations. I was hoping to get a little more granular in terms of what you think is driving that relative to your prior expectations. And also, encouragingly, how you think about the share going forward, your own share? You mentioned the sequential gain, which is important, obviously, given some of the losses over the past 18 months, and how that might progress as well.

Marc Robert Bitzer

Chairman & Chief Executive Officer, Whirlpool Corp.

A

So, Michael, it's Marc. Good morning, and obviously that was multiple questions in one question. Let me still try to address them. Let me first talk about North America demand, and Joe should probably also add some color. Michael, what we're seeing is, basically, call it, two trends going on at the same time. There's a long-term trend, which, as Jim alluded to, we see very positive. The long-term trend, the positivity is driven by replacement cycle, which is favorable, high usage of appliance, a structurally undersupplied housing market. So, all these factors remain intact. And you can't be in denial about this fundamental [ph] pause (00:18:56) of long-term trend.

There's a short-term trend, which is kind of overriding that right now. What we did see in pretty much around the late-April-May timeframe, a pretty strong drop in consumer demand, which is ultimately driven with consumer sentiment dropping off. And we all know it. I mean, it's consumers – it's not that consumers have no cash available, I think, versus disposable income. It's the consumer sentiment driven by inflation, all the bad news around war and the pandemic, which is still not behind us. That together dropped – or led to a significant drop of consumer sentiment, impacting demand.

We do not see [ph] those (00:19:40) fundamentals of consumer sentiment going away probably for year-end, because the fundamental drivers between inflation, war and probably upcoming midterm elections don't help consumer sentiment probably pretty much until November. Maybe towards the year-end, we see something more positive. But again, that has not changed our outlook what it means for 2023, 2024 in terms of long-term demand, and we continue to remain bullish on the long-term demand trends.

Now, when it comes to share, as we alluded in our prepared remarks, Q2 saw a small sequential gain over Q1. Or put it differently, pretty much if you look at Q3 last year, Q4, Q1 and Q2, it's pretty steady, with a slight, slight increase towards the end of Q2. So, in a certain way, we stabilized the share. But in all transparency, we have not regained the share which – compared to pre-pandemic. It's – however, with supply chain constraints becoming less of an issue, we're confident that we can make progress in this dimension going forward.

Joseph T. Liotine

President & Chief Operating Officer, Whirlpool Corp.

A

And this is Joe, maybe just to build on comments from Marc. In the back half, we do have some upcoming launches that we're excited about that will help spur some growth. In addition to the comments Marc made, we really saw the sentiment impact, the promotional period and holiday period in Q2. And so, that was the factor that contributed to our outlook changing for the back half. But if we look at the fundamentals, that still remains in a very positive light. And so, our outlook there remains as it has been, but the back half really is where the increased sentiment depression occurred.

Michael Rehaut

Analyst, JPMorgan Securities LLC

Q

Okay. And I appreciate that. And maybe just as a follow-on, Joe, you kind of hit on promotions there. And it would be very helpful, I think, to kind of unpack the drivers of reducing the North American margin guidance from 16% to 15%. I know in the margin walk, you talked about \$0.25 billion, I believe, in non-structural efficiencies and temporary volume deleveraging. But you just mentioned, Joe, in your remarks that you referred to promotions. I'd love to get a sense of the price environment today, if that's holding, if promotions are increasing. And that's part of the reduction in EBIT margin guidance for the region, or is it more volume inefficiencies and deleveraging?

Joseph T. Liotine

President & Chief Operating Officer, Whirlpool Corp.

A

Yeah, Michael, maybe just to clarify a comment, I was referring to the promotional period, the holiday period, less about promotion themselves. But as you know, we have shared that our price, margin and mix all is kind of fully on track and has kind of offset of the [ph] RMI (00:22:46) and we expect that to continue for the rest of the year. So, we feel that, that really is – as stated previously, the deleveraging is kind of what we were talking about in terms of impacting margins and also the inefficiencies as a consequence of some of that lower volume. That really kind of is the new news that occurred in Q2. So, maybe just separating the two.

From a price and promotion standpoint, I think we've over many, many years and quarters demonstrated a high ability to manage that space, only participate when ROI positive or a positive returns for the company. So, I think that approach, that mentality, nothing's really changed there from a company standpoint. We expect to do that and manage that well no matter what the environment is.

