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WHR - Q4 2017 Whirlpool Corp Earnings Call

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PRESENTATION

Operator

Good morning, and welcome to Whirlpool Corporation's Fourth Quarter 2017 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, Max Tunnicliff.

Max Tunnicliff - *Whirlpool Corporation - Senior Director of IR*

Thank you, and welcome to our fourth quarter 2017 conference call. Joining me today are Marc Bitzer, our Chief Executive Officer; and Jim Peters, our Chief Financial Officer. Our remarks today track with the presentation available at the Investors section of our website at whirlpool.com.

Before we begin, let me remind you that as we conduct this call, we will be making forward-looking statements to assist you in understanding Whirlpool Corporation's future expectations. Our actual results could differ materially from these statements due to many factors discussed in our latest 10-K and other periodic reports.

We 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 or unrelated to results from 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 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. (Operator Instructions)

With that, let me turn the call over to Marc.

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Marc Robert Bitzer - *Whirlpool Corporation - CEO, President, COO & Director*

Thanks, and good morning, everyone. On Slide 3, we show our fourth quarter highlights. As you saw in our press release, our Q4 ongoing earnings per share were $4.10, in line with expectations. GAAP earnings were impacted by a onetime noncash charge of approximately $420 million related to the tax reform.

We are pleased that despite continued promotional intensity in many countries, we delivered positive global price/mix in the quarter and are positioned well on price/mix going into 2018. It was our first quarter with positive global price/mix since Q4 2015. We delivered strong margins of 11.8% in our North American region, a 60 basis point improvement.

Since last quarter's announcement, we have made significant progress in global price/mix and our fixed cost reduction initiative. These are progressing ahead of expectations and we remain confident they will be a catalyst for margin expansion in 2018. As a testament to the underlying strength of our business, we returned a record $1.1 billion to shareholders this year. We repurchased $750 million in common stock and paid more than $300 million in dividends. And we expect to continue returning strong levels of cash in 2018.

Before I turn to our financial results, I want to quickly discuss the outcome of our safeguard petition on washers. After nearly a decade of litigation, we are thankful that the U.S. government has announced an effective remedy. This decision is a victory for American workers and will enable new manufacturing jobs here in the United States, including the 200 new jobs we have announced at our Clyde, Ohio manufacturing plant. At this point, however, it is too early to quantify the financial impact on 2018. But this is, without any doubt, a positive catalyst for Whirlpool.

Now turning to Slide 4. We show our financial results as it relates to our long-term goals. We delivered revenue growth of approximately 1% during the quarter and a full year growth of 2.6%. Our fourth quarter growth was impacted by weaker demand in the U.S. and certain countries in Europe. Ongoing EBIT margins were 6.6% for the quarter, 70 basis points lower than the same period last year. For the full year, we delivered 6.4% ongoing EBIT margin. I will discuss the factors that contributed to our reduced margins on the next slide.

Free cash flow was $707 million for the full year, an improvement of nearly $80 million versus the prior year but below our own expectations. The key reason for softer-than-expected free cash flow was elevated inventory as a result of weaker-than-expected industry demand in the U.S. and several other major countries. I am confident that the margin recovery actions we'll take in 2018, including the actions launched last quarter and the renewed focus on inventory management, will deliver significant earnings and free cash flow improvement in the coming year.

On Slide 5, we show the drivers of our fourth quarter and full year margin performance. During the quarter, we improved price/mix year-over-year. Cost takeout and raw material inflation were in line with expectations. And for the full year, we delivered positive net cost takeout, more than offsetting significant decrease in raw material inflation. Finally, in the fourth quarter, we had higher technology and infrastructure expenses compared to the prior year, primarily due to the quarterly timing of certain accrued and project-related expenses.

On Slide 6, I will discuss our price/mix performance in more detail. In total, fourth quarter price/mix improved by approximately 50 basis points compared to the prior year. In North America, we mixed positively towards the cooking category and the KitchenAid brand. In addition, we slightly reduced our participation in some Black Friday promotions.

For the full year, price/mix was approximately flat in North America as our strong exit rate offset unfavorable price/mix earlier in the year. In the rest of the world, price/mix was unfavorable for the year, primarily due to category demand mix in Latin America and the impact of brand transitions and selling through obsolete inventory in Europe. Overall, we are pleased with our exit rates for the price/mix, and we are confident that the improvement we saw in the fourth quarter will continue into 2018.

With that, I'd like to turn it over to Jim to review our regional financial results.

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James W. Peters - *Whirlpool Corporation - CFO and EVP*

Thanks, Marc, and good morning, everyone. Turning to Slide 8. We review fourth quarter results for our North America region. Net sales were $3.1 billion, flat to the prior year. The U.S. industry grew below our expectations, and we reduced our participation in certain non-value-creating holiday promotions in the fourth quarter.

While revenue was flat, we are pleased with our performance in North America. Overall, margins improved 60 basis points to 11.8% despite a 75 basis point impact from raw material headwinds. We are confident that we are executing the right actions to deliver significantly improved price/mix in the coming year while maintaining appropriate share positions and driving growth.

