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Whirlpool Corp. (WHR)

Q2 2019 Earnings Call

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James Peters
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MANAGEMENT DISCUSSION SECTION

Operator: Good morning, and welcome to Whirlpool Corporation's Second Quarter 2019 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
Senior Director-Investor Relations, Whirlpool Corp.

Thank you, and welcome to our second quarter 2019 conference call. Joining me today are Marc Bitzer, our Chairman & 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, I 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 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 our ongoing business operations. We also think the adjusted measures will provide you a better baseline for analyzing trends in our ongoing business operations. Listeners are directed to the supplemental information

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package posted on the investor relations section of our website for the reconciliation of non-GAAP items to the most directly comparable GAAP measures.

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

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

Marc Robert Bitzer

Chairman, President & Chief Executive Officer, Whirlpool Corp.

Thanks and good morning, everyone.

On slide 3, we show our second quarter highlights. As you saw in our press release, we delivered a number of very strong quarter, leading us to significantly raise full-year earnings guidance. We achieved record second quarter ongoing earnings per share and margin expansion to 7% as strong global price mix and continued cost discipline more than offset cost inflation. North America delivered solid top line growth with solid share gains in a stable industry environment. Additionally, our North America region delivered EBIT margin expansion of approximately 50 base points to 12.4%, as strong price mix and cost discipline more than offset continued cost inflation. Lastly, we completed the sale of our Embraco business unit, and we'll use the proceeds to pay off our $1 billion term loan. This strong first half performance gives us confidence in our ability to deliver our full-year guidance significantly above what was previously guided despite continued global macro uncertainties.

Turning to slide 4, I will discuss our second quarter results in more detail. In line with our long-term goal, we delivered global revenue growth excluding currency of 3.5%, as strong price mix more than offset unit volume declines. Ongoing EBIT margin was 7% for the quarter, a year-over-year increase of approximately 30 base points. And our second quarter free cash flow reflects normal seasonality of cash usage and was impacted by our planned settlement payment to the French Competition Authority. Overall, we are obviously very pleased with our second quarter results and believe we are well-positioned to deliver our upwardly revised full-year commitments.

Turning to slide 5, we show the details of our second quarter margin performance. Margin expansion in the second quarter was delivered through approximately 250 base points of price mix, as we realize the carryover benefits of previously announced pricing actions primarily in the United States. We continue to expect margin benefit from price mix throughout the year, which will moderate slightly on a year-over-year base as we start to compare to strong price mix from the second half of last year. These margin benefits were partially offset by cost inflation and increased marketing and technology investments.

And now, I will turn it over to Jim to review our regional results.

James Peters

Executive Vice President & Chief Financial Officer, Whirlpool Corp.

Thanks, Marc. And good morning, everyone.

Turning to slide 7, I'll review the second quarter results for our North America region. We delivered excellent results in the quarter with solid revenue growth and strong margin expansion to 12.4%. Revenue growth was favorably impacted by price mix and share gains within a stable U.S. industry environment, partially offset by continued industry demand weakness in Canada.

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Overall, we expanded EBIT margin by approximately 50 basis points, as strong price mix and continued cost discipline were partially offset by cost inflation and higher marketing investments. This marks the seventh consecutive quarter of margin expansion in North America, highlighting the strength and agility of the underlying business and our ability to overcome significant external pressures.

Turning to slide 8, we review the second quarter results for Europe, Middle East and Africa region. In line with our previously announced actions, we substantially completed the exit of our Turkey domestic sales operations and Hotpoint small appliances in the quarter, and we announced a final agreement to sell our South Africa operations. Excluding the impact of currency, net sales were approximately flat, while unit volumes increased approximately 3% in our remaining business driven by our improvement actions to stabilize volume. And EBIT margins improved 70 basis points, led by our fixed cost reduction actions. In total, our business has stabilized and is expected to continue to show modest year-over-year improvement throughout 2019.

Now, we turn to slide 9 to review the second quarter results for our Latin America region. Excluding currency, net sales increased approximately 10%, driven by both industry growth and share gains in Brazil. Margin expansion was driven through strong price mix and focused cost discipline, partially offset by the impact of unfavorable currency.

We now turn to the second quarter results for our Asia region, which are shown on slide 10. [ph] Excluding (06:11) the impact of currency, net sales increased nearly 5%. Our India business had another very strong quarter, delivering revenue and EBIT growth alongside continued share gains. This strong performance was offset by significant volume weakness in China, driven by negative industry trends. In addition, we continued to increase brand investments as we transitioned from Sanyo-branded products to the Whirlpool brand.