Marc Robert Bitzer

Chairman & Chief Executive Officer, Whirlpool Corp.

A

And Michael, just – it's Marc again. Just to add to Joe's comments, and I would refer to page 14 of our presentation where we basically show the margin walk in prior guidance and current guidance. [indiscernible] (00:23:43) by definition, it's very similar to North America. So, what we show there that we did not change our pricing assumptions in the margin walk, which probably answers already the big question.

Of course, there will be always some promotions, but nothing has changed versus our prior outlook in terms of how much we think we can get from price/mix. To Joe's point, the slight margin drop is largely coming from volume deleveraging because we have to adjust inventories in line with market demand, and that is just – has a certain cost associated with that volume deleveraging and some temporary costs, which we're pretty convinced will go away in the short term. So – and yeah, so that's the difference in margin walk.

Now, to see the positive, and again, we should put that always in context. With 9% margin in Q2, and that is in an environment where we had a 40-year high in inflation and market demand being down, that tells you a lot about the resilience of this business, and North America at 14% in that environment, I think, speaks to the health and the structural [ph] changes (00:24:48) of our business.

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

Sam Darkatsh

Analyst, Raymond James & Associates, Inc.

Q

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

Marc Robert Bitzer

Chairman & Chief Executive Officer, Whirlpool Corp.

A

Good morning, Sam.

Joseph T. Liotine

President & Chief Operating Officer, Whirlpool Corp.

A

Good morning, Sam.

Sam Darkatsh

Analyst, Raymond James & Associates, Inc.

Q

So, I'll ask the million-dollar question, I suppose, regarding the EMEA strategic review process. I know you mentioned that you're expecting to conclude the review by the end of the third quarter. It was notable at least to me that it's not at least yet listed in disc-ops. So, I'm just trying to get a sense of your view of the likelihood of a sale in light of the idea that European demand is weakening, the financing markets and the capital markets are also, to an extent, tightening up and FX is a pressure. So, how has this evolved in terms of your expectation to consummate a sale that would be of your liking?

James W. Peters

Chief Financial Officer & Executive Vice President, Whirlpool Corp.

A

Sam, and this is Jim, and I'll start and then Marc or Joe could chime in. But to begin with, as we said last quarter, we expect the process to go through the third quarter. And after that, we'll talk further about it. And right now, we're in the middle of the process. And so, within this quarter, and as we mentioned in our remarks earlier, we did at least reach an agreement to divest of our Russia business, which was a necessary step considering the

sanctions and the environment that we were trying to operate in. And that is a progression along the path in terms of our strategic assessment here.

Now, when you asked about the accounting for to putting it in discontinued ops, because we're not at a point where we have a definitive answer to give yet in terms of the situation and many options are open, it wouldn't be the appropriate time. But we did move Russia into held-for-sale because we do have an arrangement there. So, that's where we are today. And I don't know if there's any more that we can really share on this until we get past the third quarter.

Marc Robert Bitzer

Chairman & Chief Executive Officer, Whirlpool Corp.

A

Yeah, Sam, maybe just adding to this one. As we indicated in the April earnings call, we're looking all options. And just to be clarified, the options on the table are anything from selling the business to partial sale, to keeping the business. Now keeping the business, I would have to [ph] qualify, and as is, is (00:27:07) not really the option. Keeping the business will be a reduced footprint or a different [indiscernible] (00:27:14) Europe, but pretty much all options on the table. But in this point, it will be pure speculation to say what the likely outcome is.

To Jim's point, the only change we had in the quarter, we originally assumed that Russia will be part of a broader review, but given all the environment which we're well aware of, we had to decouple that and move on the Russia transaction earlier. But as we stated before, we do expect by the end of Q3 to kind of pretty much come to a conclusion of our strategic review.

Sam Darkatsh

Analyst, Raymond James & Associates, Inc.

Q

My second question, mathematically, it looks like your guidance for pricing year-on-year is going to be better in the second half than in the first half by about 1 point or 2 point. Just trying to get a sense of how much of that sequential improvement is just the timing of first half pricing rollover, how much of that is from incremental pricing on the [ph] comp (00:28:10)? And I know you mentioned a little bit of promotional, but is there – specifically, is there any anticipated promotional leakage? Thanks.

Joseph T. Liotine

President & Chief Operating Officer, Whirlpool Corp.

