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# Whirlpool Corp. (WHR)

Q4 2022 Earnings Call

## CORPORATE PARTICIPANTS

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**Marc Robert Bitzer**

*Chairman & Chief Executive Officer, Whirlpool Corp.*

**James W. Peters**

*Executive Vice President & Chief Financial Officer, Whirlpool Corp.*

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## OTHER PARTICIPANTS

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**Sam Darkatsh**

*Analyst, Raymond James & Associates, Inc.*

**Michael Rehaut**

*Analyst, JPMorgan Securities LLC*

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## MANAGEMENT DISCUSSION SECTION

**Operator:** Good morning and welcome to Whirlpool Corporation's Third (sic) [Fourth] (00:00:07) 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.

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**Willyam K. Thomas**

*Senior Director-Investor Relations, Whirlpool Corp.*

Thank you and welcome to our Fourth Quarter and Full Year 2022 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](http://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. Listeners are directed to the presentation and 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 analysts' questions. As a reminder, we ask that participants ask no more than two questions.

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

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## Marc Robert Bitzer

*Chairman & Chief Executive Officer, Whirlpool Corp.*

Thanks, Korey, and good morning, everyone. Turning to our agenda on slide 4, I will preview what we will discuss today. Two weeks ago, we announced the conclusion of a strategic review of EMEA alongside preliminary 2022 results and a preview of our 2023 expectations. This morning, we will provide additional context on each, starting with our 2022 results.

During the second half of 2022, we were in the midst of an unfavorable macro cycle as short-term consumer sentiment and demand continue to reflect recessionary concerns. At the same time, inflationary pressures remain stubbornly high. While the combination of demand down, cost up is historically rather unusual or at best temporary, it did impact our results negatively during Q4. In addition, our supply chain execution was not where we expected it to be in the fourth quarter. This was due to a one-off supply issue that has since been resolved but negatively impacted a number of our North American factories. Jim will provide more information on 2022 later in the call.

Looking ahead into 2023, we do expect the tail end of this negative macro cycle to be felt during the first few months of the year. We foresee macro headwinds to slowly turn into tailwinds as the year progresses. Needless to say that it is difficult to predict the exact timing of the shift in the macro cycle, but we would expect this to happen towards late Q2 or early Q3. Given this volatility, we remain relentlessly focused on the business levers which we can control and we are fully confident that the medium-term demand drivers of our business remain intact. Our operational priorities in 2023 will be flawless execution of our supply chain and the delivery of very significant cost targets. After two years of inflationary cost increases, we will deliver \$800 million to \$900 million of total cost takeout. We have a high degree of confidence in delivering this target.

Looking back on our history, Whirlpool has a strong record of successfully managing through challenging cycles and delivering substantial cost reductions. In 2007, we expected \$400 million of raw material inflation as we entered the year. We responded to this high level of cost inflation with early and decisive actions, delivering record results. In 2011 and 2012, we reduced our fixed costs in North America by more than \$400 million. More importantly, we're not just starting this new cost initiative in January 2023. As mentioned in our prior earnings calls, we have initiated this during the second half of 2022. As a result, the maturity of the underlying actions has advanced significantly, thus giving us a high degree of confidence in the delivery of cost targets.

Now turning to slide 5, I will provide an update on our strategic review of EMEA and our portfolio transformation. I am very happy with the EMEA transaction, its value creation, and how it fits into the broader context of Whirlpool's portfolio transformation that we have been discussing. In April of 2022, we outlined how we would continue our multi-year journey of transforming Whirlpool into a high-growth, high-margin business. Let me first remind you why we are transforming our portfolio. As we sit here today, we are operating in a very different world than we were just 10 or 20 years ago. It is a less global world; global scale was significant in the past, but we're now experiencing diminishing advantages of that.

The benefits from regional and local scale have become even more apparent and compelling. At the same time, Whirlpool has raised the bar for long-term value creation. It is with this mindset that we critically assessed ourselves and we are focused on transforming our portfolio into a high-margin, high-growth business. Recent

actions include adding InSinkErator to our already strong brand portfolio and agreeing to contribute our European major domestic appliance business into a newly formed entity with Arçelik. As you can see, the portfolio transformation is ongoing and we have made significant progress. I'm confident these actions have us well-positioned to delivering growing shareholder value over time. As a reminder, as a result of our transactions we executed in 2022, we will see an increase in free cash flow of approximately \$350 million in 2024.

Now turning to slide 6, I will share more about the strategic review of our EMEA business. We assessed a range of options with the goal of maximizing value for our shareholders, employees, and consumers. We are pleased with the outcome of an agreement to contribute our European major domestic appliance business to a newly formed European appliance entity with Arçelik. Arçelik is a company that we know well, having executed a number of transactions with them. Our consumers will benefit from broad product and service offerings as we bring together the best of the best innovation, attractive brands, and sustainable manufacturing. We will own approximately 25% of the new company and we expect the transaction to close during the second half of 2023, subject to regulatory approvals.

The new company is expected to have over €6 billion of annual sales with over €200 million of cost synergies. It is important to note that we are retaining our ownership of our EMEA KitchenAid business. Our global KitchenAid small appliance business is one of the three strong pillars of our value-creating business model with a structurally attractive margin profile.

Turning to Slide 7, I will discuss our value creation expectations from the actions we have taken in the EMEA region. We expect to participate in the significant efficiency the new company will generate, including sustained productivity building upon already established purchasing capabilities and continued commitment to product design, innovation, and sustainability. We have a potential to unlock long-term value creation through our ability to monetize our minority interest at an estimated net present value of \$500 million. Even though we envision a long-term profitable relationship with Arçelik, the shareholder agreement includes a number of exit options at predetermined parameters after five years.

