Company Name: Whirlpool
Company Ticker: WHR US
Date: 2018-04-24
Event Description: Q1 2018 Earnings Call

Market Cap: 11,264.86
Current PX: 158.66
YTD Change($): -9.98
YTD Change(%): -5.918

Bloomberg Estimates - EPS
Current Quarter: 3.887
Current Year: 15.282
Bloomberg Estimates - Sales
Current Quarter: 5570.000
Current Year: 22105.364

Q1 2018 Earnings Call

Company Participants

- Max Tunnicliff
- Marc Robert Bitzer
- James Peters

Other Participants

- Sam J. Darkatsh
- Michael Jason Rehaut
- David S. MacGregor
- Susan Maklari
- Curtis Nagle
- Kenneth R. Zener
- Alvaro Lacayo

MANAGEMENT DISCUSSION SECTION

Operator

Good morning, and welcome to Whirlpool Corporation's First Quarter 2018 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

Thank you, and welcome to our first quarter 2018 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 on 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 are unrelated to 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. 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.

As a reminder, effective January 1st of this year, we are reporting and guiding segment results as earnings before interest and taxes. In addition, our segment results reflect the Mexico business as part of the Latin America segment, and certain adjacent business that have been moved from the North America segment to the Asia segment.

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At this time, all participants are in listen-only mode. Following our prepared remarks, the call will be opened for analysts' questions. As a reminder, we ask that participants ask no more than two questions.

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

Marc Robert Bitzer

Well, thanks and good morning, everyone. Before we discuss our first quarter results, I would like to discuss the announcement we made early this morning following the close of the Tokyo market and board approval. We take pride in our strong global portfolio of consumer brands and Embraco is essentially our only B2B business, and we made the strategic decision to focus our investments on growing our consumer-facing businesses.

Consistent with this strategy, earlier today we announced an agreement to sell our Embraco compressor business unit for approximately $1.1 billion in cash. Embraco is a leading global manufacturer for refrigeration compressors, which is currently reported at heart of our Latin America segment. And in 2017, Embraco contributed approximately $1.3 billion in sales with margins approximating the segment average. The deal is expected to close in early-2019 subject to regulatory approval.

Based on the anticipated closing date, the deal is not expected to have a material impact on our 2018 financial results. However, we have secured financing in an amount similar to the anticipated net proceeds from this transaction, which we intend to use significantly includes share repurchases in the second quarter through a modified Dutch Auction tender offer targeting $1 billion. The impact of this tender offer is not reflected in the guidance we issued last night.

After this Embraco announcement, let me now comment on our first quarter results on slide 3. As you saw in our press release, we delivered record first quarter ongoing earnings per share of $2.81 in line with our expectations. We also delivered year-over-year improvement of EBIT dollars after six quarters of pressure on our EBIT margins, driven by positive global price/mix and the successful implementation of our previously announced cost-based pricing actions.

We also completed the actions related to our fixed cost reduction initiatives during the quarter and expect to continue realizing the benefits of these actions throughout 2018. In addition to solid global results, we're very pleased with margin expansion in our North America region despite significant raw material inflation. These results give us continued confidence in the strength of our overall business. As a reflection of this confidence and consistent with our balanced approach to capital allocation, we have increased our quarterly dividend for the sixth consecutive year.

Turning to slide 4, we show our first quarter financial results and full year 2018 guidance. We delivered revenue growth of 2.6% during the quarter. Ongoing EBIT margins were 6.0% for the quarter and approximately flat to the prior year, as positive price/mix offset a 150-basis-point impact from raw material inflation. Finally, our first quarter free cash flow was impacted by the timing of certain payments and accruals compared to the prior year. We expect those impacts to be temporary and remain committed to our full year free cash flow guidance.

On slide 5, we show the drivers of our first quarter margin performance. During the quarter, we began to realize the benefits of our cost-based price increase we announced in late-2017, contributing to strong global price/mix positive in three out of four regions. I will discuss price/mix further on the next slide. Raw material inflation was a significantly year-over-year headwind impacting our margins by 150 basis points. We delivered positive cost productivity in line with expectations and our fixed cost reduction actions more than offset increased marketing and technology investments in the quarter.