A

Hey, Sam, this is Joe. Just in response to that, yeah, there's obviously multiple things going on. There is rolling over of pricing actions taken earlier in the year that kind of roll in. There was additional pricing actions across the globe in different countries taken in Q2, also kind of factoring in and kind of ramping up as they come on. So, that's kind of essentially what you're seeing.

From a pricing promotional standpoint, as we touched on earlier, obviously, that is very different than, I'll say, years ago, and we expect that to remain, I'll say, muted or at moderated levels it has been in Q2 to-date, and that's kind of where we're at from a pricing promotion standpoint. The bigger factor is – to your first point, which is how things affect or take on throughout the year and kind of the cumulative impact of that as each of the final decisions were made in the Q2 period.

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

David S. MacGregor

Analyst, Longbow Research LLC

Q

Yes, good morning, everyone. Marc, I wonder if you could just talk about the builder channel and how much of the drag on – how much that was – the drag on 2Q would you attribute back to the builder channel versus replacement demand, and just if you could talk about what you're seeing changed there.

Marc Robert Bitzer

Chairman & Chief Executive Officer, Whirlpool Corp.

A

David, let me start and maybe Joe should add some color. As we all witnessed and experienced, there's – I think there's a lot of noise, and not always the best information about what's going on, on the housing market. I start with the long term – the housing – US housing market is structurally undersupplied. And we've talked about this for many years and are still [ph] stable for – (00:30:02) the statement which we said before. The US housing market needs several years of housing starts and/or housing completion anywhere between 1.8 million and 2 million units just to re-stabilize the market given demographic trends, given age of the housing stock and given the household formation. So, nothing has changed on the long-term needs.

Now, obviously, the combination of price increase in the housing markets, which were well ahead of the actual supply and the mortgage rate put a big dent on home affordability, which led to cancellations, and I would say, a slowdown in the short term. So, I would expect that also going forward, call it, the next 12 months or so to be the case. And yes, I would probably say some correction in the home prices is necessary to kind of re-stabilize the market. It doesn't change the long-term outlook – the positive outlook which we have in housing, but I don't think the next 12 months, you see – we'll see a very dynamic market in that respect.

Now, when it comes specifically to ability, you also need to understand the order backlog, the pace of cancellations. But in a nutshell, we did not see a dramatic change on the completions. Keep in mind, what we see are typical completions [indiscernible] (00:31:18). So, we did not see a dramatic drop-off right now in Q2, but we also don't expect a lot of growth now in Q3 and Q4. Joe?

Joseph T. Liotine

President & Chief Operating Officer, Whirlpool Corp.

A

Yeah. Just to build on those points, didn't see a dramatic drop-off at all on the new home starts, didn't see really any material changes from what we were expecting in Q2. And then the remodel area, which is kind of a quasi builder area, didn't really see any new information there either in Q2. So, although, there is a lot of information in terms of what's affecting consumer sentiment, that was not one of our drivers in the results for Q2.

David S. MacGregor

Analyst, Longbow Research LLC

Q

Okay. Just as a follow-up question, I guess the share repurchase activity seem to running at a pretty good clip here mid-year, I think [indiscernible] (00:32:07) if I've got the numbers there correct. I guess the question would be how would you handicap the likelihood of you coming in above your \$1 billion in guidance?

James W. Peters

Chief Financial Officer & Executive Vice President, Whirlpool Corp.

A

Yeah. I'd say, David, right now as we emphasized and as I said in the earlier remarks, we still intend to come in where we forecasted at the beginning of the year. And so, we're turning about a \$1.5 billion to shareholders which – the dividend makes up about \$400 million of that, and then we did the majority of the share purchase in the first

half of the year with where the market conditions were and all that, as well as where our cash position was, but that doesn't change our estimate for the full year right now. We're still on track and at that level.

Operator: Your next question comes from the line of Liz Suzuki from Bank of America. Your line is open.

Elizabeth L. Suzuki

Analyst, BofA Securities, Inc.

Q

Great. Thank you. How are you just thinking about the path toward your long-term value creation goals and getting back to annual organic net sales growth of 5% to 6%? And then, what does the EBIT margin walk look like from the year-end guidance to your ultimate goal of 11% to 12% ongoing EBIT margin?

Marc Robert Bitzer

Chairman & Chief Executive Officer, Whirlpool Corp.