Our 40-year Whirlpool brand licensing agreement will generate predictable cash flows of more than \$20 million per year. Overall, we expect \$750 million net present value of future cash flows. Separately, through the previously executed divestiture of our Russia business, we continue to expect up to \$260 million of deferred payments.

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

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## James W. Peters

*Executive Vice President & Chief Financial Officer, Whirlpool Corp.*

Thanks, Marc, and good morning, everyone. Turning to slide 9, our fourth quarter performance was impacted by a one-off supply chain disruption in North America and elevated cost inflation. Despite this, I want to highlight that our previously initiated cost actions remain on track. Additionally, raw material costs remain elevated, but we are beginning to see improvement. In the fourth quarter, we delivered ongoing EPS of \$3.89 and ongoing margins of 3.5% as results benefited from a full year adjusted effective tax rate of 4%.

Turning to slide 10, I'll review results for our North America region. As expected, the inflationary environment and increasing interest rates continue to weigh on demand and cost-based pricing actions partially offset elevated cost inflation. Our production volumes were impacted by approximately 5% due to a one-off supply chain disruption as mentioned before. This disruption involves one critical supplier providing a common platform of parts for multiple

manufacturing locations and products and was resolved in mid-January. This disruption also negatively impacted price/mix as we had previously committed investments in anticipation of value-creating holiday promotions.

Given the confidential nature of the ongoing discussions with the supplier, we will not share any additional information about this situation. Even with the supply challenges faced in the quarter, we successfully maintained our recent sequential quarterly share gains. We are confident that the actions we put in place have us positioned to win and we remain confident in the structural strength of our North America business.

Turning to slide 11, I'll review our results for our Europe, Middle East and Africa region. Excluding the impact of foreign currency and the divested Whirlpool Russia business, fourth quarter revenue was down approximately 9%. The region delivered breakeven EBIT margins during the quarter as cost-based pricing actions offset lower volumes and cost inflation. And as Marc mentioned, we completed our strategic review of EMEA. Until the close of the transaction, EMEA's performance will continue to be included in our ongoing results.

Turning to slide 12, I'll review results for our Latin America region. The region saw demand declines that were moderate compared to the steep declines experienced during the third quarter. The region's cost-based pricing and strong cost actions resulted in flat revenue and solid EBIT margins for the quarter. Turning to slide 13, I'll review results for our Asia region. On a full year basis, excluding the China business and the impact of foreign currency, revenue grew by approximately 5%. Cost-based pricing actions were more than offset by weaker demand and continued cost inflation, resulting in an EBIT margin of 2.7%.

Now, I'll turn it over to Marc to discuss our perspective on 2023.

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## Marc Robert Bitzer

*Chairman & Chief Executive Officer, Whirlpool Corp.*

Thanks, Jim. Turning to slide 15, I will share how we expect the current operating environment marked by softer demand and still elevated but easing costs to impact 2023. As we enter the new year, we continue to expect consumer sentiment to negatively impact demand. This is expected to be more pronounced at the beginning of the year with first half demand to be down by 5% to 10%, and we expect demand will improve each quarter and to exit 2023 with flat industry volumes.

We strongly believe in the favorable mid and long-term demand tailwinds in particular in North America. The undersupplied aging housing stock is the oldest it has ever been and we expect this will drive new construction demand in the mid to long-term. In the short-term, the sharp increase in mortgage rates has suppressed existing home sales, but consumer equity remains very strong. As a result, we do expect a sustained high level of remodeling activities in the home and the kitchen in particular. Putting it differently, in the short-term consumers may be reluctant to buy a new house, but they will use their strong balance sheet to remodel their home.

From a go-to-market perspective, we expect 2023 promotional activity to be at similar levels as the second half of 2022. Also looking to the second half of 2023, we continue to expect the promotional environment to remain below pre-pandemic levels. From a raw materials perspective, we see raw material costs easing throughout the year. Steel spot rates have come down significantly and we have started seeing the benefits of this in our annual contracts. We also see improvements in resins and ocean freight. At the same time, there are still a number of commodities such as nickel and strategic components where we are faced with persistent high cost levels.

Turning to slide 16, our 2023 operational priorities are clear. First, we aim for flawless execution of our supply chain, and let me start out by stating a flawless execution is easier said than done. Our supply chain model has served us very well over many decades, but it is a cost efficiency-driven supply chain model characterized by long

transportation lanes from low-cost countries, a high degree of parts complexity, and a high percentage of single sourcing. This historic supply chain model is cost-efficient but has not been resilient enough to cope with the unprecedented COVID-related volatility and disruptions.

Over the past two years, we have reduced our parts complexity from well over 110,000 active parts to slightly more than 70,000 active parts. In the mid-term, we do see a path to drive this number to well below 50,000 parts. At the same time, we significantly expanded our dual sourcing from single sourcing. We put our priority on high-value strategic parts and components and have come a long way in derisking this part of our supply chain, but we still have a tail end of lower-value parts that are single-sourced. This will be our focus in the coming months and years.

As mentioned before, our second operational priority is the cost reduction of \$800 million to \$900 million. We expect to deliver \$500 million in net cost takeout actions by removing over \$250 million of premium costs and inefficiencies from our supply chain operations and continuing to be disciplined in our discretionary spending and head count management. Compared to the summer of 2022, our current global salaried workforce is already down by 4% and we will remain very disciplined throughout 2023. In addition to these net cost takeout actions, we do expect \$300 million to \$400 million in raw material cost reductions, adding up to the \$800 million to \$900 million total cost target.