On Slide 9, we review the fourth quarter results for our Europe, Middle East and Africa region. Net sales were $1.4 billion, up 1.5% versus the prior year. Operating profit was $4 million, down versus the prior year. Compared to the prior year, our operating margins were negatively impacted by approximately $20 million of raw material inflation or 150 basis points.

We experienced holiday demand below expectations in several key countries. We also experienced unfavorable price/mix of approximately $25 million as we continued to progress through brand transitions, partially offset by our pricing actions. As we enter 2018, we are focused on completing our Indesit integration and clearing remaining obsolete inventory early in the year. This will likely unfavorably impact our margins during the first half of the year. We expect a ramp up from improved price/mix, product availability and marketing spend efficiency in the second half.

Turning to Slide 10. We review the fourth quarter results for our Latin America region. Net sales were $905 million, an increase of 5% versus the prior year. Operating profit was $64 million and margins were 7.1%. Raw material inflation impacted margins by approximately $15 million or 150 basis points. Despite this headwind, we delivered solid margins. The industry began to shift back to refrigeration from washers, lessening price/mix pressures. Additionally, we realized a favorable impact of selling and monetizing certain tax credits in Brazil.

We now turn to the fourth quarter results for our Asia region, which are shown on Slide 11. Net sales were $333 million compared to $352 million in the prior year period. We recorded an operating loss of $1 million for the quarter and margins were impacted by continued raw material inflation of approximately $10 million.

Our results were also impacted by approximately $10 million from a charge related to the revaluation of brand intangibles. Our India business continues to perform well with strong growth, continued market share gains and margin expansion in the quarter. In China, we prioritized price/mix improvements, but volumes were negatively impacted as we focused on profitability.

Before we turn to 2018 guidance, I'd like to remind everyone that we will report and guide our regional results on an earnings before interest and taxes basis, starting with Q1 2018. Additionally, as of January 1, 2018, we have realigned our Mexico business as part of our Latin America segment, and we'll shift certain adjacent businesses from the North America segment to the Asia segment. These changes allow us to align with the company's new leadership reporting structure.

Now I'd like to turn it back over to Marc to review our guidance for 2018.

Marc Robert Bitzer - *Whirlpool Corporation - CEO, President, COO & Director*

Thanks, Jim. And turning to Slide 13. We review our guidance assumptions for 2018. We expect to grow revenues in line with our long-term goal of 3% to 5%. In addition to our previously announced cost-based price increases, we are bringing compelling new products to market, which will have a positive impact to mix.

In particular, we're excited about the global launch of our new connected kitchen suite, which will be a catalyst for strong volumes and mix in 2018. Finally, we expect to benefit from continued industry growth in many of our major countries, including U.S. and Brazil. We expect to deliver ongoing EBIT margin of approximately 7.5% in 2018, an improvement of 110 basis points. I will discuss the drivers of our EBIT margin guidance on the next slide.

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We expect earnings growth through margin improvement to generate the majority of our free cash flow growth in 2018. And in addition, we expect to generate free cash flow improvement for working capital optimization, primarily focused on reducing inventories from the elevated levels we experienced at the end of 2017. Overall, we expect to deliver ongoing earnings of $14.50 to $15.50 per share.

Turning to Slide 14. We show the drivers of our EBIT margin improvement in 2018. We expect approximately $250 million of net benefit from improved price/mix as well as $150 million from our fixed cost reduction initiative. Together, we expect this to improve margins by approximately 175 basis points. We will also continue to focus on delivering ongoing cost productivity and expect to deliver approximately $175 million in productivity and another $100 million from restructuring benefits, all of which is incremental to our fixed cost initiative.

The combined impact will deliver 125 basis points of margin improvement, more than offsetting continued raw material inflation, which we expect to be approximately $200 million to $250 million higher than the prior year. Finally, we plan to continue investing in our business with increased new product introductions in 2018, including the global connected suite, which I mentioned earlier.

Now Jim will cover our regional guidance and cash priorities for 2018.

James W. Peters - *Whirlpool Corporation - CFO and EVP*

Thanks, Marc. On Slide 15, we provide regional industry and EBIT margin guidance for the coming year. We expect low single-digit industry growth in all regions and our businesses will benefit from this growth throughout the world. We also expect to benefit from favorable price/mix and strong cost takeout. As a result, we expect to deliver at least 12% margin in North America in 2018.

In EMEA, our margins are expected to expand to approximately 2% through improved price/mix and completing the final stages of our brand and product transitions. We expect to improve our margins in Latin America to approximately 7% as we benefit from industry growth, favorable price/mix and continued cost takeout. Finally, we expect to deliver approximately 5% margin in Asia with continued strong performance in India and improved price/mix and cost takeout in China.

Before I get to our free cash flow guidance, let me briefly outline our view on the impacts of tax reform. We see the Tax Cuts and Jobs Act as a significant benefit for the competitiveness of U.S. companies and a positive development for consumer demand. And we fully expect the tax reform to have a positive medium- and long-term impact to Whirlpool.