Turning to slide 6, we show our price/mix performance in more detail. In total, first quarter price/mix improved by approximately 100 basis points compared to the prior year period. Throughout the world, we realized the benefits of the cost-based price increase we implemented over last two quarters. In North America, our U.S. kitchen actions were implemented in January, and as a result, we drove strong sequential improvements to price/mix throughout the quarter. In Europe, in addition to our previously announced cost-based price increases, we implemented a strategic reduction of certain private label volumes which will drive positive mix for the remainder of the year.

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In Latin America, price/mix was favorable as a result of new product launches in addition to our previously announced cost-based price increases. In Asia, our overall price/mix was flat. China performed well, and planned distribution expansion efforts negatively impacted India's mix in the quarter. Overall, we're pleased with our progress on price/mix and expect these benefits to continue.

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

James Peters

Thanks, Marc, and good morning, everyone. Turning to slide 8, we review the first quarter results for our North America region. Net sales were $2.5 billion, an increase of 3%. We also drove unit volume growth in our core appliance business, which was partially offset by softer volumes in Canada and certain adjacent businesses. Margins improved 20 basis points to 11.4% consistent with our expectations. We delivered this margin expansion through favorable price/mix and fixed cost takeout, more than offsetting a 100-basis-point impact from raw material inflation.

Of note, earlier this month, we began to implement previously announced cost-based price increases in our U.S. laundry business. We expect these actions to drive additional price/mix benefits during the remainder of the year. In summary, we are pleased with the North America performance in the first quarter and continue to expect strong results throughout the rest of 2018 in line with our guidance.

Turning to slide 9, we review the first quarter results of our Europe, Middle East and Africa region. Net sales were $1.1 billion. EBIT declined versus the prior year as positive price/mix was more than offset by unit volume declines, currency headwinds, and significant raw material inflation. In total, raw material inflation impacted margins by $25 million or 225 basis points.

During the quarter, we took a number of steps to improve our business. First, we renegotiated a number of unfavorable trade customer agreements to better align with our strategic goals, and the timing of these negotiations had an impact on first quarter shipments. We completed these negotiations at the end of March and expect to recover volume in the second half as we regain retail flooring. Second, consistent with our efforts to streamline our business and focus on improving profitability, we executed a targeted reduction of certain private label volume. As a result of our proactive strategic actions in the region, we continue to expect to deliver our full year EBIT guidance of approximately 2%.

Turning to slide 10, we review the first quarter results for our Latin America region. Net sales were $898 million. We delivered EBIT of $57 million and margins were 6.3%. Our home appliance business performed well both inside and outside of Brazil, driving favorable price/mix and benefiting from new product launches. We drove solid appliance results despite soft industry demand on washers and refrigerators. Our global compressor business results were soft due to weak global demand, raw material inflation, and inefficiencies related to the planned Italy plant closure.

For the region, raw material inflation impacted EBIT by approximately $15 million or 150 basis points. Finally, during the quarter, we realized a $22 million favorable impact on the monetization of certain tax credits in Brazil, which was partially offset by a $17 million unfavorable impact from foreign exchange hedges. Overall, we expect the region to expand margins as industry demand improves through the year.

We now turn to the first quarter results for our Asia region which were shown on slide 11. Net sales were $448 million, an increase of 3% versus the prior year. We delivered EBIT of $19 million, a $7 million sequential improvement versus the fourth quarter of 2017. Our EBIT was impacted by raw material inflation of $10 million, which impacted margins by 200 basis points. Additionally, currency unfavorably impacted margins by approximately $5 million.

Our business in India continues to deliver strong growth of both unit volume and revenue as we drive share gains through distribution expansion and new product introduction. As Marc mentioned earlier, price/mix in India was slightly unfavorable as the benefits of our previously announced cost-based price increase were more than offset by mix impacts related to the distribution growth. We expect our India business to continue growing at a strong pace. In China, we delivered strong sequential improvement to EBIT. Our actions to improve price/mix and focus on profitability were affected despite continued raw material inflation.