As you look at the seasonality of this cost reduction, you will note that it is more skewed towards the second half of 2023. There are three factors explaining the seasonality which specifically impacts Q1. First, it's important to remember that we have higher-cost inventory as we enter 2023, creating a lagging effect of easing raw materials. Putting it differently, even though costs are coming down because of inventory, it normally takes about two months to see this fully reflected in our P&L. Second, we're lapping periods of lower year-over-year inflation as cost increases peaked in the third quarter of 2022. Third, as you may recall, we have a variety of material contract lengths with quarterly and annual durations which creates somewhat of a lag. Now, with many of our annual contract negotiations now complete, we have line of sight to deliver \$300 million to \$400 million of raw material cost benefit in 2023.

Now, I'll turn it over to Jim to discuss our full year 2023 guidance on slide 17.

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## James W. Peters

*Executive Vice President & Chief Financial Officer, Whirlpool Corp.*

Thanks, Marc. I'll review our full year 2023 guidance. In 2023, we expect a revenue decline of 1% to 2% given softer consumer demand and sentiment, most notably in North America and EMEA, especially as the first half of 2023 continues to reflect the current macro cycles. As we reset our cost structure, we expect to expand ongoing EBIT margins to approximately 7.5% and deliver approximately \$800 million in free cash flow. Our free cash flow delivery could be significantly impacted by the timing of the close of the EMEA transaction alongside the seasonality of cash generation from the region. We expect our ongoing tax rate to be 14% to 16% and our interest cost to be approximately \$325 million, which reflects the incremental debt from the InSinkErator acquisition. This represents a full year ongoing EPS range of \$16 to \$18.

Turning to slide 18, we show the drivers of our full year ongoing EBIT margin guidance. We expect price/mix to be negatively impacted by 225 basis points. As our availability improves, we expect to participate in value-creating promotions partially offset by positive mix driven by a strong lineup of new product introductions. Next, as we execute \$500 million of strong cost takeout actions throughout the year alongside raw material benefits, we expect a positive 425 basis point impact to margins. Continued investments in marketing and technology alongside currency headwinds are expected to negatively impact margins by 125 basis points.

As we navigate temporary demand declines, an easing inflationary environment, and execute our decisive cost takeout actions, we expect to deliver approximately 35% to 40% of our earnings in the first half of the year. We are confident that we have the right actions in place to navigate this macro environment and deliver approximately 7.5% EBIT margins.

Turning to slide 19, we show our regional guidance for the year. Starting with industry demand, we expect most of our regions to continue to be impacted by a subdued demand environment, particularly during the first part of the year as consumer sentiment is still impacted by the macro environment. In North America and EMEA we expect a contraction of 4% to 6%, and in Latin America we expect a contraction of 1% to 3%. In Asia, we expect industry to accelerate by 2% to 4%. Despite the expected declines, we expect industry volumes, particularly in North America, to be approximately 6% above 2019 levels.

We expect EBIT margin expansion across all regions driven by our strong cost takeout actions as well as raw material inflation tailwinds. In North America, we expect to deliver full year margins of approximately 12%, with the region exiting the year with margins of approximately 14%. We expect EMEA to deliver approximately 2.5% margins. In Latin America, we expect to deliver EBIT margins of approximately 7% as cost takeout actions are partially offset by continued macroeconomic and geopolitical volatility, impacting demand. Lastly, we expect EBIT margins of approximately 5.5% in Asia driven by top line growth and strong cost takeout actions.

Now turning to slide 20, I'll discuss our capital allocation priorities which remain unchanged. We have invested over \$5 billion in capital expenditures and research and development over the last five years, reflecting our commitment to deliver a high-growth, high-margin business. During that same time period, we have returned over \$5 billion of cash to shareholders, including \$900 million of buybacks in 2022 and a 25% increase in our quarterly dividend, representing the 10th straight year of dividend increases and nearly the 70th consecutive year of paying dividends. The continued strength of our balance sheet, with \$2 billion of cash at the end of the year, has given us the flexibility and optionality to pursue value-creating opportunities like the acquisition of InSinkErator in 2022. In 2023 we are prioritizing debt repayment, driving an optimal capital structure, and maintaining our strong investment-grade credit rating.

Now, I'll turn the call over to Marc.

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## Marc Robert Bitzer

*Chairman & Chief Executive Officer, Whirlpool Corp.*

Thanks, Jim. Turning to slide 21, let me close with a few remarks. In our 111-year history, we have built a proven track record of successfully operating through challenging macro cycles and we're confident in our ability to deliver margin expansion in 2023. We will flawlessly execute on our supply chain initiatives while our reset cost structure is expected to deliver \$800 million to \$900 million of benefit. In addition to these actions, the ongoing portfolio transformation will unlock value and enhance our financial profile. With the addition of InSinkErator and the EMEA divestiture, we expect to deliver approximately \$350 million of incremental free cash flow in 2024. The EMEA transaction alone is expected to deliver a 200-basis point improvement to return on invested capital alongside a 150-basis point improvement in ongoing EBIT margin.

These improvements coupled with a healthy balance sheet are the foundation of our firm commitment to returning cash to shareholders. Let me remind you, 2022 represents our 10th consecutive year of dividend increases with a 25% increase to our quarterly dividend. Additionally, we repurchased \$900 million in shares, returning a total of \$1.3 billion in cash to our shareholders. Also, in the future we will continue to maintain a solid balance sheet while

providing attractive returns to our shareholders. We are well-positioned competitively, seeing favorable market share trends, and will continue to benefit from long-term demand tailwinds to our industry.

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

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## QUESTION AND ANSWER SECTION

**Operator:** [Operator Instructions] Your first question comes from the line of David MacGregor from Longbow Research. Your line is open.