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

Marc Robert Bitzer

Chairman, President & Chief Executive Officer, Whirlpool Corp.

Thanks, Jim.

On slide 12, I'll review our upwardly revised guidance assumptions for 2019. By continued volatility in the macro environment, we have built strong momentum in our business and are pleased with our first half performance, and feel confident in the strategy and actions we have in place for the second half of the year. As a result of this confidence, we are raising our full-year earnings guidance.

Revenue guidance increased to $20.6 billion as we recognized two additional months of Embraco operations than previously forecasted. We raise our ongoing EBIT margin guidance to approximately 6.8%, the high end of our previous range. And adjusted our free cash guidance to the low end of our previous range to reflect additional restructuring opportunities in Europe, which more than offset the high cash earnings from increasing margin expectations. And lastly, we are increasing our ongoing earnings per share guidance to a range of $14.75 to $15.50. This guidance revision reflects a strong progress being made towards our long-term goals and the confidence that we have in our ability to deliver strong levers of value-creation for our shareholders this year.

Turning to slide 13, we show the updated drivers of our EBIT margin guidance. We now expect 175 base points of improvement related to price mix benefits in 2019. Net cost benefits have been slightly reduced to 25 base points, but are still expected to be margin-accretive. And although macroeconomic pressures remain elevated, raw material inflation has slowed down, leading us to revise our cost inflation guidance favorably by 50 base points for

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the full-year. Finally, we slightly increased our expectations for marketing and technology investment levels. [ph] With these (08:27) revisions, we now expect a solid 50 base points of margin improvement year-over-year.

And now, Jim will cover our regional guidance and cash priorities.

James Peters

Executive Vice President & Chief Financial Officer, Whirlpool Corp.

Thanks, Marc.

On slide 14, we show our regional guidance for the year. Our regional industry guidance ranges remain unchanged. For North America specifically, we saw improvement in the U.S. demand environment, providing confidence in our guidance range for the full-year. In Latin America and Asia, we continue to trend towards the low end of the range as Mexico and China both experienced negative industry demand in the first half.

Regarding our EBIT guidance, North America remains unchanged at 12%-plus. With a strong first half performance, we remain very confident in our ability to deliver meaningful margin expansion in the region. In EMEA, we are confident that we are executing the right actions to restore volume and right-size our operational footprint. We have stabilized the business and delivered moderate improvement in the quarter, but are adjusting full-year expectations to the low end of our previous range and plan to take additional restructuring actions to further right-size our business. In addition, we continue to expect approximately 5% volume growth in the region on a full-year basis. In Asia, we low lowered our margin guidance to approximately 3% as strong India results are more than offset by very weak industry levels in China. Lastly, our guidance for Latin America remains unchanged.

Turning to slide 15, I will discuss the drivers of our 2019 free cash flow. With the increase in our margin guidance, we expect cash earnings to positively impact free cash flow by an additional $25 million. We continue to expect $200 million of working capital improvement in 2019 as we remain focused on substantially lower working capital. And as previously mentioned, we made the final payment to the French Competition Authority this quarter, which netted to approximately $50 million with the reimbursement from Indesit's seller. We also adjusted our restructuring guidance to reflect additional opportunities in our European region, inclusive of our intention to sell our Naples, Italy manufacturing plant. In total, we now expect to deliver free cash flow of approximately $800 million, excluding the net proceeds from the sale of Embraco.

Turning to slide 16, with show our capital allocation priorities. Our capital allocation priorities for the year remain unchanged. The sale of our Embraco business unit is complete, and proceeds from the sale will be used to pay off our $1 billion term loan in August. This will drive significant progress towards our long-term gross debt to EBITDA target of 2.0. Lastly, we expect to continue repurchasing shares at moderate levels in the second half of this year.

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

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QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator instructions] Your first question comes from the line of Sam Darkatsh from Raymond James. Please, go ahead.

Sam Darkatsh
Analyst, Raymond James & Associates, Inc.
Q

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

Marc Robert Bitzer
Chairman, President & Chief Executive Officer, Whirlpool Corp.
A

Good. Hi, Sam.

James Peters
Executive Vice President & Chief Financial Officer, Whirlpool Corp.
A

Good morning, Sam.