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

Marc Robert Bitzer

Thanks, Jim. Turning to slide 13, we review our guidance assumptions for 2018. We now expect growth of approximately 1% driven primarily by temporary volume weakness in Europe and soft global compressor demand. We continue to expect growth in North America and overall positive global price/mix. We continue to expect to deliver ongoing EBIT margin of approximately 7.5% for the year, and we'll update – discuss the updated drivers of our EBIT margin guidance on the next slide.

Finally, we now expect our full year tax rate to be approximately 20% as shown in our first quarter ongoing results. Jim will provide additional color on our current tax rate assumptions later in the call. We continue to expect to deliver ongoing earnings of $14.50 to $15.50 per share, and we expect our first half year earnings pacing to be consistent with historical earnings pacing. As a reminder, our guidance is not inclusive of the tender offer we intend to execute later in the second quarter.

Turning to slide 14, we show the updated drivers of our EBIT margin guidance. We now expect to deliver at least $275 million of net benefit from improved price/mix. This includes the benefits of our previously implemented actions, in addition to our recently announced cost-based price increase in our U.S. laundry business.

Over last few months, raw material costs have risen substantially, and as a result, we're revising our raw material inflation guidance for 2018 by approximately $50 million to the range of $250 million to $300 million, primarily due to previously announced U.S. tariffs on steel and aluminum. In addition to existing steel and aluminum tariffs, there continues to be uncertainty regarding potential future tariffs and trade actions. We'll continue to monitor, evaluate and take right actions for our business in these areas.

Now, Jim will cover our regional guidance and our cash priorities.

James Peters

Thanks, Marc. On slide 15, we show our regional industry and EBIT margin guidance. Our regional industry expectations are unchanged and we continue to believe that the global appliance industry is well-positioned for growth. In North America, we continue to expect to deliver at least 12% margin. The benefits of our recently announced cost-based price increases in our U.S. laundry business are expected to be partially offset by increasing raw material costs.

In EMEA, we continue to expect to deliver approximately 2% EBIT margin. We expect improvements throughout the year, especially in the second half, as our final factory move is completed by July, and volumes improve following trade customer negotiations in the first quarter.

In Latin America, we continue to expect EBIT margin of approximately 7% as the compressor weakness we experienced in Q1 subsides and we continue to benefit from favorable price/mix and cost takeout in the appliance business. Finally, we continue to expect to deliver approximately 5% margin in Asia, with continued strong performance in India, and improved price/mix and cost takeout in China.

Before we get to our free cash flow guidance, I would like to provide some additional color on our tax rate assumptions. As Marc mentioned, we are revising our tax rate guidance to approximately 20%. As we said last quarter, there continues to be potential for changes to provisions of the Tax Cuts and Jobs Act and other legislative actions. Although, we do not expect the rate to be lower than our current guidance, we will continue to assess and provide the updates throughout the year as necessary.

Turning to slide 16, we review our free cash flow guidance for 2018. Overall, we continue to expect to deliver $1 billion to $1.1 billion this year. We continue to expect higher cash earnings year-over-year. We remain focused on

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reducing inventory to drive working capital improvement this year. In total, we continue to expect to drive significantly higher free cash flow this year and achieve our cash conversion goal.

Turning to slide 17, we show our capital allocation priorities for 2018. We remain committed to our balanced approach to capital allocation. We raised our quarterly dividend for the sixth consecutive year, which is a reflection of our confidence in the business. Early this morning, as Marc mentioned, we announced the planned sale of our Embraco compressor business unit. In light of the related deal negotiations we temporarily paused our share repurchase program during the first quarter.

We have secured financing of an amount similar to the transaction amount and we intend to execute a modified Dutch Auction tender offer of up to $1 billion under our current share repurchase authorization, with an anticipated purchase price not less than $150 per share and not more than $170 per share, subject to market conditions. Following the completion of the tender offer, we intend to continue repurchasing shares on the open market in the second half of 2018. Overall, we remain committed to returning strong levels of cash to shareholders this year.

