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Whirlpool Corp. (WHR)

Q3 2019 Earnings Call

CORPORATE PARTICIPANTS

Roxanne Warner

Senior Director - Investor Relations, Whirlpool Corp.

Marc Robert Bitzer

Chairman & Chief Executive Officer, Whirlpool Corp.

James Peters

Executive Vice President & Chief Financial Officer, Whirlpool Corp.

OTHER PARTICIPANTS

David S. MacGregor

Analyst, Longbow Research LLC

Megan McGrath

Analyst, The Buckingham Research Group, Inc.

Curtis Nagle

Analyst, Bank of America Merrill Lynch

Michael Rehaut

Analyst, JPMorgan Securities LLC

Sam Darkatsh

Analyst, Raymond James & Associates, Inc.

Alvaro Lacayo

Analyst, G.research LLC

Mike Dahl

Analyst, RBC Capital Markets LLC

Kenneth Zener

Analyst, KeyBanc Capital Markets, Inc.

MANAGEMENT DISCUSSION SECTION

Operator: Good morning, and welcome to Whirlpool Corporation's Third 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, Roxanne Warner.

Roxanne Warner

Senior Director - Investor Relations, Whirlpool Corp.

Thank you and welcome to our third quarter 2019 conference call. Joining me today are Marc Bitzer, our Chairman and Chief Executive Officer, and Jim Peters, our Chief Financial Officer. Our remarks today track with 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 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 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 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 & Chief Executive Officer, Whirlpool Corp.

Thanks, and good morning, everyone. On slide 3, we show our third quarter 2019 highlights. We delivered very solid global results with ongoing EBIT margin of 7.2%, 100 basis point increase compared to the prior year. We were pleased with our first half performance and continue that positive momentum this quarter.

These results represent our third consecutive quarter of global margin expansion as we progress towards our full year and long-term goals. In North America, we delivered impressive margin expansion for strong price mix execution and focused cost discipline. In Europe, we drove near breakeven ongoing EBIT results as momentum from our strategic actions to stabilize volumes and right size our business drove strong year-over-year and sequential improvement.

Given our strong year-to-date performance, which we expect to continue, we are confident that we're trending towards the high-end of our full year ongoing earnings per share range of \$14.75 to \$15.50.

Lastly, in August we paid down our \$1 billion term loan, which resulted in significant progress towards our long-term leverage target approximately 2.0. In total, we are very pleased with our momentum year-to-date.

Turning to slide 4, I will discuss our third quarter results in more detail. We delivered organic net sales growth, which excludes the impact of Embraco on currency of approximately 2%. Ongoing EBIT margin was 7.2% for the quarter, a year-over-year increase of 100 basis points, as positive price/mix and focused cost discipline more than offset the impact of slightly lower unit volumes. Our nine-month free cash flow reflects normal seasonality of cash usage and was impacted by our plan settlement payment to a French Competition Authority and cash taxes paid from sale of Embraco.

Turning to slide 5, we show details of our third quarter margin performance. Three of our four regions delivered positive price mix resulting in margin expansion of approximately 150 basis points as we continued to realize the carryover benefits of previously announced pricing actions. We continue to expect margin benefit from price mix through year-end, however, at a more moderated level as we compare against last year's fourth quarter cost base pricing actions in the US kitchen segment and Brazil. Additionally, we continue to see the benefit from our cost takeout initiatives deliver favorable impact across all regions, resulting in a margin expansion of 25 basis points.

Lastly, improving trend in raw materials outside of North America partially offset with continued tariff headwinds resulting in an unfavorable margin impact of 25 basis points. The net impact of currency and hedging was neutral for the quarter. These margin benefits were partially offset by a continuation of increase marketing and technology investments. Overall, we're very pleased with our ability to leverage our global scale, rise product innovation, proactively manage costs and deliver strong global results despite ongoing macroeconomic volatility.

And now I'll 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 third quarter results for our North America region. We delivered a very strong financial performance with revenue growth despite weak industry demand in Canada. Additionally, we delivered record EBIT as strong price mix execution and disciplined cost takeout offset lower unit volumes and continued freight inflation. This marks the eighth consecutive quarter of margin expansion in North America, highlighting the fundamental strength of our business.

Lastly, we're excited to announce that we were awarded a five-year exclusive supplier relationship with D.R. Horton, the largest homebuilder in the United States. This relationship further reinforces the strength of our brands, product portfolio and logistics network as we bring winning products to more customers beginning January 2020.

Turning to slide 8, we review the third quarter results for our Europe, Middle East and Africa region. Unit volumes increased 5% across our core European business led by growth in Russia, UK, Italy and Poland among others. This growth was offset by improving, although weak, Middle East and Africa demand. Despite the continued weakness in the Middle East and Africa and the impact of previous business exits, net sales excluding the impact of currency were essentially flat for the quarter. We delivered significant year-over-year and sequential improvements with ongoing EBIT near breakeven as momentum from our strategic actions continues to drive results.

At our 2019 Investor Day, we highlighted the following key actions to restore profitability to EMEA, exit of Turkey, Hotpoint SDA, South Africa, fix cost reduction and regaining volumes. We are pleased to say that we are fully on track. We have fully exited our Turkish domestic sales operations as well as our Hotpoint branded small appliances business. We also completed the sale of our South Africa operations and are continuing to deliver structural operating improvements in the region.