Sam Darkatsh
Analyst, Raymond James & Associates, Inc.
Q

Two questions, if I might. First, on EMEA, everybody's favorable topic, I suppose. I recognize and see that your confidence in getting it not only stabilized but right-sized remains. We're looking, though, at a little bit of a lower margin guide for the year. Second quarter organic sales growth slipped a little bit from the first quarter despite an easier comparison, and now there's new restructuring outlays. So, what gives you the confidence sequentially what you are seeing in the marketplace, Marc, going forward, if you could?

Marc Robert Bitzer
Chairman, President & Chief Executive Officer, Whirlpool Corp.
A

Yes. Sam, it's Marc. So, first of all, I would not make it reliant on the marketplace. The marketplace in Europe is reasonably solid, but we're not counting on a massive market increase. The reason why we're confident is ultimately coming back to the actions which we took. As you know, we took significant fixed costs out; we exited South Africa or sold South Africa; exited Turkey, the small domestic Hotpoint business; and we put a strong focus on driving core volume growth. As a result of that, now in Q2, we saw some improvement year-over-year in sequential, but frankly not yet to the level where we want to be. So, it's largely dependent now on solidifying the core volume growth.

As you may recall, in the investor meeting, we said you should expect 5% to 6% core volume growth on the remaining business. And we achieved 3%, which there is a small detail in there, it's largely driven by our Middle East business was a little bit soft in Q2 but should recover end of Q3. So, it ultimately comes back to, Sam, our organic core volume growth needs to be 5% on top of all the actions which I described. And then I will see – then, we will see both sequential and year-over-year improvement in our European business.

Sam Darkatsh
Analyst, Raymond James & Associates, Inc.
Q

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And then, my second question – and thank you for that. My second question. The inventories, I know you were looking to take out at least $100 million of inventories in the second quarter. You're mentioning that they're still temporarily a little high. Can you help quantify that? And specifically where those inventories are and the timing of when you see that in the back-half getting taken out? Is it a 3Q, 4Q thing? And just a little bit more meat on the bone, if you could?

James Peters
Executive Vice President & Chief Financial Officer, Whirlpool Corp.
A

Yeah, Sam. And this is Jim. And I think if you look across the globe, the one area where we did and for the full-year we still expect to get to the $200 million of working capital improvement that we highlighted and that we've had in our guidance. And as we look around the globe, actually within EMEA now, with stabilizing the sales volumes, our inventories are in a good shape there. But in our other three parts of the world, I'd say it's kind of evenly spread right now. And so, it's due to demand fluctuations and other things. And we do anticipate that, within the third quarter, we will get down to the levels we expect it to be. I mean, as you know, the first or the second quarter in the U.S. started off slightly slower than we expected but then picked up momentum. So, we do expect to have that corrected within the third quarter.

Sam Darkatsh
Analyst, Raymond James & Associates, Inc.
Q

And the quantification of the inventory that's still out there that you want to work down?

James Peters
Executive Vice President & Chief Financial Officer, Whirlpool Corp.
A

As I'd say, we don't really [ph] get into it (14:50), but it fits within that total $200 million of working capital reduction. So, you should expect to see inventory levels similar to or slightly lower than last year by the end of this year.

Sam Darkatsh
Analyst, Raymond James & Associates, Inc.
Q

Thank you very much. I appreciate it.

Operator: Your next question comes from the line of Megan McGrath from Buckingham Research. Please, go ahead.

Megan McGrath
Analyst, The Buckingham Research Group, Inc.
Q

Good morning. Thanks for taking my question. I guess, I wanted to ask a little bit about you mentioned some issues in North America outside the U.S. If you could give a little bit of further thoughts on your share position in the U.S. and what's going on in those other regions, that would be great.

Marc Robert Bitzer
Chairman, President & Chief Executive Officer, Whirlpool Corp.
A

Yeah. Megan, it's Marc. First of all, good morning. First of all, [ph] from our scope (15:32), as you know, this [ph] changes of reporting loss (15:35) in North America is U.S. and Canada. Two years ago, it still included Mexico. It's really U.S. and Canada. First of all, from the overall, I mean obviously, with Q2 at 12.4% margin, we feel very good about North America business. Very strong traction and impact from our pricing actions. We feel good about

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our share position, if you just do the math. And as you always know, it's a little bit tricky between the [ph] T6 AM or T7 (16:02) in our overall business, but we feel very good about our share position both year-over-year. So, we feel good.

The weakness right now is more industry-related in Canada. Canada, year-to-date, is a fairly soft market environment. And we are the overall market leader in Canada. So, of course, you feel it to some extent. So, if you want to point to any remote weakness our North America business, probably more industry-related to Canada, but the U.S. business is in very solid shape.