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

Q&A

Operator

[Operator Instructions] We'll take our first question from Sam Darkatsh of Raymond James.

<Q - Sam J. Darkatsh>: Good morning, Marc. Good morning, Jim. How are you?

<A - Marc Robert Bitzer>: Good morning, Sam.

<A - James Peters>: Good morning, Sam.

<Q - Sam J. Darkatsh>: Two questions. First off, with respect to the guidance and recognizing it's excluding the accretive effects of the Dutch Auction, if I look at your individual line items, it would seem as though you should be raising guidance. So, it looks like your tax rate incrementally might be $1 benefit, pricing might be an incremental $0.50 benefit, then this is offset by raw material inflation of $0.50 and offset by global volumes of $0.30. That comes to $0.70 all in, unless I'm missing something material. So, why wouldn't you raise your guidance range for the year to reflect that or at least to midpoint?

<A - Marc Robert Bitzer>: Sam, let me [indiscernible] (00:17:06) and Jim can add to this one. So, first of all, stepping back also, in Q1, we would say our business is on track and we told you in January – we talked about the pricing actions, we talked about the fixed cost actions. We delivered on both of these big parameters and we delivered an all-time record in Q1, which gives us the confidence our business is on track.

I do agree with you that if you take the individual components, you come to the high-end or even above our margin guidance. At the same time, and we alluded to this one in the scrip, there are still some aggregate risks out there in the form of, there is still uncertainty about what happens with the tariffs, the so-called Section 301. We still – there's still a little bit uncertainly out there on tax rate. So, there are still some aggregate risks and that's why we kind of, at this point, we wouldn't raise the guidance. But having said that, we're highly confident of the business, I mean our actions are on track. And in a certain way, you also got to look at the tender auction as we feel very confident of our business, that's why we go out with a very significant buyback of our shares.

<Q - Sam J. Darkatsh>: Which leads me to my second question, why the modified Dutch? Clearly, if it's under $150, that's even more attractive to buy the stock. And then, over $170, you spend most of 2017 buying the stock at or above $170. So, why even bother with the range?

<A - James Peters>: Yeah. So, Sam, this is Jim. We look at the different mechanisms and we believe that the modified Dutch tender offer is the most efficient and effective way to repurchase a large amount of shares very quickly in the

market. It's beneficial to both us and the shareholders in the way that we do it. And again, it sets – the price, it was pretty close to today's trading price. And then, with a range on it, that we feel is – will be effective in terms of achieving what we want to achieve from a capital allocation perspective.

<Q - Sam J. Darkatsh>: Okay. Thank you.

<A - Marc Robert Bitzer>: Thanks, Sam.

Operator

And we'll take our next question from Michael Rehaut of JPMorgan.

<Q - Michael Jason Rehaut>: Thanks. Good morning, everyone. First question just to talk a little bit about margins and margin guidance for the year. I guess, another way some people might be looking at the guidance with some of the math in terms of the share repurchase and that, let's say, $0.70 movement when you exclude the reduction from lower sales. And some people are focusing on the fact that your margins by region are approximately and to the extent that you are truly still looking at the midpoint and working off of that math that – the approximately of the different regional margins guidance could now be kind of at the lower end of a range to the extent that when you say roughly 7% or roughly 2% for Europe, that imply somewhat of a little bit of movement or cushion within that number.

So, in response to that Marc, you just kind of said, if you do the math, you could get to the higher end of the range. It is early in the year. But given, for example, that that Europe is starting off a little bit more in the whole than we were expecting, for example, is that a fair way to look at it as well that perhaps some of these margin ranges are coming in perhaps a little bit at the lower end or are you really saying that you're likely to be at the upper end of the $14.50 to $15.50 range?

<A - Marc Robert Bitzer>: Yeah. Michael, it's Marc. First of all, as I said earlier, I would rather point to broader global aggregate risks, again, the biggest one is still there is uncertainty about raw material. Even though, I mentioned the Section 301, which is more North America topic. But in reality, raw material weighs pretty heavily in all parts of our regional business – our global businesses. So, I think that's the prime reason why we still see certain factors out there, certain risk element. At the same time, I'm also very transparent, there's also some upside opportunities which we want to see how that plays out throughout the year. So, yes, and again I can only repeat what I said to Sam, if you take the components of which we're pretty highly confident, you probably come to the higher part of the range, but at this point and early in the year, the uncertainty is out there. We don't want to raise the guidance.

