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<<Sam Darkatsh, Analyst, Raymond James Financial, Inc.>>

Good morning. I'm Sam Darkatsh. On behalf of Raymond James, we'd like to welcome you to the Whirlpool Corporation presentation for today. With us from Whirlpool, Jim Peters, the Chief Financial Officer; also, Roxanne Warner, the Senior Director of Investor Relations. Jim has told me, it's about 20 minutes of prepared remarks, which should leave us a good five, 10 minutes for questions.

And without any further ado, Jim, welcome, and thank you.

<<Jim Peters, Executive Vice President and Chief Financial Officer>>

Thank you, Sam, and good morning, everybody. I'm going to start off here and give you just a high-level overview, and then we'll really get into a lot more of the details here soon. But again, we're a $20 billion in revenue company operating in all major parts of the world. About 77,000 employees globally, 59 different manufacturing locations.

And as you can see that our primary business is major domestic appliances, but we also sell countertop appliances. Biggest portion of that being refrigerators and laundry, our two biggest categories, and we'll talk a little bit about the regions of the world we operate in. But as you can see, North America is our largest segment right now with Europe, Middle East and Africa, second largest and then Latin America behind it.

If you really look at our company and what matters to us, and this is our vision and our mission, but it is to be the best kitchen and laundry company. An improved life at home for our consumers. And that's what we're really focused on. And we continue to focus on earning their trust and creating demand. But you'll see as I talk through this, a lot more of our products are focused on a digital world now and how those products connect, how they connect with the consumer, how the content connects with our products and helps the consumer to find new ways to use it and get benefits out of it.

If we really look also in terms of our value proposition, as I said, leading scale in terms of size globally, largest appliance manufacturer in the world, best brand portfolio, six of those brands we sell over $1 billion or more dollars underneath, proven track record of innovation. We consistently launch new products into the marketplace every year in all of our categories. And from a cost position, we have one of the best cost positions in the industry due to our scale, our size as well as many of our manufacturing locations that have developed synergies or created opportunities over the years.

If you really look at – and I talked a little bit about this, the digital transformation of our company as more products begin to get connected online. We are one of the leaders in that space,

and you'll see in a minute, as I show, we're targeting to have five million connected units over the next couple of years. But what that's going to allow us to do is not just create benefits for the consumer that they can use, but it also helps us from a service side. And it helps us in terms of being able to remote diagnose problems with appliances and make repairs, bring the right part out on the truck, make the right repair, but also understand if it's just a consumer use issue and a consumer instruct issue that we don't need to send a technician out to fix.

So there are a lot of benefits beyond just what the consumer sees right now. Winning the digital consumer journey. We talk about that. This is really one about winning the prebuy and getting the consumer to buy your appliance, but it's also about the channels that products will sell-through in the future. I mean as you look around the globe today, while the U.S. probably has one of the lowest penetration rates for online sales and appliances, markets such as China, the UK, Brazil, we're seeing significantly more sales online, and even a growing presence of direct-to-consumer sales in some of these markets. So again, the way that appliances are sold is changing over time. And then digitalizing our supply chain. And that's just really about the efficiencies that we can drive by using various tools and opportunities out there to automate some of our factories to take advantage of artificial intelligence, and we continue to make gains in that space.

Talked about the demand for connected appliances. And as I show you here, we're targeting by 2022 to get to over five million installed units out there. Again, that is a significant step-up from where we are today. We've been selling connected appliances for the past five-plus years, and it's been a slow process. But now we're launching a lot more products, whether they be in the kitchen, in the laundry room. The new laundry suite we're launching will be completely connected. So the opportunities continue. We continue to develop consumer use cases to try and get our consumers engaged around the benefits these provide.

Our financial highlights from 2019. 2019 was a very good year for us. Again, we delivered record level of EBIT, overall EBIT for the company. Free cash flow, significant, 4.5% was a big step, and happy with that. And our ongoing EPS is also a record number for the company. So we went through a lot of different things throughout the year. Obviously, it was a challenging environment. You had tariffs, you had material cost increases. We were able to offset those with pricing. What we saw is demand in some markets was not as strong as we had originally anticipated, but we were able to offset that. We made progress towards our gross debt-to-EBITDA target as we closed sale of our Embraco compressor business and used that to pay down some of the debt that we had. And again, what I really think that this year did is it demonstrated the fundamental strength we have in our business and our ability to overcome many of the challenges we are seeing.

If you then look at our long-term goals, our long-term goals have not changed. Again, we're targeting 3% growth overall around the globe. This year will be a little bit different as you look at it from a top line. You have to back out that we will have six months of sales from the Embraco compressor business in there. So, we'll look relatively flat from a year-over-year perspective. When you back that out, we anticipate we'll grow in the 3% range.