The changes included in the tax act are broad and complex, and there are still potential for changes to provisions and other legislative actions. As a result, our estimates may change as we refine our calculations. Our current tax rate guidance for 2018 is for the mid-20% for both the effective and cash tax rates. We will continue assessing the impact on our tax rates and update you on the first quarter call as necessary.

Turning to Slide 16. We show the drivers of our improved free cash flow for 2018. We expect to drive the majority of this improvement through stronger cash earnings. We will also continue to focus on working capital optimization, primarily related to our inventory in North America and EMEA. This guidance is inclusive of higher restructuring cash outlays versus 2017 related to our global fixed cost reduction initiative and recently announced closure of a compressor facility in Italy. In total, we expect to drive significantly higher free cash flow in 2018 with conversion of approximately 5% of sales.

Turning to Slide 17. We show our capital allocation priorities for 2018, which are largely unchanged. We will continue to fully fund our business for growth and be prudent about our capital structure to maintain a strong investment-grade rating. We also plan to be balanced in how we return cash to shareholders. We currently have approximately $2 billion remaining under our existing share repurchase authorization. And we expect to continue repurchasing this year after repurchasing $750 million of our shares in 2017.

Now I'd like to turn it back over to Marc.

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Marc Robert Bitzer - *Whirlpool Corporation - CEO, President, COO & Director*

Thanks, Jim. Turning to Slide 18. I would like to review our long-term value creation framework. We did not make as much progress on our long-term goals in 2017 as expected. However, we do expect that the actions we've put in place during the fourth quarter have positioned us to get back on track to those goals this year.

We expect to drive growth in line with our goals. Positive industry growth, improved product availability in Europe and the global launch of our compelling new connected kitchen suites will be catalysts for growth. We also expect to drive significant EBIT margin improvement. Global price/mix and OpEx cost reduction initiatives will be the primary catalysts. And we are fully focused on ensuring that these actions are effectively and successfully implemented.

To be clear, our primary focus in 2018 is on margin expansion. And we remain committed to achieving our goal of 5% to 6% free cash flow as a percent of net sales this year.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) We'll take our question from David MacGregor of Longbow Research.

David Sutherland MacGregor - *Longbow Research LLC - CEO and Senior Analyst*

Let me begin with just a question on the European business. You highlight the negative impact Europe has had on price/mix and called out the obsolete inventory challenge. And while I realize you are pursuing pricing and there's product availability issues you're working on, you're also taking a highly cautious stance on your guidance of 2% EBIT margins, which is well below where you had guided us during your Analyst Meeting last May. From where you stand today, Marc, what exactly do you need to do to deliver on that 8% goal discussed at your Analyst Meeting last year?

Marc Robert Bitzer - *Whirlpool Corporation - CEO, President, COO & Director*

So David, first of all, in Q4 in Europe, as you saw, we delivered above breakeven. But that's certainly not where our expectations should be (inaudible). We expected a strong result. There are certain things around promotional demand, which was a little bit weak in key countries, like U.K. And we had in Russia some marketplace disruptions due to a consolidation. Having said that, at the end of the day, 2017 was a setback. And we're the first ones to admit that. I think with the system integration complexity and some external challenges, I think we lost about a year or 1.5 on our integration time line. And that's the reality. Having said that, that does not change where we strongly believe we can take the business while also as evidenced as how some of our competitors are performing. So the 8%, we still strongly believe, in a steady state, 2018 will be the year where we complete the integration. And then we're kind of really more in a steady-state mode. So I strongly believe that the path to 8% is there. It is achievable as evidenced by our competitors. You called the 2% a little bit conservative. I'm very honest, our internal targets are more aggressive. But given that we missed, in particular in Europe several times, we took a slightly more conservative stance on the regional guidance.

David Sutherland MacGregor - *Longbow Research LLC - CEO and Senior Analyst*

Okay. I guess that makes sense. My second question is just regarding innovation. And when we speak with almost anyone in the industry today, they'll note a key contributing factor to the success of the Korean manufacturers has been their proven ability to market product innovations that really capture the consumer's attention and for which the consumer is prepared to pay a premium price. While Whirlpool is an innovation leader,

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there aren't many out there that would say that you're the innovation leader. So I guess you're now taking over the leadership of a company that has consistently spent 6% to 7% of its revenues developing innovation and a number that's now approaching $1.5 billion a year. I guess my question is what do you do as the new CEO to achieve a higher level of productivity from that annual investment so that investors need to rely less in the future on cost reductions and cost productivity to achieve the company's financial goals?

Marc Robert Bitzer - *Whirlpool Corporation - CEO, President, COO & Director*

So David, that obviously was a very broad question. First of all, to clarify the numbers, we invest roughly every year about $600 million to $700 million in capital, which is not all new products, but the majority goes in products. And we invest roughly in total a number of $600 million in engineering. So the total -- but it's just different line items. That investment has been steady with a slight increase, but it's steady as a percentage of sales. We may have referred both in Investor Day about this and on some earnings calls, we have done a fundamental realignment of our entire product development organization, systems and structure. That was pretty much 1.5 years ago. So we've done massive changes. And I would say we'll start seeing the fruits of these changes in terms of our innovation pipeline, which is actually very encouraging. That doesn't change the fact that this is a highly competitive marketplace. I wouldn't give the comment that you mentioned, the credit for innovation. But that's obviously me. But this is a highly competitive marketplace. You've got to run faster. I think with the changes which we've done internally on our product development, we're well positioned to drive both effectiveness but also the efficiency of these investments. And again, it's just also if you would have walked the CES show, you see our kitchen suite and what's happening in that space, I think we're very well positioned when it comes to the innovation pipeline.