Megan McGrath
Analyst, The Buckingham Research Group, Inc.

Q

Great. Thanks for that. And then, a follow-up in terms of cost and price in North America. My guess is maybe there's some concern that as cost inflation eases, there might be some pressure on your ability to keep prices up. And obviously, you can't comment on what your pricing actions are going to be in the future. But typically, in an environment where commodity pressures are easing, would you expect to see pricing come down? Do you think that that will spur volume? How are you thinking about, let's say, the next six to nine months in light of these lower commodity costs?

Marc Robert Bitzer
Chairman, President & Chief Executive Officer, Whirlpool Corp.

A

Yeah. So, Megan, so first of all, as we mentioned in our statements before, we feel very good about our pricing actions in North America, not just about the fact that we took them but how they were executed. So, we didn't lose mix. We feel really good about how the team overall executed them.

So, with that in mind, to your question, of course, it's pure speculation about what happens going forward, and we don't comment on this one. But I would like to remind that our pricing actions were cost-based pricing actions. The cumulative effects, just for the last two years, was $600 million to $700 million raw material increase. So, just because we now see a small moderation of raw materials and maybe a scenario where it gets more to a zero increase doesn't change the fact that we had $600 million or $700 million cost increase accumulated. So, for us, the need of a change, but doesn't change anything about we had to do pricing, and we will hold on.

Megan McGrath
Analyst, The Buckingham Research Group, Inc.

Q

Great. Thank you very much.

Operator: Your next question comes from the line of David MacGregor from Longbow Research. Please, go ahead.

David S. MacGregor
Analyst, Longbow Research LLC

Q

Yes. Good morning, everyone.

James Peters
Executive Vice President & Chief Financial Officer, Whirlpool Corp.

A

Good morning, David.

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Marc Robert Bitzer
Chairman, President & Chief Executive Officer, Whirlpool Corp.
A

Good morning, David.

David S. MacGregor
Analyst, Longbow Research LLC
Q

Just in the European business, I guess, you talked about the 3% unit volume growth but it occurred with the weak Middle Eastern business. Are you able to isolate out just what you did in Europe as separate from the Middle East and Africa, and how that would compare with that 5% to 6% growth target?

Marc Robert Bitzer
Chairman, President & Chief Executive Officer, Whirlpool Corp.
A

Yeah. So, David, I mean, again, our core business, in particular, on the core European markets – UK, France, Italy, Poland, Russia, and Germany – we actually had in pretty much all markets, maybe with a little bit of exception of Italy, a very strong performance in Q2. So, we were actually, in most of these markets, even trending towards more than 5% growth. So, we feel actually very good about these markets. Italy was, for us, a little bit softer. And then, to my earlier point is Middle East was disappointing Q2, which is largely – I mean, it's quite fairly easy to isolate. There's a regulatory change in Saudi Arabia, which is a very important market for us, and we should be out of this one by end of September.

David S. MacGregor
Analyst, Longbow Research LLC
Q

Good. And second question, just back to North America and, I guess, following up on the last question. Can you just talk about how North American competitive forces are evolving in premium segments versus value segments?

Marc Robert Bitzer
Chairman, President & Chief Executive Officer, Whirlpool Corp.
A

Yeah. I mean, David, again, I mean, I would overall say Q2, from what we've seen on competitive landscape, is not materially different from Q1 or Q4 last year. So, this is – North America is a highly competitive market environment. I wouldn't, right now, see a disproportionate growth of the value segment versus premium segment. So we, as you know, the overall North American market was pretty much flat in Q2.

David S. MacGregor
Analyst, Longbow Research LLC
Q

Yeah.

Marc Robert Bitzer
Chairman, President & Chief Executive Officer, Whirlpool Corp.
A

And I would say that's pretty much the same both in premium and [ph] mass value (19:54). The reason why we feel good about our premium part is, as you know, we launched a new front-load line, which helps us a lot in the premium segment. We have a Whirlpool GBL launch, which kind of [ph] fully finds traction (20:07). So, with the new product launches, we feel actually very good about our position in the premium segment of the market.

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David S. MacGregor
Analyst, Longbow Research LLC

Q

Thanks very much. Good luck.

Marc Robert Bitzer
Chairman, President & Chief Executive Officer, Whirlpool Corp.

A

Thanks, David.

Operator: Your next question comes from the line of Michael Rehaut from JPMorgan. Please, go ahead.