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**David S. MacGregor**

*Analyst, Longbow Research LLC*

Q

Yes. Good morning, everyone. Marc...

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**Marc Robert Bitzer**

*Chairman & Chief Executive Officer, Whirlpool Corp.*

A

Good morning, David.

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**James W. Peters**

*Executive Vice President & Chief Financial Officer, Whirlpool Corp.*

A

Good morning, David.

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**David S. MacGregor**

*Analyst, Longbow Research LLC*

Q

Yeah. Good morning, Jim. Good morning, Marc. I guess sort of a two-part question. On slide 21, you talk about setting yourself up for 2024. I'm just wondering are you kind of providing kind of a high-level view that by 2024 you think you can get to 11% to 12% ongoing EBIT margins or is that just you feel like you can make progress towards that goal? Second part, really just want you to comment on what happened in the fourth quarter promotionally. There were a lot of programs there. You said in the past you don't expect promotional activity to revert to pre-pandemic levels. You still feel this to be true? And if so, what are you seeing that gives you confidence in that view in your second half price/mix expectations? Thank you.

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**Marc Robert Bitzer**

*Chairman & Chief Executive Officer, Whirlpool Corp.*

A

So David, let me first address the first question. Obviously, we're just giving guidance for 2023 so it's a little bit too early to give a guidance for 2024. Having said that, I think you're correct in the read that there's a lot of positive elements which will come through in 2024. First of all, as you heard from my prepared remarks, there's a lot of reason to believe that consumer demand, and particularly US housing, as it exits 2023 will head into much stronger years because as you know, there's a fundamentally, structurally undersupplied housing market in North America but not only in North America which is at one point will materialize. So that's on the demand side.

Also on the cost side, with the heavy lifting which we're doing now on the cost reduction, we will reset our cost base which will set us up very well for 2024. In addition, you have other elements. You have the full contribution of InSinkErator on the margins and cash flow. And assuming that we can close the European transaction, that on its own will give an additional lift on cash flow and, by definition, on margins as you look at the total company. So



with all of that in mind, yes, in 2024 I would say we're much more confident where we're heading towards these long-term shareholder value creation targets which we set out, and I think 2024 from that perspective will be a critical proof point and at this point we're pretty confident towards that.

Your second question related to promotion, I would say, David, as we observed entire back half of 2022, it was by and large pretty much as we anticipated, i.e. we expected it and we always expected a higher level of promotion to essentially a previous period which was completely absent of promotion. But it's still important to note that even what we saw in the back half of 2022, it was quite a bit less than pre-COVID. So I would call it right now we were faced with a moderate promotional environment, and from what you heard from my prepared remarks we expect a similar environment also as we look in 2023.

**David S. MacGregor**

*Analyst, Longbow Research LLC*

Q

Thank you.

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

**James W. Peters**

*Executive Vice President & Chief Financial Officer, Whirlpool Corp.*

A

Good morning, Sam.

**Marc Robert Bitzer**

*Chairman & Chief Executive Officer, Whirlpool Corp.*

A

Good.

**Sam Darkatsh**

*Analyst, Raymond James & Associates, Inc.*

Q

Two, I guess, themes to my questions. First would be around EMEA. I think normally, EMEA is much more profitable seasonally in the second half than it is the first half; I'm assuming that's going to occur in 2023 also. And I think it looks like you're including EMEA throughout the entirety of the year, so what's the likelihood or what's the general quantification if the transaction does close as you expect for incremental dilution to EPS guidance from the absence of a profitable EMEA in the back half? And then, Marc, if you could also talk about the terms of the options that Arçelik has after five years. I didn't see it in the filings. Just trying to get a sense to ascertain the likelihood of an \$800 million transaction or a \$500 million PV? Thanks.

**Marc Robert Bitzer**

*Chairman & Chief Executive Officer, Whirlpool Corp.*

A

Sam, let me first address the first one on what is in the guidance and how the guidance might be impacted by the closure of the transaction. First of all, on a high level to keep it simple, the timing of the transaction will probably impact the EPS to a much less extent. On the cash flow, there is more moving parts and that's just driven by even though historically we never show regional cash flows, but European cash flow throughout the year, there's much

more volatility than the other regions, i.e. a pretty big cash drain and then cash build towards the back half. So depending on when we close it, that has more of an impact on cash flow and a much less impact on EPS.

On the profit seasonality, also keep here in mind yes, Europe is a little bit more skewed towards Q3 and Q4 but that is largely driven by the very profitable KitchenAid small domestic appliance business which, similar to North America, has a heavy share of Q3 and Q4 sales. So if the transaction closes, keep in mind that part of the business stays with us so as such should not impact the EPS that much. And that's probably also why depending on where you potentially close it, Q3 or whatever, I don't expect a major impact on EPS from everything which we see today.

To your second question as it relates to the terms of the transaction, particularly the shareholder agreement, I think you will understand that we will not reveal all the details of the transaction. But let me assure you, as we discussed, after five years we have multiple exit opportunities defined in the shareholder agreement. The terms, including a potential EBITDA multiple are defined, so it's pretty clear in terms of what the valuation could be. At the same time – and that's what you see behind the \$500 million which, by the way, is a discounted value [ph] after five years (00:30:11). But I also want to underline what I said in the earnings or in the prepared remarks is we have a long-term potential profitable relationship in mind. But of course, as you would expect us, there are various terms of a potential exit predefined and predetermined, so there is no negotiation down the road.