Margin expansion. We continue to look to expand margins. And last year, we made a 0.6 point move. This year, we expect to gain about a similar amount in our margins. So a lot of that improvement this year will come from cost savings opportunities that we've identified as well as just a relief from some of the raw material inflation that we've seen over the last couple of years.

And then cash conversion, and I talked about that. And as we look into this year, we see a similar level of cash conversion. We are targeting a higher level go forward, but with that, a lot of that assumes is that we get most of the restructuring and other big onetime items that we had to deal with, especially within EMEA behind us this year. Then we move on, and then you look at structurally where we would be when you back some of those items out, would be closer to a 5% plus range.

Regional catalysts for growth. Our North America business this year, we expect volumes to be relatively flat. Looking at U.S. demand, looking at where we are in the replacement cycle and what we're comping against, and looking at what we expect from the overall economic environment, we expect to see a similar year to last year, relatively flat to slightly up or down.

EMEA, we expect to see relatively stable growth within EMEA in the industry. Latin America, we're seeing the benefits of recovery within Brazil, and we're starting to see volumes pick up Brazil. And Asia is a mixed story there, where India has been a very strong market and continues to grow. China has been a very weak market, and we expect that to continue to deteriorate. I'll also talk in a second about what we expect from a coronavirus impact.

Looking at our longer-term goals there in terms of the EBIT margins. North America is on track, and we expect to continue to expand margins within North America, but at smaller increments as we focus on growing that business also. EMEA is where we see our greatest opportunity to make margin expansion and to create additional profit. Latin America, that assumes that Brazil continues to recover. Mexico is a market that we need to turn around, and we're seeing some headwinds within Mexico right now. And that we continue to grow outside of those two big markets, the Caribbean, Argentina is an area that we've been impacted by currency, but it's still an area for opportunity for growth, Colombia, examples of markets there, we expect to continue to grow within.

And then Asia, as I mentioned, this is about turning around the China business, but then growing our very successful and healthy India business. North America. North America had another record year. We continue to be able to achieve margin expansion with an environment that's been as competitive as it's been in prior years. And we constantly get the question about LG, Samsung, the level of competitiveness, the level of promotion. Again, we've been very successful over the last five-plus years within North America in terms of increasing margins, demonstrating discipline in our go-to-market practices, looking at promotions and only participating if they create value.

We continue to benefit from fixed cost reductions we did five, six, seven years ago, and we continue to keep our fixed costs within that business at a healthy level. We invest in that business on a regular basis. We're launching new products consistently, and we look at some of the demographics of that business. And we're really – we're encouraged. While we said, we think

this year we'll be flat, what we start to see is once you get out to 2021, 2022, you start to comp a replacement cycle that is growing as well as some of the underlying new housing figures that we see. We think that will be a healthy area of growth over the next few years. So we believe that will be stable and a healthy growth.

EMEA, and I talked about this a little c talked about this a little bit earlier, but our focus in EMEA is on turning this business around. And last year, we had some actions we took. One, we exited the Turkish domestic market. Two, we sold our South Africa business. Three, we got out of the Hotpoint countertop business. And the reason we got out of that is, KitchenAid does very well, Hotpoint was playing at different price points, and it was not a profitable business. We do very well with our KitcheAid countertop business, but we tend to try and stay away from those mid-to lower-price points because they are extremely competitive and don't make sense.

And then we reduced a lot of fixed costs within that business, and we continue to reduce fixed costs into this year. Those actions were meant to drive $100 million of improvement in EBIT. We saw $75 million of that last year. We'll see another $25 million from that this year, then we'll see more fixed cost production. And as we talked about in the fourth quarter, we were beginning to see volumes coming back for us within Italy and France and the UK, which are major markets for us, major countries for us.

However, right now, and I'll talk about in a second, we are seeing a little bit of a temporary downturn in Italy as the coronavirus has impacted that more than other countries. You look further out to the future and how do we get this business back to a healthy level of profitability. That has been in the past when you go back to the mid-2000s, that our competition has been able to achieve and a lot of that comes after you regain those volumes that we lost recently is growing our built-in business there. And around the globe, we have rather strong built-in premium businesses. And we've had a historic one within EMEA. But today, it's not at the level that we've had historically. And that's really where we're focusing as we invest in new products for that marketplace is how do we win in that space.