A

Yeah. Liz, it's Marc, and a couple of components. First of all, on the top line, as we indicated earlier, we do see the current environment as temporary, but doesn't change our long-term demand outlook. So, we do expect – and it's – obviously, this is not a 2023 or 2024 guidance. But right now, we would assume that 2023 and 2024, we would see healthy underlying market growth, again, driven by replacement needs, housing markets, and the higher usage of appliances. So, we continue to assume solid probably mid-single digit market growth in 2023 and 2024. Again, I want to reiterate, this is not the 2023 guidance, but that's right now the current thinking.

[ph] In the (00:33:59) environment, we're still expecting in particular North America to rebound our market share back to pre-COVID level. So beyond the market demand, you will have a certain level of share gain probably over the course of 2023 and to some extent 2024. So, that is a big driver of the top line. In addition, globally, we have several growth markets which continue to – in the combination between strong market share and underlying market dynamics [ph] that India (00:34:25) we have strong organic growth more in the high-single digits. That's on the top line.

On the margin side, this right now – again, we're pretty much guiding this year to a 9%. Keep in mind that 9% also includes several kind of costs which are not [ph] typically in the cycle (00:34:40), because you still had the express shipments, all kind of extra costs which were related to supply constraint which obviously will go away. And it has a significant volume deleveraging. So, just taking that out of equation, you start getting a lot closer to the 11%. You couple that with the different cost action and then our focus more and more on higher-margin businesses, that will lead you to be 11% to 12%

James W. Peters

Chief Financial Officer & Executive Vice President, Whirlpool Corp.

A

Yeah, Liz, and this is Jim, and just to maybe add to what Marc said there is, we've talked about, too, as we go forward our focus on higher margin businesses and that's where we'll invest on top of this. And then even as we talked about, the strategic review in EMEA and Marc alluded to that, no matter what the scenario is, it would not be the same as it is today. And so even in a keep situation, you have a turnaround and a fundamentally different business structure there. So, all of these are kind of the contributing factors that get us on the 9% to that 11% to 12% in the future.

Elizabeth L. Suzuki

Analyst, BofA Securities, Inc.

Q

Great. Thanks very much.

Operator: Your next question comes from the line of Susan Maklari from Goldman Sachs. Your line is open.

Susan Maklari

Analyst, Goldman Sachs & Co. LLC

Q

Thank you. Good morning, everyone. My first question is focusing a little bit more on the production side of things. You mentioned that you did gain a bit of share this quarter. Can you just talk about the state of the supply chain, what are the key headwinds that you're facing today, and how you're thinking about those easing as the demand moderates?

Marc Robert Bitzer

Chairman & Chief Executive Officer, Whirlpool Corp.

A

[ph] Susan (00:36:13), and this is more North America focused, but it's a little bit reflective of what we see globally. We still saw quite significant supply chain disruption pretty much, I would say, until April to early May [ph] that impacted us (00:36:29), but the situation got better as Q2 progressed.

On a going-forward base, we still don't fully expect a fully normalized supply chain environment, but still significantly better than what we've seen last year and probably until April-May. So, we will still have spots or elements that you would have a disruption for a number of reasons, but not to the same level as before. So, in simplistic term, supply chain constraints continue to ease, but will not completely go away throughout the year.

Specifically then on production levels and inventory, with the drop-off of the April-May volume, frankly, our inventory towards June is probably slightly elevated to what we had in mind because we assumed the higher market demand level. But as you would expect from us, we are adjusting production and inventory in line with what we see right now from industry forecast. Put it differently, we are correcting production – or we did already in June, and we'll continue to do so going forward, and we're not going to wait until year end.

Susan Maklari

Analyst, Goldman Sachs & Co. LLC

Q

Okay. That's helpful. My follow-up question is, you mentioned in your commentary, Marc, that you're taking decisive actions as you do see the macro changing. Can you talk a little bit more about the playbook that you have in a weaker macro environment and especially maybe as it relates to thinking about the promotional side of things?. To what extent is the consumer responding to that and how you're thinking about balancing that relative to the other goals that you have as you think about the business, especially within North America?

Marc Robert Bitzer

Chairman & Chief Executive Officer, Whirlpool Corp.