Operator

We'll move next to Susan Maklari of Crédit Suisse.

Susan Marie Maklari - *Crédit Suisse AG, Research Division - Research Analyst*

I wanted to talk a little bit about your North America guidance. On that slide, you point to 2% to 3% industry growth there. And given what we saw in '17, you ended up at about 6% in units, which is the high end of that range. But in the fourth quarter, we did see some shift towards maybe focusing more on price as opposed to volumes. Can you just talk to maybe how you're thinking about that going into '18 and how we should think about these different pieces coming together?

James W. Peters - *Whirlpool Corporation - CFO and EVP*

Yes. So Susan, this is Jim, and I'll start off here that if you look at 2018 for North America, we expect our volumes to grow in line or slightly above the industry. And again, we will continue to -- obviously, with the new products we're launching, we continue -- we expect to continue to gain share in certain categories. But also we expect to continue our focus on value-creating promotions and making sure that any promotions that we participate in are value-creating. So again, as I said, overall, we believe the unit demand for the industry is stable within the U.S. And we see that our growth will be in line with that and maybe slightly ahead of it.

Marc Robert Bitzer - *Whirlpool Corporation - CEO, President, COO & Director*

Susan, it's Marc, maybe to add to Jim's point. At the end of the day, last year, industry in terms of shipments to the trade came in at the low end of our initial guidance or even slightly below. But it was still solid. And essentially, we're signaling the same. We see robust demand kind of in the lower single digits. And so it's a continuation pretty much of what we saw in '17. If you would look at factors which could surprise on the positive, I would say consumer confidence, maybe also related to tax reform to wage increases, that could be positive because we sense a certain confidence and optimism out there. Concerns are still constraints on the housing markets, supply constraints. And you see that in existing home sales and new home builds. But overall, I think there's a couple of factors which gives positive momentum to markets. Keep also in mind, we always indicated

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that as the housing cycle progresses, we will move more and more into a state of roughly 2% of 3% annual growth, which from a manufacturers' perspective, I would consider very healthy growth rates without a lot of spikes. It's that kind of growth rates we like.

Susan Marie Maklari - *Crédit Suisse AG, Research Division - Research Analyst*

Okay, that's very helpful. And then just in terms of maybe some of the inflation, you're continuing to point to that $200 million, $250 million for this year. Can you just give us some sense of maybe what's going into that? Is there anything that has changed relative to where we were and maybe potential to come in at the higher or the lower end of that, depending on how things move this year?

Marc Robert Bitzer - *Whirlpool Corporation - CEO, President, COO & Director*

So Susan, it's Marc again. So also stepping back a little bit, we entered '17 with a lot lower assumption on the raw material inflation. You may recall, we ended the year with an estimate of $100 million to $150 million. And we had to change that quite drastically in the summer and the fall to roughly about $350 million. So I would say the first major shift on the raw material landscape, we saw pretty much around summer/fall last year. And now as the year kind of progressed towards the year-end, we saw that it's not going to be slowing down. It's fully continuing. That's why we referred to that over a 2-year period, '17 and '18, we have roughly $600 million headwind, of which $250 million are still ahead of us -- or $200 million to $250 million. We called the initial culprits, if you want to say it, were steel and resins. And they both are still very elevated. And you also know that while we typically go on longer contracts on steel, on resins, you can't go out too long on contracts. So I would say there's still heightened uncertainty around resins. Unfortunately, we see also now this inflation creeping in, in other aspects like cardboards. We don't know what's happening with oil and what that means for freight and warehousing. So I would say we feel confident about the current guide of $200 million to $250 million. And that internal forecast has now been stable for several weeks or months. But I would be lying to you if I wouldn't say there's uncertainty on the overall raw material side because we just see the inflation trends creeping in on many parts of the value chain.

Operator

We'll move next to Chris Nagle of Bank of America Merrill Lynch.

Curtis Smyser Nagle - *BofA Merrill Lynch, Research Division - VP*

So just quickly on the tax rate, if you guys could maybe just clarify the -- what corporate tax rate in the U.S. you guys are embedding in the guide of the 20s for 2018?

James W. Peters - *Whirlpool Corporation - CFO and EVP*

Yes. So we're -- the tax rate we're assuming is the new tax rate obviously of 21%. But with that, there's certain parts of the legislation that we're still trying to understand, especially how it affects some of our tax planning strategies globally and the impact on those within -- on how that will impact our U.S. tax rate. The other thing you always have to keep in mind, as I've said before, we see the tax reform as a very positive thing. And we believe over the next coming months, we'll have a much better understanding of where those tax planning opportunities sit. But also keeping in mind that 45% of our taxable income is generated outside of the U.S. So also when you start to blend the rates together, you have to remember that we still have a large portion of our business outside the U.S. that is in now countries that have a higher tax rate than the U.S. And so it's only going to have a partial impact on our tax rate in the long run. But we don't see this right now having a negative impact from a cash perspective. And in fact, as we look forward, we expect it to be positive in the mid- to longer term.