Elad Hillman
Analyst, JPMorgan Securities LLC

Q

Hi. This is Elad on for Mike. Thanks for taking my question. First, I was just wondering if you could help us think about margin expansion potential for 3Q, and if there's some potential impact from any further need to reduce production volumes in the remainder of the year? And how much of that you are able to work through in 2Q? And then also, if there's any more impact from higher marking and tech investments in 3Q as well? Thanks.

James Peters
Executive Vice President & Chief Financial Officer, Whirlpool Corp.

A

Yeah. So, this is Jim. And I'd say, if you look at 3Q, we expect our EBIT margin expansion and our cost takeout to be similar to what we've seen year-to-date and kind of what we've guided to for the full-year. So, it's not going to be dissimilar from any of the previous quarters here.

I think the one piece you asked on the inventory reductions, what I will say is that it will have a slight impact on the third quarter. But we also had some of that in the third quarter last year. And additionally, as you look at when we talked about our net cost and you look at what we forecasted last quarter for the full-year versus this quarter for the full-year, that does reflect the impact of some of the – it reflect the impact of needing to reduce production volumes in the third quarter, in addition to just increased levels of logistics costs and other costs we're seeing outside of materials.

Marc Robert Bitzer
Chairman, President & Chief Executive Officer, Whirlpool Corp.

A

Yeah. Let me maybe just make the additional comment. As you know, we don't give quarterly margin guidance. We guide the year now to 6.8%, which again was at the very high end of a previous range. We just finished Q2 with 7.0%. So, I would say in the 6.8%, all of these moving parts being inventory or marketing investments, they are fully factored in. And given the run rate where we are, we feel very confident about the 6.8% on a full-year base.

Elad Hillman
Analyst, JPMorgan Securities LLC

Q

Okay. I was more talking about North America in particular. Because I know in 2Q, you'd mentioned that it's going to have a kind of a decline on a sequential basis. So, I was wondering if we should expect a little bit more moderated expansion in 3Q as well?

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Marc Robert Bitzer
Chairman, President & Chief Executive Officer, Whirlpool Corp.
A

I mean, again, the same what I said before holds true. I mean, we don't give quarterly margin guidance, and particularly not on a region-by-region level. In our full-year guidance, North America is factored in at 12%-plus, and we are running at 12.4% which is very, very strong. And that should give you also indication that we are very confident about Q3 and Q4 being above 12%. We're fully on track. And so, yes, there will be always some ins and outs, but the overall sum will be 12%-plus.

Elad Hillman
Analyst, JPMorgan Securities LLC
Q

Okay, okay. And just quickly on Europe, the additional restructuring actions that you pointed out with the $200 million outlays, instead of the $100 million from last quarter. Any more detail on the additional actions that you are seeing over there...

James Peters
Executive Vice President & Chief Financial Officer, Whirlpool Corp.
A

No, we...

Elad Hillman
Analyst, JPMorgan Securities LLC
Q

...other than the intention to sell Naples? Thanks.

James Peters
Executive Vice President & Chief Financial Officer, Whirlpool Corp.
A

Yeah, we did as you said. We announced our intention to sell or reindustrialize the Naples facility. But on top of that, there's numerous other small actions that we're looking at that are not of the size that we'd mention them individually, but it's a basket of actions that we continue to take to right-size our business and our cost structure within that environment.

Elad Hillman
Analyst, JPMorgan Securities LLC
Q

Okay. So, does the – are you still looking at $75 million in EBIT improvement for 2019 and $100 million in annualized EBIT improvement? Is that still how we should think about it?

James Peters
Executive Vice President & Chief Financial Officer, Whirlpool Corp.
A

In EMEA or overall?

Marc Robert Bitzer
Chairman, President & Chief Executive Officer, Whirlpool Corp.
A

Well, I guess the question was referring to Europe. Again, we updated our margin guidance for Europe to a new level, which is around zero. So, yes, it means a year-over-year improvement pretty much in that ballpark.

So, I think we now need to move on to the next caller.

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Operator: Your next question comes from the line of Curtis Nagle from Bank of America. Please, go ahead.

Curtis Nagle
Analyst, Bank of America Merrill Lynch

Q

Great. Thanks very much. Maybe, I'll just follow-up on the restructuring question. I think what have might been asked is in terms of how we should think about forward assumptions for restructuring costs next year and the year after, which I think were somewhere around the $75 million to $100 million ballpark. We are now at $200 from this year, which was $100. So, are we at a new run rate or were you still expecting something around $75 million to $100 million in the out years?