A

Yeah, Susan, I mean, first of all, it starts obviously with a macro assumption you have. And I think it's – I mean, it's true for many companies. The macro assumptions which we have now in July 2022 are very different from January 2022. So, in our scenario, and I know there's different opinions around this on – we do assume a recessionary environment around us. You can argue about the depths of a duration, but we – right now, that is our main scenario. And that became very clear, in our view, probably around June-July. So, accordingly, we've taken the actions which we have in our recession playbook, which are largely focused on being very aggressive on costs side. We do believe the raw material market will turn favorable, not to the extent as we like in 2022, but it starts turning more favorable and that's why I said earlier, we do think inflation peaked in Q2 and Q3. But above and beyond, we are taking additional cost actions. On the materials side, on the logistic cost side, there we're

faced with many [ph] express and (00:39:06) inefficiencies, but we will also be very disciplined in managing head count and all associated costs.

So, we are taking strong actions on the cost side, call it, from our recessionary playbook. In addition, every recession in the past has proven you got to keep an eye on cash flow. So, we are – you should expect us to be very disciplined on net working capital and how we manage the net working capital and how cash flow accordingly. And in that context, I'm also very pleased that we are – in our scenario, we are able to keep the guidance on the cash flow.

Operator: Your next question comes from the line of Chris Kalata from RBC Capital Markets. Your line is open.

Christopher Kalata

Analyst, RBC Capital Markets LLC

Q

Hi. Thanks for taking my questions. Just going back to the promotional dynamics, I was hoping you could help quantify how much of the kind of 420 basis point year-over-year decline in North America EBIT margin came from the increased seasonal promotional activity, and how do you expect that to trend in the back half. Are you assuming kind of a similar magnitude of promotions, or any color there would be helpful?

James W. Peters

Chief Financial Officer & Executive Vice President, Whirlpool Corp.

A

Yeah. Chris, this is Jim. And maybe I'll kind of start with that and Joe can chime in here. But as we talked about earlier, when we look at price/mix for the year, for the total company, which is very reflective of North America because it's about half of our business, we've really said that in the back half of the year, we still expect to have price/mix benefits that are still coming. So, that would imply that we don't see whether it's now or in the back half of the year promotions being a big impact on our margins overall.

As we've talked about, the impact on margins has more been driven from: one, a cost inflation prospective, which has come, whether it'd be materials or logistics or labor or freight and warehousing costs, again – or that's come from volume deleveraging as we just managed the business to a lower level of demand right now and had to reduce our production levels. So, those are the two big drivers within there. And even if you look at our overall company gross margins, that's what reflect that. So, it does not – assuming that there is a higher promotional environment or anything, this is mainly just a reflection of where costs are.

Joseph T. Liotine

President & Chief Operating Officer, Whirlpool Corp.

A

Yeah. Maybe just to build on that, to Jim's points, the deleveraging did occur pretty much in Q2 a bit. That was the new news that we had kind of referenced earlier in the call. And so that's really what's impacting the cost. From a price promotion standpoint, expectations remain, didn't see elevated levels in Q2. So, those are more static than anything else.

Christopher Kalata

Analyst, RBC Capital Markets LLC

Q

Understood. And just to drill into the kind of sequential cadence for North America margins, your guidance for 15% EBIT for the year implies a second half step-up. So, yeah, assuming – if you could help us – just wondering if you could help us break out the key drivers of that assuming promotional dynamics, say, stay the same. I mean, you guys outlined the cost cutting program. Any way you could help provide some quantifications on how much of

that is driving the sequential step-up there in addition to incremental pricing announcements and then other actions you're taking?

James W. Peters

Chief Financial Officer & Executive Vice President, Whirlpool Corp.

A

Yeah. I don't know that – we haven't broken out and quantified those specifically. And so, what I can say is, though, you really hit the drivers there, there's – as Joe talked about earlier, there are price increases we took in Q2 that fully run in, in the back half for the year. You have cost-saving programs that we've now kicked off and Marc talked about this, the different things we're doing to prepare ourselves for a recession. And so, as you look at that, those begin to become larger savings within the back half of the year. And then as we talked about too, we see material costs as maybe being stable in the back half of the year, that we're hitting the peak now. So, those are the bigger drivers when we look from Q2 into Q3 and Q4 in terms of North America margins.

Marc Robert Bitzer

Chairman & Chief Executive Officer, Whirlpool Corp.