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Curtis Smyser Nagle - *BofA Merrill Lynch, Research Division - VP*

Okay. And then just as a quick follow-up, I'm just kind of curious why you guys aren't expecting a higher margin in Latin America. I think it implies about, I think, a little bit less than 1 point of growth. Just given all the cost takeout you guys have done and the market positioning and some volume growth, I would have expected it to be a touch higher. Do you perhaps need maybe a little bit more volume in, say, Brazil or some of the other markets to get to a higher rate?

Marc Robert Bitzer - *Whirlpool Corporation - CEO, President, COO & Director*

Yes, it's Marc. And the background probably about you described as conservative, it's probably coming from 2 areas. One, we do not expect a significant rebound in the Brazilian demand prior to the elections or the election outcome. So I would say it's kind of -- it's certainly not going to get worse, but we don't see strong single-digit or double-digit growth in Brazil in the short term, maybe more as the year progresses and post elections. That's the one factor. The other factor is the global compressor business, it's a highly competitive environment with quite a bit of excess capacity. And as you know, it sits in our Latin America business, where the opportunities for significant growth are just limited.

Operator

We'll move next to Michael Rehaut of JPMorgan.

Michael Jason Rehaut - *JP Morgan Chase & Co, Research Division - Senior Analyst*

First question, just want to drill down a little bit in North America, which continues to be a bright spot for you, despite the continued competitive backdrop obviously outside of what may occur following the safeguard petition decision. With the guidance of over 12% margins or at least 12%, I was hoping to get a sense of the key drivers of that. Obviously, you've talked to positive price/mix in the kitchen suite rollout. And if there's -- maybe if it's possible to break it down between price/mix, volume leverage and perhaps if there's additional productivity or cost reduction and if that improvement should be kind of steady throughout the year or weighted to 1/2 versus the other.

Marc Robert Bitzer - *Whirlpool Corporation - CEO, President, COO & Director*

Michael, it's Marc. Let me try to answer it. As you know, we don't give regional volume or detailed driver breakdown. Having said that, the fundamental levers and drivers are, in North America, very similar to the global, maybe with a slightly different timing. And what I mean with that is we have announced in North America cost-based price increase in our kitchen business. And we've done that in October. That, coupled with further price/mix opportunities, i.e., shifting more to KitchenAid and to the new products, that gives us a lift on the year-over-year price/mix. That is true for North America as it is for the rest of the world. And maybe we see some of these benefits in North America a little bit earlier than some other parts of the world. On the volume side, you heard our industry forecast. And what we said globally is also true for North America, we expect to grow in line or above the industry growth. So again, the overall trends are very similar and also in terms of raw material exposure. So in a certain way, the margin walk we gave for the globe is also true for North America, maybe with a slightly different timing.

Michael Jason Rehaut - *JP Morgan Chase & Co, Research Division - Senior Analyst*

Okay. So I'm kind of hearing that perhaps it's -- might get a little more benefit from price in the first half, if I heard that right. Secondly, just going to, I guess, the other end of the spectrum with the continued challenges in Europe, you mentioned that it's kind of been a bit disappointment throughout 2017 and fourth quarter not being an exception to that. I wanted to kind of get a bigger picture from you, Marc, on -- given that this has been, I guess, the third quarter in a row or -- fourth quarter in a row where you've had to downwardly revise your expectations and guidance for the segment. Certainly, there's been a lot of challenges in terms of all the factors that you've enumerated: the integration, the inventory work-down, the SKU count, the tougher promotional environment in the U.K. But I guess on a bigger-picture level, what has been the biggest challenge of not getting it right in terms of putting out a guidance that you've been able -- that you're able to hit? And are you looking at kind of

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-- how are you looking at to change that or fix that? Is it a personnel issue in terms of getting better execution in the region? Or is it a matter of getting better information to put together a better set of guidance going forward?

Marc Robert Bitzer - *Whirlpool Corporation - CEO, President, COO & Director*

So Michael, it's Marc again. Let me first step back in terms of the European integration, okay? As you may recall, kind of the first 1.5, almost 2 years, integration was going very well, actually frankly even ahead of our expectations. We hit all our internal milestones. And then as you pointed out, we had a couple quarters now, 4 or 5 quarters where we disappointed. And in hindsight, you always have perfect 20/20. But I would say it was a combination of a couple really unforeseen external events, like the Brexit, like the dryer recall and we had some Russia currency issues, coupled with the accumulation of the complexity of integration, which is, as you know, systems, factories, products, brands, which is a lot once it comes all together. And that's kind of -- that's what we had in '17 what we called a disappointing 2017. It doesn't change where we have our long-term sight in terms of where we can take the margins, so 8% (inaudible) 8%. And we strongly believe we can achieve there. I think that precondition to really get there and also get to some more predictability essentially comes down to stability in our systems and supply chain, where we had a lot of disruption, a lot of back and forth. The good news is we have achieved a lot better stability in the entire supply chain already in Q4. And I feel a lot better how we go into the next year. We've also done internally a number of management system changes to get to more predictability. And frankly, I mean, last thing, I mentioned that before, I would say our internal targets are higher than we've given as an external regional guidance. Because on this one, we want to probably err more on the conservative side.