James Peters
Executive Vice President & Chief Financial Officer, Whirlpool Corp.

A

No. I mean, Curtis, I think you should still expect $75 million to $100 million in the out years. And I think what you're seeing is we are on the tail end of the big restructuring program within EMEA. We did add the Naples facility to this, which brought it from the $100 million to the $200 million. And as we get past that, now it will just be looking at specific opportunities as they come up, but there's nothing that we have identified. But we do expect to identify some opportunities on a go-forward basis, but they will be in that $75 million to $100 million range and below the $200 million that we're seeing this year and that we've seen in the prior years.

Curtis Nagle
Analyst, Bank of America Merrill Lynch

Q

Got it. And I'm not sure if this was covered. I don't think I heard it. But how did UK perform relative to the past couple of quarters?

Marc Robert Bitzer
Chairman, President & Chief Executive Officer, Whirlpool Corp.

A

Curtis, it's Marc. I mean, overall, I would say the UK performance is pretty much in line with what we had in mind, i.e., we saw a solid growth in Q2. But of course, we all know with all the moving pieces, [ph] the political uncertainty (25:40), it's a fragile market environment, but right now our Q2 was actually reasonably solid.

Curtis Nagle
Analyst, Bank of America Merrill Lynch

Q

Got it. Okay. Thanks very much.

Operator: Your next question comes from the line of Alvaro Lacayo from Gabelli Research. Please, go ahead.

Alvaro Lacayo
Analyst, G.research LLC

Q

Good morning. Two questions. Just the first one on North America. You talked about demand improving in the second quarter. But I guess guidance calls for even more improvement beyond what we saw in Q2. Maybe, if you could talk about what you're seeing in the market that gives you confidence that you'll see a rebound of shipments going into the second half?

And then, if you can comment on the year-on-year margin expansion for the second half, if you can maybe make some comments around price mix and cost productivity, given that you are going to be anniversarying, I think,

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your pricing in laundry, although you'll still be benefiting from other price increases. Some commentary on that would be great.

Marc Robert Bitzer
Chairman, President & Chief Executive Officer, Whirlpool Corp.
A

So, Alvaro, let me maybe first take the first one in North America industry. Again, we revised the industry guidance at the last earnings call to [ph] minus 2% (26:48) to zero. And right now, what we've seen in Q2 is kind of April started very soft from a selling perspective; May started recovering; and June was – we finally saw some growth. Our expectation is that scenario pretty much will continue to through Q3 and Q4, i.e., we will see a small – not very significant, but we will see small growth in both sell-in and sell-through. And but we – also our sell-through data, which as you know is from public data and we get it from some of our retailers, points to reasonably solid end of Q2. And that gives us the overconfidence that the industry will stabilize in the back half, and we're right now on track towards that full-year guidance.

James Peters
Executive Vice President & Chief Financial Officer, Whirlpool Corp.
A

And then, talking about your question on the EBIT margin improvement. And you are correct. Because if you look at we saw within the second quarter 2.5% margin improvement from pricing and mix. And obviously, now that all the price increases that we have taken in the prior year have been run in, you look at the full-year and what we are forecasting. And while it's better than we would have said last quarter for the full-year, we're still at 1.75% margin improvement for the full-year. So, it does imply that, in the back half of the year, it's not as big of a benefit. But however, for the full-year, it is a very strong benefit from a pricing perspective – pricing and mix perspective. And as Marc said before, we don't break down the individual quarters.

Alvaro Lacayo
Analyst, G.research LLC
Q

Got it. And then, with regards to EMEA, I think the comment you made last quarter was you would exit the quarter at a breakeven rate. Is that a good way to think about it now as we enter -- as we see it going forward as breakeven, and then momentum will lead to improvements over time? Or how should we think about that?

Marc Robert Bitzer
Chairman, President & Chief Executive Officer, Whirlpool Corp.
A

Yeah. Alvaro, so, your statement is correct. And we exited Q2 above breakeven. However, to be fair, [ph] there also were (28:39) some seasonality – positive seasonality in the June volume. But even if you factor that out, we feel a lot better about June and the run rates. And of course, we're fully focusing now on getting to breakeven or above breakeven. And that's pretty much what we guide for the back half.

Operator: Your next question comes from the line of Mike Dahl from RBC Capital Markets. Please, go ahead.

Michael Dahl
Analyst, RBC Capital Markets LLC
Q

Good morning. Thanks for taking my questions.