Latin America, and I talked briefly about that, but we position that for growth with Brazil and with Mexico and some of those markets outside there. We really want to see that volume begin to come back in Brazil. We have over 40% market share with the Consul and Brastemp brands. So it's been a very successful market for us. We are well positioned to win in that country. Strong brand positioning across the value chain. As I said, we really have good brands there. And then enhancing our consumer value proposition. When you look at – I talked about earlier, more and more appliances being sold online and direct-to-consumer, we've seen a significant growth in our direct-to-consumer business within Brazil. And we see that as one of the areas we'll continue to capitalize on.

Asia, as I mentioned earlier, is really about focusing on growing our India business and continuing to capture more market share there at a moderate pace, so that we continue to maintain the profitability. It's launching new products, especially as we look within India and China, and as we've been a big player in refrigerators and washing machines. It's now to add cooking and dishwashing products. We are actually launching within our China factory, a dishwashing line that will serve that market, but will serve also other countries around the world.

As I said, we really need to focus on transitioning our China business. When we bought that, most of the volume was done under the Sanyo brand, which we had a five-year license to use, and we're now transitioning that to the Whirlpool brand, which has required significant investment over a multi-year this year and next year period. But we do believe we can position that to play well at the mass and mass premium-type space and win in those and then leverage that production facility for – on a more global basis to provide for multiple countries around the world. So again, focused on cost-efficient manufacturing there.

Talk about coronavirus in quick. We put a statement out the other day that we saw within the first quarter, the impact of being $25 million to $40 million. And if you really look at, there's two countries that it's impacting us significantly. China, obviously, that country has been relatively shut down. Appliance sales have pretty much come to a halt. So we look at about two months of sale – of retailers not selling product and obviously not ordering for us and a slowdown there. Then within Italy, where there's been another concentration, we are seeing a slowdown there. And we anticipate that's about half a quarter's worth, and it's not an entire slowdown of the industry there. But it could be up to 50% of the market that just doesn't sell within this quarter.

We haven't said anything about beyond Q1, and we'll talk about that at our Q1 earnings release as we start to get more information, it's a very fluid situation. Some of this demand, we do believe, will come back. Most of it should because it's demand that probably gets pent up or appliances need to be replaced. People will upgrade appliances, new homes will be built, new housing will be built. So there will be a need for these appliances. And we do just believe that demand starts to get pushed out further in the future.

As we look at North America and Latin America right now, while we continue to monitor our supply chain, we're seeing a very limited impact to those countries, in those markets due to availability of parts or other things. And we constantly monitor the situation, but that's our assessment at this point in time.

And then capital allocation. And I think any of you who followed us and seen us before, understand that this is very similar to what I would have showed and talked about in the past. We focus on investing in our business first, in our CapEx, in our R&D. And we tend to spend about 3% on each of those within a year, investing in our products. And actually, we've been able to gain some efficiencies in there by reorganizing our engineering organization and redoing how we align on our different product categories around the globe and getting more leverage off of common architectures.

If you look at from an M&A perspective, we look for opportunistic type of M&A things with a very high ROIC threshold. We've done most of the big ones that we can do within our industry. And again, we've had some issues in digesting some of those, and we're really working through to make sure those integrations are solid. But we look more for the smaller bolt-on and tuck-in type of acquisitions right now. Also, we look at things such as capabilities for our business and Yummly would be an example of that, an online recipe app that we bought a couple of years ago.

Dividends, we've been pretty consistent in our dividends being about 30% of our trailing earnings and raised it consistently over the years. Share repurchase, we also do opportunistically, and we've said we plan to do a moderate amount of share repurchases within this year. And then our targeted capital structure of getting our debt-to-EBITDA to 2.0. What I would say is, right now, we're on track to that. We made a big step this year with completing the Embraco sale and paying down the debt that we have taken on to buy back shares when we announced that. And then you'll continue to see us bring that down over the next couple of years. At the end of this 2019, we did have a little bit more debt on our balance sheet that was very short term, and we had some excess cash that we paid that all off right after year-end. So that was one thing that I would say, even after year-end, you would have saw our debt levels come down further.

So with that, I think the last thing that we get to is there's been a lot of talk, lately more and more talk about ESG. And the one thing that we want to say is, listen, this has been a focus within our company for a long period of time, whether it's been environment, it's been around the sustainability, it's been around governance, the employees and this goes back to Elisha Gray in 1969, as our Chairman and said that we really had to improve the social climate, that we couldn't separate ourselves from that.

And so we've gone back and this came from actually a letter to shareholders that he would have put out that year. And what we've looked at is, obviously, we look at if there's environmental impacts of our products, of our manufacturing. We continue to increase the amount of renewable energy we use within our factories. We are in multiple factories, eight manufacturing plants at zero landfill waste at this point in time. And on our overall product emissions, we continue to reduce the impact of our products to the globe. And if you think about the install base we have, that can be pretty significant.