Operator

We'll take our next question from Sam Darkatsh of Raymond James.

Samuel John Darkatsh - *Raymond James & Associates, Inc., Research Division - Research Analyst*

A couple questions. First, getting back to EMEA, and I see that it's conservatively crafted, the margin guide. Specifically to the U.K., I think your #1 competitor has Turkish lira-based costs and has used the weak currency to price aggressively, which obviously exacerbates the already very challenging conditions for you. My question, have you folks contemplated hedging the Turkish lira versus the euro and/or moving production to Turkey? Because I'm just spitballing here, but if you don't do that and the lira continues its slide versus the euro, what gives you confidence in really, I guess, any EMEA margin target going forward?

Marc Robert Bitzer - *Whirlpool Corporation - CEO, President, COO & Director*

So Sam, that's obviously a very detailed question. First of all, in the U.K., it's not only that Turkish competitor who forms some competition but very significant factor. And yes, you're right, the Turkish liras versus British pound gave them probably longer protection. And we also know, ultimately inflation creeps also in, into weak currencies. So a lot of the raw material inputs and steel, et cetera, will also ultimately show up in the Turkish production cost. So there's nothing we can do about the hedging. It's more like ultimately bad inflation will also arrive on that part of the business. Having said all that, the U.K. market in Q4 was still a very soft one. So we feel better about our Price Margin Realization in the U.K. The markets, which in U.K. in December is a little bit more promotional, was actually surprisingly soft, even softer than the previous quarter. If you want to see any encouragement, but it's obviously way, way too early to read it, in January, the British pound regained some strength, which of course, takes some pressure off our margins. But I would say that's an early, early data point. And we're going to see how the British pound now evolves over the next couple of months.

Samuel John Darkatsh - *Raymond James & Associates, Inc., Research Division - Research Analyst*

My other question will be much more broad and probably too simplistic. But your 3% sales growth guide company-wide, does that include or exclude FX? I think FX might be maybe as much as a 2 point tailwind. And with the industry growth expectations you gave along with price, I would have imagined that your overall sales growth guide would have been higher than 3 points if your including FX.

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James W. Peters - *Whirlpool Corporation - CFO and EVP*

Yes. So Sam, this is Jim. And right now, when we put that out, we were assuming FX was slightly positive but closer to neutral. So I think right now, and again where FX rates are currently, they would say, yes, we would have a tailwind on sales. But it's January. And as we know, things will progress throughout the year. So right now, that does not assume a significant tailwind from any kind of currency or FX changes.

Marc Robert Bitzer - *Whirlpool Corporation - CEO, President, COO & Director*

And Sam, maybe just to add on this one, it's -- and that's also what I had in my prepared remarks, our focus is on margin expansion. We lost last year EBIT margin, the 7.5% is 1.1 points above this year. And that's our #1 focus, which has to come from price increases, which we already announced, the mix and the fixed cost reduction program. But that's our #1 focus.

Operator

We'll move next Ken Zener of KeyBanc Capital.

Kenneth Robinson Zener - *KeyBanc Capital Markets Inc., Research Division - Director and Equity Research Analyst*

Jim, I wonder if you could comment, do you have first, second half split in terms of how EPS earnings will fall within your guys' guidance? And then could you guys be explicit around the tax rate? I mean mid-20s, I think everyone is going to assume 25%. Is that what you want us to assume?

James W. Peters - *Whirlpool Corporation - CFO and EVP*

Yes, I'd say, Ken, on the tax rate, I think 25% is a safe assumption for right now. And so that's when we say mid-20%, that's where we believe it will be. That's kind of in line with what we used to say we thought our historical structural run rate will be in. As we said, once we get further into the year, we'll give an update on in terms of what we think the impacts longer term and mid-term could be from tax planning strategies. In terms of split between first half and second half of the year, I don't think we're going to be much different than any of our prior years. Obviously, we have some seasonality that affects us in the first half of the year as well as the ramp-up of some of our cost reduction initiatives that are launching right now and have launched. And some of the previously announced cost-based pricing that we took is beginning to run in here in the first quarter. So again, I think you'll see a little bit of a tailwind coming into the second half of the year. But it won't be significantly dissimilar from some of the prior years, where we've been anywhere between 45-55, in that type of a range.

Operator

We'll move next to Sam Eisner of Goldman Sachs.

Samuel Heiden Eisner - *Goldman Sachs Group Inc., Research Division - VP*

So just going to free cash flow, I think we haven't discussed that yet. I'm trying to reconcile your $700 million starting point for this year. It looks like it includes about $120 million of other items. And so I just really want to understand, how do you walk from what you guys have generated this year in terms of free cash flow to the roughly $1 billion to $1.1 billion for next year? What are the moving pieces? I see that in there. But it feels like there's a different starting point that you're using. So I just want to make sure we're apples-to-apples.