A

And Chris, it's Marc. And to be – I apologize for being very direct. I think you're missing the point here. And what I mean with that is, first of all, if you look at Q1 and Q2 margins, we are pretty close to [ph] 15% (00:43:15) in North America, with 15% in Q1 and 14% now in Q2. So, we're pretty much on the run rate despite inflation, what we just said, peaking in Q2 and Q3 and despite the volume negative environment. So, I would say, with North American margin, given the environment, are spectacular strong. We're well above any historic levels. They clearly demonstrate how strong that underlying business is. And again, that's with all the volume deleveraging and with all the inflationary pressure. So – also, if you look at the competitive environment, I don't think you will find any competitors even close to these North American margins. So, I take that as a pride the North America margins and not as a concern going forward.

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

Eric Bosshard

Analyst, Cleveland Research Co. LLC

Q

Thanks. Two follow-up questions. First of all, just some clarity. You made a comment about rebalancing market share back to pre-COVID levels. And so, what I wanted to understand, in the back half of the year, if industry volumes are softer and inventories are normalizing, if not a bit heavy, is it your intention – it's an environment that certainly seems right for more promotions either driven by retailers or competitors to try to make up some of the lost volume coming from softer consumers – is it your intent to participate in promotions, or is it your intent to not participate in promotions, and what does that suggest for your market share outlook through that period of time?

Joseph T. Liotine

President & Chief Operating Officer, Whirlpool Corp.

A

Eric, this is Joe. Just kind of setting up a response to that question, if you look at what transpired in Q1 and Q2, we did grow share slightly in Q2 in a depressed environment. So, that's kind of where we are beginning from. We think we will continue to look for opportunities to improve and rebalance share back to pre-COVID levels in the back half and, frankly, into 2023.

In terms of promotions, I mean that's always the case that there's different factors in the market. We always are going to review those and make sure they're value-creating. And so, I look at that as a bit more of a constant. I think now that we're past, I'll say, some of the disruptions on supply chains, we're able to get the right production

where we want it, we're able to put inventory levels to where we want it and then go in to the market [ph] the way (00:45:40) we think is most value-creating.

And as I said, we slightly grew in Q2 and we expect to kind of continue that into the back half of 2022 and into 2023. Promotions is a bit of a constant. How we participate is also a bit of a constant in that we have a very rigid approach, rigid or formal approach on what creates value and what doesn't, and I think that -you'll see that transpire into the back half.

Eric Bosshard

Analyst, Cleveland Research Co. LLC

Q

Okay. And then the other follow-up, just related to cost productivity, I think the assumption or the guidance implies the second half as roughly half the headwind it was in the first half, but the volume sounds like it's similar. I guess, you've spoken to this, but just to hear you say it again, why does the business deliver less in the back half on a similar volume and a more cautious consumer?

James W. Peters

Chief Financial Officer & Executive Vice President, Whirlpool Corp.

A

Yeah, Eric, this is Jim. And I think what you're looking at too here is the year-over-year. And when you take year-over-year, it would imply that, that year-over-year, the back half of the year cost, especially net cost, is a little bit less of an impact. Now, a lot of that is because we saw a lot of these inflationary pressures beginning to ramp up throughout the back half of last year. And so, that's part of the thing on a year-over-year. The first half of the year was comping against the first half last year. That didn't see as much inflationary pressure as we did in the back half. That's a part of it.

The second thing is when we look at the back half of the year and we talk about, it's not as much the volume deleveraging here, but you're getting an offset with some of the cost reduction actions that we talked about earlier, the things such as reducing our hiring, the things such as looking at some of our discretionary expenses in other areas, that helps to offset some of those net cost headwinds that we're seeing in the back half of the year, and that's why it implies that the back half would be slightly better year-over-year, but for the full year, we're still at about 150 basis points.

Marc Robert Bitzer

Chairman & Chief Executive Officer, Whirlpool Corp.

So, I guess we're coming to the end of the Q&A session. So, first of all, I want to thank you all for joining us today. Obviously, as you heard today, there is a lot of moving parts. It's a dynamic, you can call it, a challenging environment by any definition. But I think in that Q2, we demonstrated we can perform very well in a tough environment, and we will continue to do so. We changed our guidance, but frankly, we don't like, but [ph] it's the guidance towards (00:48:01) the second best year ever in the history. Yes, we would have liked to make it another best year, but we're going to be pretty close. And I think all the actions which we talk about now for the back half of 2022 will line up our business very well for 2023 and going forward. So, again, thank you all for joining us today, and have a wonderful day.

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

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