<Q - Michael Jason Rehaut>: Okay. No. I appreciate that. I guess just secondly, I believe you mentioned earlier in the script that the first half earnings or EPS would approximate what you've done in the past. And just some quick math, it looks like the last two years – you can take a range and the numbers can vary, but just over the last two years, it looks like the first half EPS was around 42%, 43%, which would place 2Q EPS around $3.50, if we're using the midpoint of the full year guidance. Just wanted to make sure that math is right and that's kind of what you're effectively saying about 2Q.

<A - James Peters>: Yeah. I mean, Michael, and obviously we don't give specific quarterly guidance, but as I said on the last call, as we do believe the first half of the year to be in line with prior years. And even if you look at the last two years or you look over a larger window over the last five to six years, you're in the low- to mid-40s range there, so – in the percentage that you're talking about. And as we said, we expect to be around that percentage in terms of seasonality of earnings for this year, very similar to the last five years.

<A - Marc Robert Bitzer>: Yeah. And just to clarify, so it's not misunderstood. Jim referred similar to last year we of course talked about the dispersion of the profits. We delivered in Q1, $0.30 above last year and you know what our full year guidance is, and I would say Q2 is directionally along the same trend.

Operator

Our next question is from David MacGregor of Longbow Research.

<Q - David S. MacGregor>: Yes. Good morning.

<A - Marc Robert Bitzer>: Good morning, David.

<Q - David S. MacGregor>: I'm wondering if you can just talk about pricing in North America and you referenced the kitchen price increase that began in the first quarter. I guess, the question would be, is there more to come from that particular price increase in 2Q? Kind of maybe comment about where you were on an exit basis at the end of the quarter in terms of traction and just how much more upside there could be to that. And then also on pricing, I guess, what are you assuming within the 1% guidance for North America price/mix?

<A - Marc Robert Bitzer>: David, it's Marc. So, first of all, on the North America pricing and as you know, I can't comment on forward pricing, but I can comment about what we already announced. Obviously, in January you felt the pricing that we started implementing or executing the price increase in the kitchen side. And as you also know, we announced the laundry pricing which is kind of in effect as of April 10th or April 7th, which of course we do expect to have a material positive impact on Q2 going forward.

Now, the one thing which we also communicated and that's no new news, we – I would say on the kitchen side, what we're seeing [ph] as pause (00:24:38) in Q1 is not necessarily the end of the road. What I mean by that is we have introduced and are introducing a major new kitchen suite for Whirlpool brands, and that's only now ramping up. That's a great innovative product and it gives us quite a bit of mix opportunities, and that of course gives us further confidence that we get the pricing what we have in mind.

<Q - David S. MacGregor>: The kitchen price increase actually got traction fairly late in the quarter, I believe. So, it would suggest that there's maybe more upside there. It just seems given the magnitude of the kitchen or the laundry tariffs combined with what you're doing in kitchen that you maybe being very cautious in terms of your price/mix.

<A - Marc Robert Bitzer>: And again, David, I'm just – so, don't take – first of all, you know we don't give regional PMR guidance. We've given the company guidance. Having said that, you're correct, I mean the Q1 PMR in North America is not reflective of what we would expect on the full year. But we also recognize, we're living in a highly competitive environment, but we're very confident behind the actions that we're taking.

<Q - David S. MacGregor>: Okay. Just a follow-up question on Europe, I guess, the inflection point is really what I'm trying to get to. Are we going to see an inflection in the second quarter or I know Jim had talked a little bit about some manufacturing things are going in 3Q. It just seems like to get it to a 2% number for the full year you got to kind of get to a 2% number in the second quarter. Am I thinking about that the right way?