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### Sam Darkatsh

*Analyst, Raymond James & Associates, Inc.*

Q

If I could sneak another question in. As it relates to the raws, the \$300 million to \$400 million tailwind that you identified, typically the biggest variable intra-year is oil and resins, and I'm sure that's another variable this year. But are there other variables such as steel that could play a role into the \$300 million to \$400 million being above or below that, i.e. are you having more of your steel off-contract than on-contract, something along those lines?

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### Marc Robert Bitzer

*Chairman & Chief Executive Officer, Whirlpool Corp.*

A

Sam, you successfully sneaked in a third question but anyhow, let me try to address it. At this point of year, you always have a certain amount of uncertainty or volatility in your forecast. Having said that, and you know that very well, our biggest procured item is steel. Steel are [indiscernible] (00:31:28) on annual contracts and today, as we're sitting here January 31, we pretty much have closed all contracts. Now, there's one contract which technically expires end of Q1 which has a little bit of a lag effect. So for contractual terms which, as you know, this is not a hedging contract but they are one-year contracts, well-defined and that gives us a very high confidence that on the steel side we shouldn't see major surprises. You always have a little bit a lagging item and the spot rates move. But again, that's a very smooth element in terms of or a smooth impact on our overall P&L.

Resins as you rightly point out is typically quarterly contracts. There is no annual contracts which ultimately is, I would say, loosely correlated with the oil price, so there's a little bit more moving parts on the resins side. But frankly, already, we saw last year some benefits; we see it also in Q1. Some benefits right now looks pretty stable. Having said that, as you also know, there's a number of commodities out there which still are subject to wide variation. I mean, right now, trying to buy glass, glass is impacted by lithium, etcetera, which has a higher spot price versus a couple smaller items which impact us in total not that much, but they're still moving elements and that always drives a certain amount of uncertainty.

If you completely zoom out, Sam, and you've observed us for many years, of the total \$800 million to \$900 million, given where we are in the year, I would say we have right now a 70% to 80% "fill rate" of our actions which is

actually pretty high compared to other years, so we feel as we sit here today with a high degree of confidence we will hit the \$800 million to \$900 million.

**James W. Peters**

*Executive Vice President & Chief Financial Officer, Whirlpool Corp.*

A

Yeah. Sam, maybe just to add a little bit to what Marc says, some of that confidence comes from – many of these are due to actions we executed during 2022, and so we're already beginning to see that in our exit run rate. And then additionally, if you look at the material environment, and as Marc said, this is our best estimate right now, but over the last couple years in a volatile environment, we've been pretty good at putting an estimate around what we think materials will do for the year, so we feel good about all of those numbers.

**Operator:** Your next question comes from the line of Mike 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

Good morning.

**Michael Rehaut**

*Analyst, JPMorgan Securities LLC*

Q

First, I'd love to dive in a little bit to the assumptions you're making in 2023 for InSinkErator. I know that sometimes, in prior acquisitions, divestitures you sometimes have been a little more hesitant to break out the impact of acquisitions. But given the \$3 billion purchase price, I think it would be really helpful for investors to understand what the contribution is expected in 2023 on sales and margins and on a quarterly basis in the upcoming year to kind of give us a sense of how the acquisition is doing I think would be very, very helpful.

**James W. Peters**

*Executive Vice President & Chief Financial Officer, Whirlpool Corp.*

A

Yeah. Mike, this is Jim and maybe I'd start with when we acquired InSinkErator, we talked about it having revenues above \$600 million and we expect it to continue in that range and continue to grow it. We've said that the margins are above our average and very strong margins, and we expect that. On a total basis, we think net of interest and everything but with the tax benefits it gives us about \$1 of additional EPS as we go into 2023, but it also gives us \$100 million-plus of free cash flow and that's the good thing about this business and part of the reason why we bought it. It's a very consistent performer but also a very consistent generator of cash, and so that's what we expect right now headed into 2023 based on what we've seen in our first two months of ownership.

**Marc Robert Bitzer**

*Chairman & Chief Executive Officer, Whirlpool Corp.*

A

And Michael, it's Marc. Just to add to this one. It's now two or three months where we have ownership of this one. I would say first of all, from an environment, InSinkErator plays in the same kitchen as we have our major appliances, so the same external environment which we described earlier also applies to that segment. But the demand environment for the first half will be soft and we expect some pickup in the back half. Having said all that, the most important thing, this is a high-margin business and we saw very impressive stability and sustainability of

the margins both in the first two months or last two months of 2022 and the first month of 2023, so margins look very good.

And then more from an operational perspective, there is a major – and in this segment you don't have product innovations every year, but there's a major generation of product innovation coming in April, May. And honestly, from the outset, I never thought you could be excited about garbage disposal but I did, so that is a very, very exciting product which comes out in April, May. It brings us not only high consumer benefits but also further cost reduction [indiscernible] (00:36:34). So we feel very strong about this business from structural run rate, from product pipeline. And particularly, once the housing picks up, which it will do at one point, we will really like this business.

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**Michael Rehaut**

*Analyst, JPMorgan Securities LLC*

Q

Okay, appreciate it. I guess secondly, you gave out guidance I believe saying that 35% to 40% of your earnings would be in the first half. When I look at slide 16 and I see that you're not going to have the benefits really start until 2Q in terms of the cost takeout and raw material benefits, but you do have first quarter being kind of flattish year-over-year. How should I think about first quarter EBIT or margins versus fourth quarter? If you're not having any incremental headwinds, should we expect to see any type of significant improvement on a margin basis sequentially? And then I think also, lastly, I just want to make sure I heard right. You talked about North America being at 14% by the end of the year. I'm just not sure if you're intending to say that all else equal that could be a starting point for 2024. I know you're not talking about 2024 yet, but just making sure I understand that 14% comment correctly.