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James W. Peters - *Whirlpool Corporation - CFO and EVP*

Well, I think, Sam, the one thing as you assume, and wily already talked about in here, is working capital next year we see to be at least $125 million. If you look where we ended on inventory, we think there's a significant benefit there. Two, some of the things that show up in there, that sale of various type of assets or tax credits, again we have things like that, that go on continuously. And obviously, we don't guide on them, but we're working on them as part of our -- even as part of our value creation strategy to make sure that we're -- we've got the right asset base for our business. So I don't think that, that will have a significant impact year-over-year in terms of our cash flow.

Samuel Heiden Eisner - *Goldman Sachs Group Inc., Research Division - VP*

So I guess, said another way, your $1 billion to $1.1 billion of free cash flow does include about $120 million or so of other items. Is that fair to say?

James W. Peters - *Whirlpool Corporation - CFO and EVP*

I would say it assumes an assumption that obviously if there are opportunities there, we will take advantage of them. But we don't see any significant headwinds coming against it based on things that we had this year.

Samuel Heiden Eisner - *Goldman Sachs Group Inc., Research Division - VP*

That's helpful. And then maybe just going through raw materials. So oil prices are up 35% since November, steel prices are up 20%. Those 2 commodity buckets are roughly combined almost 20% of your COGS. So I guess I'm a little bit confused how you're holding your guidance from October, yet there's been significant moves, particularly in oil, which oil goes into benzene, benzene is a major portion of your COGS. Just help me better understand why we should feel confident in the $225 million guide.

Marc Robert Bitzer - *Whirlpool Corporation - CEO, President, COO & Director*

Sam, it's Marc. First of all, to clarify also, the indication which we gave in October about the $600 million, that was not based on spot prices in October. That is based on our models, which we have internally, about projected raw material cost development. So take steel, we have our models that we take input cost into consideration, supply/demand, et cetera. So it's a fairly complicated and complex model. So that was our forecast, not the spot price. And right now, what we see is that the spot prices actually are pretty much in line with our forecast, maybe even slightly higher than the forecast but are more or less pretty accurate in prediction. That doesn't mean where we have, as I mentioned before, we have this $250 million or $200 million to $250 million is firm. There could be risks. We don't know yet. But that's today kind of our best view on the current year.

Operator

We'll move next to Megan McGrath of MKM Partners.

Bethany Megan Talbott McGrath - *MKM Partners LLC, Research Division - MD & Senior Analyst*

Since pricing is such a big part of your strategy and guidance this year, I wanted to get a little more maybe like practical color. In terms of the fourth quarter, how much of -- if you can sort of tell us, how much of the positive price/mix was really sort of apples-to-apples pricing? How much were you able to raise price in the market? And how much was mix? And if mix is a big part of this, how do you, from a practical perspective, make that better mix happen? Is it just coming out with new products that's more expensive? Or is there some sort of marketing effort you are doing to mix more towards the products you want to mix to?

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Marc Robert Bitzer - *Whirlpool Corporation - CEO, President, COO & Director*

So Megan, let me try to answer it. So first of all, we have internally our tools where we know exactly what is what we call like-for-like pricing, what is mix and what comes from promotional investments or trade partner investments. We typically don't publish this one because I think we would reveal a little bit too much competitive information. Having said that, as I indicated, Q4 was over a positive price/mix. And I would say a portion of that was already related to some price increases, which we announced in certain parts of the world, like in Asia. A certain amount was probably from less promotional intensity. As I indicated before, particularly in North America, we saw certain promotions, which we didn't see it value-creating and we didn't participate. So I would say it's a combination of these price increases and it was also less promotional intensity. And lastly, we still see the benefits and we see probably even more next year from new product introductions. And we had last year KitchenAid as a new suite, which is flying. I mean, it's really going extremely well. We know we will have some carryover benefits. We know when we launch the our Whirlpool kitchen suite, that will give us quite a bit of mix opportunities. So to your question, do we launch products with new prices? No. What we typically try to do is innovative products with new features that people voluntary mix up, doesn't necessarily mean a higher price on a like-for-like price, but it's a richer product and people are encouraged to mix up.

Bethany Megan Talbott McGrath - *MKM Partners LLC, Research Division - MD & Senior Analyst*

Okay, that's helpful. And as I follow up, I understand that it's too early to really talk too much about the tariff, but wanted to get your sense on where you think inventory levels are. Do you get the sense that maybe there were some stuffing the channel or loading of product into the U.S. ahead of the tariff announcements? Do you have any feel for that?