<A - James Peters>: Yeah. David, I'll start, and then Marc can kind of add some commentary if he wants to. I think you should expect to see the inflection point more closer to mid-year. As I mentioned, with some of the trade partner renegotiations we've done, we'll begin gaining back some floor spots within the second quarter and expect the volumes to recover in the second half of the year. Additionally with the previously announced cost-based pricing actions that we've taken and the cost takeout that we've done, at this point in time, they're being more than offset by raw material inflation. So, we expect to see that through the second quarter, but then the volumes to pick up in the third quarter, and that's where the inflection point should be around mid-year.

<A - Marc Robert Bitzer>: Yeah. And David, just add to Jim's point. Of course, we don't like where our European business is and we all have a different expectation, at the same time, we didn't change the full year guidance. If you want to look at any positive in the European business in Q1, it is the underlying pricing actually has been very significantly positive. So, we took strong pricing actions and despite the significant volume drop, which as you know typically hurts you a lot on the production base, we still had a positive cost takeout. So kind of think of a core business with positive pricing cost that gives you at least a little bit of more promising sign. At the same time, and what Jim mentioned is, at the end of the day, over the last one-and-a-half years of our integration challenges and supply chain challenges, we lost a lot of floor spots, and we're slowly regaining them. Every month, it's a little bit better, but it's – I would more expect it towards the midpoint of the year where we see really an inflection point.

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Operator

Our next question is from Susan Maklari of Credit Suisse.

<Q - Susan Maklari>: Thank you. Good morning.

<A - Marc Robert Bitzer>: Good morning, Susan.

<A - James Peters>: Good morning.

<Q - Susan Maklari>: First question is around the cost cutting and the benefits that you are clearly starting to see from the actions you took last year. I guess can you just give us a bit of an update on where that stands? And then, as we think about inflation to continuing to come through, how much more can you do there and maybe if there is any geographical differences that we should be thinking about with that?

<A - Marc Robert Bitzer>: Susan, it's Marc. So, first of all, also stepping back to the fixed cost reduction which we refer to, that is our $150 million net fixed cost reduction which is in addition to ongoing cost productivity efforts. On the fixed cost reduction, we mentioned about it already in January, we did already initiate a lot of actions in Q4, and I would say pretty much completed most actions by kind of end of February in Q1. So, what you see in Q1 numbers is part of that effect, but not the full effect. But the important thing is such the actions have already been taken, so it's already behind us. So, you would see some ongoing benefit for the rest of the year in that fixed cost and it's – we know it, I mean, with certainty.

Now to your other question about – of course, there are inflation trends throughout the world. And I also want to use this as an opportunity, because I think there has been some confusion outside, whenever we give raw material guidance, we take a forward look. We don't take spot look when we look at the raw material. So, whenever we change our raw material guidance, in a certain way, it's changed against our forward-looking perspective. So, yes, in our forward-looking perspective, we have already certain inflation baked in. If it would be more, which at this point you cannot exclude, of course, we will try to further increase the cost actions, but there are certain limits. So, of course, we – there are certain limits, but we will initiate initial cost actions.

<Q - Susan Maklari>: Okay. That's helpful. And then just following-up on the inflation, I know that you cited steel was a really big factor in the higher rate in that number. But can you give us a little bit of color on what you're seeing in terms of resins and maybe some of your other inputs?

<A - Marc Robert Bitzer>: Yeah. I can add to this one. First of all, as most of you know, steel and resins are our biggest raw material inputs, and steel has seen a significant climb, even though it's now reasonably stable. But it's – U.S. steel is right now significantly elevated versus the rest of the world and that's just the reality. And resins have been elevated now pretty much for three quarters. And now, obviously, with the oil price at $70, that just puts further pressure. But we don't see massive new moves on the go-forward basis, but it's also outside steel and resins – aluminum is a factor, zinc is a factor, copper is a factor. Now, again, our current assumptions about the rest of the year are baked in our raw material guidance. So, that's a forward-looking view. And at this point, that's our best view on the future.

Operator

We'll take our next question from Curtis Nagle of Bank of America.

<Q - Curtis Nagle>: Okay. Thanks very much. Just continuing on the raw material pressure, I guess, should we consider or should we, I guess, expect to consider around $65 million to $70 million a quarter or would you expect to see maybe in price an increase in 2Q, and then a tail off in the back half of the year?