From a social perspective, you can see there are many things we focus on. And then on a governance perspective, again, we maintain to have a strong diverse Board. Our pay – our management pay is driven by performance, and we really do have a strong commitment to governance. So with that, I think that's around like 20 minutes, and I'll go ahead and take some questions here.

Q&A

<Q – Sam Darkatsh>: Thank you. I'll start with a few here. And we're appreciative of the – at least the initial quantification of the impacts of the virus on the Chinese and Italian businesses. As it relates to the United States and some of the developed markets, clearly, there are going to be some supply chain potential constraints, just about every microwave oven is produced, finished goods in China. And obviously, there's a lot of electronics that go into the components of making your products. I think you have maybe, I don't know, two day week's worth of electronics inventory. Are you seeing – so as you said, you're not seeing supply chain issues yet? At what point do you see that potentially affecting things? And how anesthetized are you to those sorts of issues?

<A – Jim Peters>: So, I would say the first thing is, is that going into the Chinese New Year period, we actually increased our level of parts and components stock, which we normally do at

that time of year because we do know things shut down. It takes a while for things to come back up. We also, as this started to unfold, we pulled in more parts and components wherever we could. And our microwave supply depending countertop, we don't make ourselves, but a lot of the microwave combinations, we do make ourselves. So, we clearly understand where the manufacturing is and what's up and running and what the available quantities are there. We continue to monitor this on a daily basis, and look at the different suppliers, understand what they're able to make, what they're able to ship. And as Sam said, and I kind of said this earlier, right now, we don't see any significant impacts to our supply chain. Now what we do know is, at some point in time because most of our competitors buy parts and components and electronics out of the same places.

As we see these things, they will see them also. And so this is a matter of really just staying on top of it. Also understanding within our inventories, what we have and focusing on selling what we have and what we know we can continue to produce for extended periods of time. But it's just hard to say right now. There's so much uncertainty around this that I can't really say that there's an impact there yet, but we are preparing ourselves for a potential impact and how we deal with it.

<Q – Sam Darkatsh>: Other – you compete against Korean folks be it Samsung, LG. Has there been chatter yet that they have been affected in their home country from a supply chain issue standpoint?

<A – Jim Peters>: Yeah. There's nothing concrete that I can say that any of our competition has had any impacts. Obviously, we keep an eye on that. We keep an eye on the retail environment and what might be in stock and what might be out of stock from various competitors. But there's nothing today I can point to that they're seeing a significant disruption yet.

<Q – Sam Darkatsh>: AHAM, which represents wholesale industry unit shipments in the United States has been soft for the past, call it, three, four months or so, particularly, as there's been a fair amount of retailer inventory drawdown. At what point do you view AHAM to be more representative of what sell-through has been in the industry, which is actually not bad?

<A – Jim Peters>: Yeah, yeah. Again, we would anticipate that as you start to come into the end of this quarter and into the second quarter, you should see AHAM, more closely aligned to what overall sell-through has been. And even if you look at the AHAM data on a monthly basis, you're seeing a lot of month-to-month fluctuations, which can mean retailers adjusting their inventory levels at certain periods in time within there. So I think you always have to take it and average it at least across a quarter to understand. But at this point in time, I think most of the effect of Sears has come down. And a lot of their inventories come out of the system, most of that has worked its way through. So we'd expect AHAM to be relatively close to sell-through as you go into the latter part of the year.

<Q – Sam Darkatsh>: January PP&I or PPI for appliances was down year-on-year for the first time in many, many, many months after having been up kind of low to mid-single-digit one end for a while. Talk about industry pricing in the U.S. Is the PPI indicative of a sequential weakness in pricing? Or is it like most government statistics kind of crap-in, crap-out sort of thing?

<A – Jim Peters>: Well, here's what I would say. First off is, obviously, we always say we don't talk about any future pricing and all that. But what I will say is if you go back and look at a period like 2016, you would have saw a deflationary environment for materials. And you can kind of gauge what would have happened during that in terms of industry pricing, amount of promotions, et cetera. But what I will say during that time period, our North America business continued to expand margins, and continued to grow.

So, we obviously do keep an eye on what's going on in the marketplace, what the promotional spend is, what competitors do from a pricing perspective, how are we against them. We continue to monitor that. The pricing – a lot of the pricing that we did take, we said, was cost-based price increases. So obviously, as we go forward, we'll continue to look at those situations and make the right decisions. [Technical Difficulty] (0:23:13)

<<Sam Darkatsh, Analyst, Raymond James Financial, Inc.>>

We're out of time. We'll continue with the break-out session. Thank you.

<<Jim Peters, Executive Vice President and Chief Financial Officer>>

Thank you.