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**James W. Peters**

*Executive Vice President & Chief Financial Officer, Whirlpool Corp.*

A

Yeah. Michael, this is Jim and I'll get started then I'll let Marc kind of add to it. But if you look at the seasonality and what you're referencing on slide 16, what you have to remember in the first quarter of the year is, one, we have a higher cost layer of inventory right now that's just in. If you think about when we have close to two months of inventory on hand, that'll work through our system through the first quarter and then we begin to realize the benefit of the lower material cost as you exit Q1 and into Q2. So your question on sequential margin improvement, yes, we expect to see that.

Second is as I mentioned, many of our cost reduction programs were put in place in 2022 but we continue to put more in place in early 2023, so you'll see a ramp-up of the additional cost savings beyond materials that will help the margin. So again, as we looked at it, we said we think about 35% to 40% of the earnings comes in the first half of the year, and then those are the big drivers that take it out later in the year. We also expect the demand environment to be a little bit more negative year-over-year in the first half of the year and then more stable on a year-over-year basis in the second half of the year.

To your question on the NAR margins, too, if you think about the different things we've talked about, whether it's the material costs, that does have a significant impact on NAR so we do expect those margins to ramp up throughout the year. Additionally, in the first quarter, you have a small tail of just dealing with some of the issues we had in Q4 that we now say are behind us but they were resolved in January, so that also will have an impact on the NAR margins in Q1 but then it begins to improve throughout the year.

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**Marc Robert Bitzer**

*Chairman & Chief Executive Officer, Whirlpool Corp.*

A

So Michael, let me just specifically add on the North America margins, and of course the North America margins may drive the company margins. As you rightfully pointed out, on a full year basis, last year we had 11.5% margin in North America and we now guide towards 12%. So on a full year basis it doesn't look like a big move, but given the volatility we all experienced the last couple of years, right now it's probably more of a sequential view which makes sense as opposed to year-over-year. So on a sequential basis, we had in Q4 5.8% which we always said are not representative of our structural run rate.

The important thing is, what Jim alluded to, we had two specific elements in our Q4 margin. One was still the tail end of a production reduction which we explained in the last earnings call and two was this one-off supply issue. Put a number behind these ones, that's roughly about \$100 million profit impact so by definition, you should have the absence of this one in Q1. So add this to the margin which we had in Q4 and then you probably get to a margin of 8-plus percent.

To be clear, this is not a guidance but that's what you should expect and that's what we would expect from our internal run rate. So you will see sequentially a significant margin expansion in Q1 and then throughout the year as the raw material benefits start kicking in as we explained on page 16. Every quarter, we would see a sequential margin improvement with an exit run rate which has been getting much closer again to our long-term value creation targets.

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

**Elizabeth L. Suzuki**

*Analyst, Bank of America Merrill Lynch.*

Q

Great. Thank you. I'm just curious what your relationship with your retail customers look like today just given the disruption in the fourth quarter. Has Whirlpool lost shelf space to other brands and then how do you get that back? Is there a built-in backlog? Like, were there contracts with retailers that you can now fulfill those orders? Or how should we think about the market share regain in 2023 in your assumptions?

**Marc Robert Bitzer**

*Chairman & Chief Executive Officer, Whirlpool Corp.*

A

So Liz, I guess this question relates particularly to North America or US so let me respond in particular to the US. In Q4, we had a market share which was pretty much identical to the Q3 market share. As a reminder, in Q3 we picked up sequential market share so we made a little bit of progress, but we did not further expand that progress in Q4 but basically held it stable. Honestly, internally, we expected share gain. And again, we're coming back to the supply constraint which we had in Q4, so we do expect in Q1, I mean, subsequently, margin or sequential not only margin but also market share gains, and that's what we kind of right now plan and what we see right now is happening in January.

Particularly to the relationship with retail, first of all, for particularly the US, you always got to differentiate between builder and traditional retail. The builder side as we probably explained over last years, not just last year, we made tremendous progress on expanding our market share and we're now well above 50% in that segment. By definition, that segment is right now suppressed because we have kind of the housing issues and the housing constraints in Q3 and Q4, but at one point that will fully benefit us. On the traditional retail side, as of today we have not lost floor space, but it's also clear we got to provide our retailers with products which they can sell. We have a lot of fantastic innovations launched and in the pipeline, be it the Maytag pet program, the 2-in-1 top load of dishwasher which is a brand-new architecture. So we know we can sell more, we know [indiscernible] (00:43:41), and we will fulfill that supply need.

**Elizabeth L. Suzuki**

*Analyst, Bank of America Merrill Lynch.*



Great. Thank you.

**Operator:** Your next question comes from the line of Mike Dahl from RBC Capital Markets. Your line is open.

**Mike Dahl**

*Analyst, RBC Capital Markets LLC*



Good morning. Thanks for taking my questions. Marc, Jim, I appreciate all the color so far. If we look back at the last six months, I think it's [indiscernible] (00:44:10) visibility can be challenging, it's a quickly changing environment. When we look out at the housing landscape today, single-family permits [ph] are down (00:44:18) 40% year-on-year, home sales are down in the mid-30s still, home prices have started to soften. These are all leading indicators, right, and so I guess I'm wondering I understand your long-term views on housing. But I guess the question is why the conviction that all these headwinds will be behind you by the end of the first half of this year?

**Marc Robert Bitzer**

*Chairman & Chief Executive Officer, Whirlpool Corp.*



Yeah. So, Michael, I can probably address in particular the US housing side. As we said before, US housing we don't expect a major uplift in the first six months of this year. However, long-term and even kind of probably post-summer, I do expect and see some recovery. First of all, you got to differentiate two elements, the existing home sales and the new home construction. The existing home sales, just if you look at the numbers the last couple months kind of fell from a run rate of more than \$6 million to now slightly below \$4 million. That slightly below \$4 million, I mean, you got to go back several decades to see such a low level which is below any sustainable run rate and it's probably the effect of ultimately mortgage rate shocks coupled with high home prices.