<A - Marc Robert Bitzer>: Curtis, it's Marc. And first of all, we experienced almost $80 million of raw material in Q1. So, we had a significant amount of raw material already in Q1. So, in a certain way, if you take out full year guidance, we already took a big chunk in Q1 and we were able to mitigate it. This initiated price actions and cost takeout actions. So, on a go-forward, we should expect to see more benefits from pricing. But on the raw material

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year-over-year, on a quarterly basis, it will be very similar to – maybe a little bit less towards the year-end, for the next couple of quarters it's very similar to Q1.

<Q - Curtis Nagle>: Okay. That makes sense. And then just, I guess, could you provide a little more guidance on what you guys are expecting on the interest and sundry line? It looks like that was a positive for the quarter. I don't think you gave it in guidance. And, yeah, I mean how much is that factored for the quarter and for the year in the ongoing margin expectations for 2018?

<A - James Peters>: So, Curtis, one thing to – there's actually a simple change that that goes into there is that, the way that that's used as we mentioned the BEFIEX credits that we monetized in Latin America, those actually under the accounting rules used to sit on a different line, and they now go into there. So, with the amount that I gave you earlier that you can use that to just normalize what you should expect that line to be, but that's what the difference would have been.

<Q - Curtis Nagle>: Okay. Thanks very much.

<A - Marc Robert Bitzer>: Thanks, Curtis.

Operator

Thank you. We'll take our next question from Ken Zener of KeyBanc Capital.

<Q - Kenneth R. Zener>: Good morning, gentlemen.

<A - Marc Robert Bitzer>: Good morning, Ken.

<A - James Peters>: Good morning.

<Q - Kenneth R. Zener>: Can you guys talk to the shift down in sales guidance and the margin? So, my first question is, is the sales split equally between Europe and U.S., given the margin impact of 7.5% seems to be an average of the region?

And then my second question is, to the extent the sales is coming down in the U.S., can you talk about the decision to forgo sales to protect margin, given what seems to be the strength in your portfolio? Thank you.

<A - James Peters>: So, Ken, I'll start off, and then I'll have Marc kind of add some commentary here. As we look across at the kind of the reduction in revenue outlook globally and look across the globe, I would say that it's not heavily weighted – significantly more heavily weighted to one region or other. Obviously, within EMEA, we do see the volumes lower as we mentioned earlier in the first half of the year, but we do expect to recover some of that in the back half of the year.

Additionally, within North America, which you would have saw especially in the U.S., the first quarter from an industry perspective was stronger – was significantly stronger, and we still do expect our industry guidance of 2% to 3% for the full year. So, again, we expect that to normalize itself out throughout the year. So, I can't say that I would skew that either heavily to any specific region at this point in time.

<A - Marc Robert Bitzer>: Yeah. Ken, the only other comment which I would make in the components of our updated guidance, I think at the end of the day, without getting into the details of the numbers, what you got to read into is a strong reconfirmation of what we gave in Q1. We will drive for margin expansion and cash generation, that's our number one focus, [ph] in particular off the (00:34:38) last year, where we had a margin drop. Our number one focus is margin expansion. We don't necessarily want to lose market share, but our number one focus is margin expansion.

<Q - Kenneth R. Zener>: Thank you.

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Operator

Our next question is from Alvaro Lacayo of Gabelli & Company.

<Q - Alvaro Lacayo>: Good morning. I just have a question on unit productivity both in North America and in Europe. And with North America, the question is what kind of an impact did the washer loadings from competitors have on Q1 and is it over? And then, maybe if you could provide unit productivity excluding the washer business to see what kind of an impact that had in overall in North America? And in Europe, just the [ph] minus 14% (00:35:29) regarding the trade renegotiations, was that in line with what you were expecting or was it a little bit more elevated? And then, in the back half, is it correct to assume that you expect to grow above the industry growth rates as you recover some of that volume?