Marc Robert Bitzer
Chairman, President & Chief Executive Officer, Whirlpool Corp.
A

Good morning.

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Michael Dahl
Analyst, RBC Capital Markets LLC

Q

I wanted to start out with a question. Jim, I think you made a comment about the cost takeout, and I know you don't want to talk quarter by quarter. But just with respect to the second half implications for cost takeout, this is something where you're still expecting a 25 basis point benefit for full-year. It's been a headwind year-to-date. Can you talk about just the cadence in the second half and what is driving what looks to be a fairly strong inflection in your expectation for net cost takeout?

James Peters
Executive Vice President & Chief Financial Officer, Whirlpool Corp.

A

Yeah. Mike, there's a couple of things in there. One, EMEA will be a big part of it. And as we talked about, as we expect the EMEA margins to begin to improve significantly throughout the back half of the year, and a big part of that is the cost reduction efforts that we have done within EMEA. And so, we'll start to see the benefits of those. Additionally, when we look year-over-year, we really saw the logistics costs within the U.S. become elevated, especially in the back half of last year. And so, while it's a headwind in aggregate on a year-over-year basis in the back half of the year, it's not as big of a headwind as it was before.

And then, additionally, there are other cost reduction efforts that we put in place across the globe, just in light of some of the recent inflation that we've seen and that will take effect. So, it's a basket of different things, but those are the big drivers.

Michael Dahl
Analyst, RBC Capital Markets LLC

Q

Okay, got it. And then, my second question just relates to the raw material and inflation, but also thinking about the marketing investments and wondering just the linkage between the two. Is there anything we should read into as raw materials deflate? I understand not wanting to give forward-looking commentary around pricing and great pricing performance so far. But is there going to be some reinvestment of cost tailwinds into the marketing side? And alongside that, if you could give any commentary around the promotional environment just in the quarter and post-quarter with some of the big holiday events?

Marc Robert Bitzer
Chairman, President & Chief Executive Officer, Whirlpool Corp.

A

Yeah. So, Michael, it's Marc. So, first of all, I would not create a linkage between raw material and marketing investments. We have, over the last couple of years, steadily increased our marking investment to support the new product launches. We have recent specific initiatives like, for example, China where we've invested in brands and brand-building. But that is – these are long-term investments against a multiyear strategic plan. So, we're not driven by what happens every given quarter by raw materials.

On the raw materials itself, and I just can reiterate what I commented before, yes, we see a moderation. But keep in mind, even the first half was up, so we see a little moderation going forward. But that's against a backdrop where we had $600 million to $700 million increase over the last two years. So, the fundamentals about being significantly elevated compared to 2015 has not changed. And therefore, we don't take any dramatic actions in another direction because the fact base is still the same.

Now, and again as I mentioned before, forward-looking statements about pricing, we don't do it and it's pure speculation. The promotion environment in Q2, in retrospect, I wouldn't describe as fundamentally different than Q1. This is a highly competitive environment. Our promotion strategy has not changed. We participate when we

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think we can create value; and if not, we don't. So, that has not dramatically changed. And we don't see it right now.

Michael Dahl
Analyst, RBC Capital Markets LLC

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Okay. Thank you.

Operator: Your next question comes from the line of Ken Zener from KeyBanc. Please, go ahead.

Kenneth Zener
Analyst, KeyBanc Capital Markets, Inc.

Q

Good morning, gentlemen.

Marc Robert Bitzer
Chairman, President & Chief Executive Officer, Whirlpool Corp.

A

Good morning.

Kenneth Zener
Analyst, KeyBanc Capital Markets, Inc.

Q

So, look, you guys' margins continue to be strong, obviously on price in part from last year, but mix as well. I think to the extent you guys continue to deliver very strong North American margins, in general, right, outside the U.S. causes some deflation of that performance, whether it's Europe or Asia in this quarter. So, my question to you is this: I mean, if usually the $600 million to $700 million mark that you keep referring to cost inflation, if you're getting that and you're neutral to that or your higher margins would suggest actually you're doing better, is that – when you talk about price recovery, price relative to the cost inflation, I mean, it sounds as though you're getting your cost inflation and it's actually product mix efficiency that is leading to the year-over-year gains. I mean, is that an accurate way to think about it as opposed to you're asking for price above cost inflation?

Marc Robert Bitzer
Chairman, President & Chief Executive Officer, Whirlpool Corp.