So what you earlier said as a leading indicator, home prices starting coming down, that is actually in the long-term good news for existing home sales because at one point it will improve home price affordability. Also, if you look at the mortgage rate, for those people who observed over a longer time, last year we had the highest spread between mortgage rates and 30-year treasury bonds. That is unusually high and most people would expect that spread to come down, so even though the Fed rates may not come down there's reason to believe that the mortgage rates will stabilize and get back to long-term historic spreads. So we do expect that housing affordability will improve as the year progresses and that will ultimately trigger existing home sales.

On the new home construction, many of the same factors apply. But the most important thing, I mean, right now, and you can talk to multiple industry sources, if you look at the last 10, 15 years most people would agree there's about a 3 million unit undersupply of new homes. That is about a two-year supply at normal run rate so at one point, that supply will be triggered, okay? Will it all happen 2023? No and it also will not happen entirely in 2024. But if you go back from history, probably ever since housing market has been reported, this is probably the longest stretch of undersupply this market has experienced and will not last forever.

**James W. Peters**

*Executive Vice President & Chief Financial Officer, Whirlpool Corp.*



Michael, I'd say the other thing to add in there is you have to remember that our industry is a large replacement industry and about 55% of our business is replacement. And if you go back to the industry, in 2011 it was declining, in 2012 it was pretty much flat, but in 2013 you started to see some significant growth as it rebounded.

And so when you look back 10 years, we're really now entering that period where you could have some very favorable replacement trends that are underlying. Additionally, if you look at what consumers are doing today as many consumers may not be moving, do they want to stay in their homes with their existing low mortgage rates, it does lead to more remodels. And many other times, the kitchen is one of the things they remodel so there are other trends out there that we do see that can be and will be positive for us.

**Mike Dahl**

*Analyst, RBC Capital Markets LLC*

Q

Got it, okay. And again, I appreciate that. I think some of those things are probably debates rather than absolutes and timing still seems like a question from our standpoint. So the follow-up I think from my side would be it seems like by the second half of the year, you're assuming that industry volumes get closer [indiscernible] (00:48:08). For your own volume assumptions, there's an assumption for a share gain so potentially a little volume growth that'll help drive some of the year-on-year capability in margin as the year progresses. So if the demand side doesn't come through as expected in the second half, how should we think about margin impacts or decrements given there's obviously a lot of moving pieces around the cost side as well? So if we're trying to isolate kind of the volume side and how that plays into it, how should we be thinking about that?

**Marc Robert Bitzer**

*Chairman & Chief Executive Officer, Whirlpool Corp.*

A

So Michael, maybe it's just – and again, we'll only talk about North America right now. On page 19 in our presentation, we guide or our assumption [indiscernible] (00:48:58) is minus 6% to minus 4% on North America on a full year basis. Keep in mind that comes on top of a 6.5% down in 2022, so to Jim's earlier point, at one point you just reach a floor of what is replacement market. Replacement market is now already 55%, so the pieces which can move, i.e. the discretionary purchase, at one point you're at such a low level that a further downside risk is realistically fairly small. I would say from today's perspective, if at all, I would more see upside risk, even though I wouldn't probably call it risk, but right now there's a lot of arguments to be made why it will start recovering.

To your earlier point about – yeah, we can all argue about the timing of a slow consumer recovery. It doesn't change the fact that the mid and long-term fundamentals are strong ones. And just if people want to bet against the US housing market, so be it. We do believe that the long-term US housing market is a very strong one and will fully recover.

**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.

**Marc Robert Bitzer**

*Chairman & Chief Executive Officer, Whirlpool Corp.*

A

Good morning, Susan.

**Susan Maklari**

*Analyst, Goldman Sachs & Co. LLC*

Q

Marc, my first question is given your background and experience operationally with the business in various regions that have faced different challenges over time, how do you think about the North American operations today, the opportunities there and the opportunity to hit some of those initiatives that you outlined in your comments?

**Marc Robert Bitzer**

*Chairman & Chief Executive Officer, Whirlpool Corp.*

A

Susan, I think that's obviously a very macro question with a pretty big time horizon, but I would actually come back all the way to our decisions and what we plan with our portfolio transformation. I am a firm believer in the long-term fundamentals of North and South America coupled with an exceptionally strong market position which we have in both parts of the world. So will the North America market go for some cycles which are largely driven – yeah, because we're still living a post-COVID world and interest rate shocks, yes. It doesn't change my fundamental perspective about the long-term health of this market, the long-term health of our position in the market and our ability to deliver very strong margins in the market, and we will deliver it and we will demonstrate it.

But again, I've been observing – I was responsible for North America ever since 2008 or 2009 so I've seen the ups and downs of the housing market. I think I have pretty good access to one or two numbers of the housing market. You can't ignore a market that has been undersupplied for 15 years that at one point it will recover because we won't think interest rates don't impact our demographics, okay? And the demographics in North American household formation is solid and there's quite a bit of pent-up demand. So I know I'm repeating myself and optimism, so that explains why I'm fundamentally bullish on the mid and long-term prospects of North America.

**Susan Maklari**

*Analyst, Goldman Sachs & Co. LLC*

Q

Yeah, okay. I appreciate that. And then, one of the things that we've seen in some of the other product categories that are promotionally driven or can be exposed to more promotions is that given the demand dynamics over the last two years they're just not necessarily having the same effect on the consumer as they did pre-COVID. Would you say that you're seeing something similar in your industry? And is that impacting how you think of the level and the range of promotions and incentives we could see this year relative to the pre-COVID norms?