<A - Marc Robert Bitzer>: Alvaro, let me try to address both questions. First of all, on North America, on the washers and – first of all, I would say as we indicated several times, there was a lot of odd movements when you look at the [ph] EMEA (00:36:02) industry statistics, because it's a sell in [ph] included (00:36:05), it's not necessarily of a sell through. The sell through over time will follow, but the [ph] EM (00:36:11) is a very much a sell in, and it's as such impacted by shipments of us and certain competitors, and certain trade moves in there, in terms of how much trade inventory is being carried.

With that in mind, and we hinted towards this one already in January, but we didn't yet have data. The stockpiling by LG and Samsung was massive on unprecedented levels, even higher than any prior case, and has dramatically dropped off in February. So, it's kind of probably the most extreme cases of stockpiling which we've seen. So, as such confirm what we had, what we predicted, but once you see the data, it's been very significant.

And of course that has certain impacts on [ph] EM (00:36:54) market shares kind of December-January on how it all shows up. We expect it will, but we don't know, but it will take some time until that is kind of being fully sold through in the markets. But as to your point, that has an impact on laundry volumes, laundry market share, and has a couple of other movements in there. Having said that, our laundry business is still being solid in Q1, we have a set of good innovations in the market, we implemented the price increase and we feel confident about it.

Now, to your second question about Europe, as Jim alluded to, there are certain – there were certain private label volumes which we knew we didn't want to continue. So, a certain amount of drop is expected and was actually projected in a certain way. But having said that, there was also something on top and that is just we lost floor spot over the last one-and-a-half years and it's just hard to get that back. In addition, we had following the European calendar of trade negotiations, [ph] whereby you get a (00:37:54) whole set of trade negotiations in particular in Russia, UK and also some of our markets, where we had to renegotiate certain trade terms which we were not – we felt were not favorable, and that dragged on pretty much until March, but we have it resolved by now.

<Q - Alvaro Lacayo>: Got it. And then, with the sale of the compressor business, was that included in the original guidance when you guys gave Q4 guidance, and I assume whatever operating margin impact is already included now, if it wasn't in Q4, but just want to clarify that.

<A - James Peters>: Yeah. And I'd say that, prior to this there was no assumptions in terms of the sale of Embraco. Additionally, as we said, the transaction should close closer to the end of this year. And so, at this point in time, it really won't have a material impact on 2018. Additionally, as we said, once we've going through the tender offer processes around the share repurchase that we're doing associated with this, we'll come back and update our guidance to reflect any changes to the number of shares we've repurchased.

<A - Marc Robert Bitzer>: And just to echo what Jim was saying, we negotiated for our Q1 a set of multiple bidders, which is also the reason why we did not buy back shares in Q1. We actually signed it last night. So, by definition, we couldn't include in the prior guidance. So, Jim's point is, of course, there would be a final closure of the transaction somewhere in Q4, which at this point, I would consider unlikely you would see a few cents, but I'm literally talking about a few cents. If it does include in 2018, there is no impact on our guidance whatsoever. So, it's not – I mean, we didn't include it, but I also want to reiterate, we also did not include the impact of the tender offer [indiscernible]

(00:39:43) our share count and the EPS guidance.

Operator

This concludes our question-and-answer session. I would like to return the call to Marc Bitzer for closing comments.

Marc Robert Bitzer

All right. I'd now like to summarize the key messages from this call on slide 19. We delivered improved EBIT and record ongoing earnings per share in the first quarter. And our global price/mix and fixed cost initiatives have been successfully implemented, and we expect to continue realizing the benefits of those actions throughout the year. We remain committed to returning strong levels of cash to shareholders this year, both through our increased quarterly dividend and through our increased share repurchases. And finally, consistent with our vision of being the best brand consumer product company in the world, we announced the sale of our Embraco compressor business. This transaction will enable us to fully focus on providing compelling consumer-facing innovation, while returning strong levels of cash to our shareholders.

Thank you for joining us today, and we look forward to speaking with you again on our second quarter earnings call on July 24th.

Operator

This does conclude Whirlpool Corporation's first quarter 2018 earnings release call. You may now disconnect your lines, and everyone, have a great day.

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