A

So, Ken, it's Marc. Let me try to answer your question. First of all, what I want to reemphasize, of course, our overall results are very dependent on the North America performance. But one aspect which I also want to highlight for Q2 is we had margin expansion in three out of four regions. So, of course, in absolute terms, North America was a star. But we had margin expansion in three out of four regions, which gives us a good sense.

On your point about pricing, again, right now, we have pricing which is above the total cost increases which we have, and we feel very good about the execution. To your point, it's not just the like-for-like increase which we did based on the raw material cost increases. The new product launches, not only in North America but throughout the world, really helped us manage mix very well. And what you see right now is very much to your point. It's a combination of the carryover benefit of like-for-like increases and very good mix management across all regions. And that's also our opportunity going forward. We have good products, new innovative product launches which justify our price in the marketplace.

Kenneth Zener
Analyst, KeyBanc Capital Markets, Inc.

Q

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Right. No, and I do agree with you. I think North America is the star. But I mean, it's clear there's a lot of other elements at work and you're executing well. This is not a setup question, Marc, but I think what continues to be a drag, obviously, I mean, the movie Jerry Maguire, show me the money.. To the extent Europe is having this $100 million headwind in your free cash flow, I think, what really is missing is the synchronization of your continuing EBIT with your free cash flow. And to the extent you can talk about, bigger picture, your thoughts of those two metrics coming together, so normalizing better, I'd appreciate it. Thank you very much.

James Peters
Executive Vice President & Chief Financial Officer, Whirlpool Corp.

A

Yeah, Ken, and this is Jim. And I'll kind of start off and take that, and then let Marc add any commentary. As we look at the – I think the additional $100 million you're talking about is the additional restructuring that we have added. And obviously, those are products within EMEA. Now, what we do expect is, once we complete all of that and we've begun to improve the margins within EMEA, now we'll begin to see significant cash generation coming from increased earnings within EMEA.

Additionally, as I mentioned earlier, from an inventory perspective within EMEA, we are beginning to see benefits as we begin to get our inventories in line with our sales levels and normalize our production levels there. So, from – while we don't give regional cash performance perspective, what I will say is that, once we get past this restructuring, EMEA is moving to become part of a positive cash generator.

Now, for the full-year, again, [ph] as you've said (36:47), we've got a big turn in the back half of the year here. If we look at last year, or we look at this year within the first half of this year, we've had some significant one-off type items, such as the French anti-competition authority payment that we had to make and some large tax payments we had to make on some of the gains that we carved out of our ongoing earnings. And we don't have those in the back half of the year, and so we'll see a significant generation of cash within the back half of the year. And if you think about last year in the back half of the year, we made a $350 million pension contribution. So, when you're looking at it year-over-year, there's a big – our back half of this year will be significantly better than last year's second half.

Marc Robert Bitzer
Chairman, President & Chief Executive Officer, Whirlpool Corp.

A

Yeah. Ken, maybe just to close yours and add to Jim's comments. As you know, we don't give regional cash numbers or guidance. But to echo what Jim was referring to, if you look at the European cash flow, the internal numbers, you would see more confidence of improvement than you right now see with our earnings. So, take that as an early and a positive leading indicator, but we see it in the cash flow. And we will continue to focus on this one.

Marc Robert Bitzer
Chairman, President & Chief Executive Officer, Whirlpool Corp.

Let me maybe just wrap up here, and I'm referring now to page 18 and I am not going to go through all the bullet points on page 18. But just to reemphasize what we said in our prepared remarks and also in Q&A. Obviously, we feel very good about our ongoing momentum in the business. What we have achieved in the first half, our perspective on the full-year, and that allowed us to raise the guidance fairly significantly by $0.75 on the bottom and $0.50 on the high end. So, we feel very good about the business, not only in North America but in many parts of the world.

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North America stands out in what I would describe still a fairly soft environment in North America. We achieved a very, very strong performance [ph] on the margin (38:33) but even on the top line level. We feel confident about Europe slowly coming around. We always have a certain amount of impatience about how quickly it can come around. But I think we start seeing the traction of the actions which we put in place and make sure they set us up much better for the back half and for next year.

And finally, we completed the sale of Embraco, which as you know was long in the works, but it significantly helps us now addressing our debt level. And we feel confident towards reaching that famous gross debt to EBITDA target of 2.0 by the year-end.

So, overall, we feel very good about our business. We remain focused on delivering Q3 and Q4 in line with what you all have in mind, and as a continuation of a very strong first half. Thank you very much.

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Operator: Thank you. This concludes today's conference call. You may now disconnect.

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