Marc Robert Bitzer - *Whirlpool Corporation - CEO, President, COO & Director*

Yes, Megan, let me maybe first a little further expand and talk broadly about the safeguard petition. First of all, as I said before, we are very thankful that the ITC, the USTR and this administration has finally put an end to this long story of dumping. As I read some of the press reports, it sometimes leave people confuse offenders with victims. So LG and Samsung have been dumping for a number of years. There have been several times we've seen proof and evidence and decisions that dumping has been confirmed. So the safeguard finally puts an end to what we call this country-hopping and the dumping. So it's an incredible good outcome. It's a good catalyst for Whirlpool Corporation. It's also encouraging that finally the trade laws are being enforced. With that in mind, the reason why we couldn't specify what is the bottom line impact on our company is a couple of reasons. One is, exactly to your point, we do not know exactly how much inventory has been built up. We have certain Customs data up until December, but we don't have a January data. We saw significant amount of kind of preloading already in December, and that probably continued into mid-January. So we can't exactly estimate. But I would think it's a few weeks to a couple of months of kind of preload. Two, there are certain mechanics around the quota, which are not yet fully specified in terms of are the quota by country or by competitor. And thirdly, and that's the most important thing, is it ultimately comes down to a question, will the offenders stop the dumping? I can't give you that answer. But that's, of course, the key question in terms of we, of course, firmly would expect with the safeguard measure in place that finally the dumping ends. But we don't know with certainty. I would say as the next couple of months unfold, we will see a lot more clarity around how these -- all these 3 factors come together, and then we can give you a better picture about what it all means.

Operator

We'll move next to Alvaro Lacayo of Gabelli & Company.

Alvaro Lacayo - *G. Research, LLC - Research Analyst*

Just on a follow-up on that, on the safeguard petition and sort of the chatter around the inventory load-ins from competitors. In the past, when you've had those trade-related victories, I think they have done -- they followed a similar playbook, where they've done inventory load-in, in anticipation. Maybe if you could talk a little bit of what were the dynamics you saw in the past and how that impacted the business, and how long was that sort of effect felt?

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Marc Robert Bitzer - *Whirlpool Corporation - CEO, President, COO & Director*

Yes, Alvaro, it's Marc again. And again, we do not know exactly the inventory levels. We just again have only Customs data until December. I would just say judging from the past, depending on which dumping actions, there were typically a couple of weeks to a couple of months inventory, which may typically found their way into the market over a couple of months. I think this time, it's different. It's different in that respect, that in the past, they used the bridge to kind of move factories into other countries. That is just a safeguard measure, not in the short-term possible, it's just not possible. The only kind of way out, which is a positive for the country, is that they start producing less, and we all know where certain time lines. So I would say you should expect -- probably should expect that, that inventory flushes through in the next couple of months and that's it. And then there's probably just level supply.

Alvaro Lacayo - *G. Research, LLC - Research Analyst*

Got you, okay. And then secondly, just on the price/mix guide on a global basis, but I guess, more focused in terms of just the thoughts on North America in terms of you mentioned the levers to drive the price/mix, which I think have been levers that you have in the past employed. And you've had big product launches before and you've had cost-based price increases. And price/mix over the last few years has been a little bit more stubborn. Maybe if you could just highlight what you think about this time in terms of what's different and what gives you the confidence to sort of -- to hit those numbers. And then from an order of magnitude, where do you see the most of those price benefits happening across the footprint?

Marc Robert Bitzer - *Whirlpool Corporation - CEO, President, COO & Director*

Alvaro, and again, it's a little bit region-by-region difference. First of all, pretty much in all regions, we work on cost-based price actions and price/mix opportunities in some regions also in terms of promotional investments or trade partner investments. But it differs region-by-region. To give you, for example, one example because it's already behind us, in China, the raw material cost increases are so big and the mix opportunities are somewhat limited, we relied heavily on like-for-like cost-based price increases. That is already behind us. I think in the U.S., we have, in particular for the product pipeline and the brand portfolio, we have more mix opportunities available to us than in other markets. So you would probably see a combination of the effects of a kitchen price increase, which we already announced, but again also the product pipeline, which we have, which is not -- I mentioned earlier the KitchenAid, that's a carryover benefit. But the Whirlpool suite launch is significant for us. It impacts a lot of products. And the connected suite gives us a lot of opportunities to mix up, so -- and again, it's -- we know the products which we're launching, and they're not kind of -- they're not year-end launches, they're kind of -- they come through our Q1 and Q2, so very inside and maybe will drive certain mix. And that's why we're highly confident about it.

Operator

At this time, I would like to turn the call over to President and Chief Executive Officer, Marc Bitzer, for closing comments.

Marc Robert Bitzer - *Whirlpool Corporation - CEO, President, COO & Director*

Let me just maybe summarize the key messages from this call. And that's again on Slide 20 if you want to look it up. First of all, again, global price/mix and the fixed cost initiative we announced last quarter are progressing ahead of expectations. And that's a very good news. And we are very encouraged by the price/mix exit rate and strong margins in North America. And we expect to deliver significant improvement to EBIT margins this year. And we're committed to further margin expansion in the coming year. We also expect strong free cash flow growth this year as a result of the margin improvement. And we expect to continue returning strong levels of cash to shareholders in a balanced way. So thank you for joining us today, and we look forward to speaking with you again on our first quarter earnings call on April 24. Thanks.

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Operator

This does conclude today's Whirlpool Corporation's Fourth Quarter 2017 Earnings Release Call. You may now disconnect your lines. And everyone, have a great day.

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