**Marc Robert Bitzer**

*Chairman & Chief Executive Officer, Whirlpool Corp.*

A

I think, Susan, you're raising a very good question or observation, and I'll just comment on hindsight because as always, we don't comment too much on, I mean, promotion plans or whatever going forward. But on hindsight, so kind of in particular as you look at 2022, I think the traditional way how we would have looked at responsiveness to promotion or price elasticity has somewhat changed through COVID and also in this post-COVID world and in particular in an environment where replacement market has such a big share. Because of the fact that discretionary part is much smaller, by definition what you can tap into with promotions is smaller.

Replacement market in its own historically is not very, by definition, not very responsive to promotion because people replace the product when it needs to be replaced. So that probably explains what you described where traditional responsiveness in the market to promotions may be less than it was in a pre-COVID environment. And again, in our case, that's largely driven by a much higher share of replacement market.

**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

Good morning. Two things. First of all, on the price/mix, you talked about the second half of 2022 the promotions were as expected. There was a step down pretty meaningfully in price/mix from what you targeted in the second half. And so what I'm curious about, I see you've guided it down 200-some-basis points in 2023. I'm curious within that, we're seeing retailers who accepted cost-based price increases on the way up now asking for a return of that as costs come down. I know you're also assuming a favorable mix, but it seems like there's some trade down going on with a bit more cautious consumer. And so the question is with that context as you look at that negative 200 or so basis point price/mix in 2023, what are the moving pieces and is there more upside or more downside to that? Would love some perspective on that.

**Marc Robert Bitzer**

*Chairman & Chief Executive Officer, Whirlpool Corp.*

A

So Eric, first of all, as we look in 2023, you got to keep in mind that you're lapping now against three rounds of price increases. So by definition, at one point, the positive price/mix will, by definition, just go down to zero because you're comparing against prior-year significant increases. What we have factored in is kind of promotional levels which are similar to the levels which we see in the back of 2022, so that's fully incorporated. At the same time, we do strongly believe we in particular have mix opportunities. Also, if you look at our Q4, and you guys know from your operational perspective on our business, is the lack of supply which we had in Q4 didn't help us on the mix side because products which we particularly couldn't deliver were non-promoted items and high-value mix items.

So we do expect, in particular, as you come from Q4 into Q1, Q2, sequential improvement of mix and that's our opportunity to protect pricing also as we look in 2023 while, of course, taking into account that there will be a promotional environment similar to the back half of 2022. So again, there's several factors playing [indiscernible] (00:05:53). This is a highly competitive environment and I think we took the reasonable assumption in this.

**Eric Bosshard**

*Analyst, Cleveland Research Co. LLC*

Q

And then a second question for Jim. On slide 7, pretty compelling from a value creation, the divestitures and the portfolio changes that add up to, I think, about \$1 billion which is the present value of future cash flows. I'm curious what the math on that slide would be if you look at the current level of performance of the businesses, not the future anticipated improvement. What does that look like that if we took a snapshot of it today?

**James W. Peters**

*Executive Vice President & Chief Financial Officer, Whirlpool Corp.*

A

Yeah. I mean, if you took a snapshot today, and maybe if I kind of roll back and say as we went through this process, we looked at multiple alternatives and cases and we looked at from if we keep the business and the improvements we would make and what investments that would require. We had different types of potential buyers and then we looked at a strategic partnership. And what I would say is this had the highest return of any of those options that we had out there. And as I said, the reason for that even on an internal-type of option is that would've required a significant amount of upfront cash investment from us. And while it would've allowed us to improve the margins, that upfront cash investment would still give it a lower net present value.

Now, the other thing is by keeping a 25% stake in this business, it allows us to participate in that upside which we do believe can be significantly more than we could've generated on our own. And so that's really where, when you look at this transaction, the value creation comes from. And Marc talked about this earlier in some of his remarks,

is the opportunity that we have to participate and then potentially at some point in time realize or monetize that part of the business. But we do believe in the long-term health of that business and this partnership.

## Marc Robert Bitzer

*Chairman & Chief Executive Officer, Whirlpool Corp.*

So given – I think this was the last question which we'll cover today so let me just close up and wrap up here. First of all, thanks for joining us here today. Obviously, there is a lot of moving parts, but I still want to remind of two critical items. One is what you just alluded to is the transaction in Europe. April last year, we said we will do a strategic review in Europe. I think as you heard from Jim, we looked at all the options. We strongly believe this is the most value-creating option of all which we looked at and are creating a strong business going forward. So we feel very good that we said what we will be doing and now we kind of signed a significant step. Obviously, that still needs to be closed which we expect some time around Q3.

On the underlying operating business outside Europe, you also heard before that particularly in second half of 2022, yes, we had an unfavorable environment because it's very historically somewhat unusual to have demand down and cost up. Typically, these kind of situations don't last very long and, as you heard from us, we don't expect that to last for the entire 2023. There still will be some carryover into Q1, but we do expect improvement. But beyond hoping or betting on an external environment, you saw we're taking strong actions. The \$800 million to \$900 million cost target is the one which you need to hold us accountable for because that is ultimately the fuel or the driver behind our guidance which we've given for 2023.

So with that, looking forward to talk to you at the next earnings call or in respective conferences in between. So thanks again for joining us.

**Operator:** Ladies and gentlemen, that concludes our Fourth Quarter 2022 Whirlpool Corporation Earnings Conference Call. You may now disconnect.

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