Now we turn to slide 9 to review the third quarter results for our Latin America region. Unit volumes were negatively impacted by temporary trade inventory adjustments at a key Brazilian retailer. We have already begun to see unit volumes return to normalized levels and expect to recover volume in the fourth quarter and in early next year. Organic net sales, which excludes the impact of Embraco and currency, increased approximately 4%. EBIT margins contracted in the quarter as positive price mix and favorable raw material inflation was more than offset by lower unit volumes related to temporary trade customer inventory timing, currency devaluation in Argentina and weak Mexico demand.

Finally, as a reminder, we completed the sale of our Embraco business unit on July 1, meaning this is the first quarter without the Embraco compressor business consolidated in our regional results. 2018 and first half 2019 results will continue to include the impact of our Embraco compressor business. Reference our appendix for a schedule of Embraco's quarterly results.

We now turn to the third quarter results for our Asia region, which are shown on slide 10. Excluding the impact of currency, net sales increased 7%. Strong momentum continued in our India business delivering double digit revenue and EBIT growth alongside continued share gains. Although unit volumes increased in China, the cost of the brand transition initiative resulted in elevated margin pressure. That said, our brand transition strategy in China is on track with the value share of Whirlpool brand exceeding Sanyo brand for the first time during the quarter.

Before we move on to our full year guidance, I want to make a few comments regarding our third quarter consolidated financial results compared to prior year. Our SG&A favorability of approximately \$60 million was primarily due to strategic actions in EMEA and currency favorability in Latin America. Favorability and interest in

sundry income of approximately \$50 million is primarily driven by currency related hedging gains. The net earnings impact from currency and hedging throughout the income statement was immaterial in our results.

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

Marc Robert Bitzer

Chairman & Chief Executive Officer, Whirlpool Corp.

Thanks, Jim. On slide 12, we are reaffirming our ongoing guidance assumption for 2019. Revenue guidance remains unchanged at \$20.6 billion as a moderate improvement in US is offset by continued softness in Canada, Mexico and the exit of some of our European businesses.

Our EBIT margin guidance is now 6.8% or slightly above, reflecting our solid year-to-date performance and confidence in our ability to deliver fourth quarter results in line with our full year commitments. Our free cash flow guidance of approximately \$800 million, which includes Embraco sales proceeds and related term loan repayment remains unchanged. In total, we're trending towards the high-end of our full year ongoing earnings per share range and have decreased our full year GAAP guidance, as additional product warranty and liability expenses was partially offset by adjustments to Embraco gain on sale calculation.

With strong momentum through the third quarter, we are confident our strategy and actions will deliver continued progress towards our long-term goals.

Turning to slide 13, we show the drivers of our ongoing EBIT margin guidance. We now expect 200 basis points of improvements related to price/mix benefits in 2019. Net cost benefits have been slightly reduced by 25 basis points, as ongoing cost productivity actions are offset by the impact of lower unit volumes. With these revisions, we continue to expect at least 50 basis points of margin improvement year-over-year.

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. In North America, we saw moderate improvement in the US demand environment for the second consecutive quarter, providing confidence our guidance range for the full year. In Latin America, we revised our industry guidance expectations to 3% to 4%, as Mexico demand weakness continues to weigh on the region. Industry expectations for EMEA and Asia remain unchanged. In total, we continue to forecast approximately flat global growth for 2019.

Regarding our EBIT guidance, North America was revised to 12% plus, reflecting our continued confidence in the region's ability to drive meaningful margin expansion. In EMEA, we are confident that we are executing the right actions to restore profitability and continue to expect EBIT margin of approximately breakeven for the full year. In Latin America, we have adjusted our guidance to approximately 6%, taking into account the impact of temporary trade inventory moves and weaker than expected Mexico demand.

Lastly, our margin guidance for Asia remains unchanged. In total, we expect margin improvement of at least 50 basis points, as we continue to leverage our year-to-date momentum and drive strong global results.

Turning to slide 15. I will discuss the drivers of our 2019 free cash flow. We reaffirm our expectations to deliver free cash flow of approximately \$800 million, including the net proceeds and term loan repayment related to the

sale of Embraco. With our year-to-date momentum and strong global results, we continue to expect strong cash earnings. We reaffirm our capital expenditures and restructuring assumptions and we are focused on driving sustainably lower working capital. As previously mentioned, we made payments to the French Competition Authority in the first half, which netted to approximately \$100 million. And our restructuring guidance reflects ongoing asset optimization in our European region, inclusive of restructuring of our Naples, Italy manufacturing plant.

Turning to slide 16. We provide an update on our capital allocation priorities for the year. The sale of our Embraco business unit is now complete and the proceeds from the sale were used to pay off our \$1 billion term loan in August as we previously communicated. This brings our gross debt to EBITDA to 2.5, which puts us well on track towards our long-term target of approximately 2.0. Additionally, we completed the sale of our South Africa operations, which is another step forward in our plan to restore the EMEA region to profitability. Lastly, we repurchased \$50 million of shares and expect to continue repurchasing shares at moderate levels going forward.

Turning to slide 17, I'd like to highlight our initial planning assumptions for 2020. We are anticipating industry growth of approximately flat to North America and globally as modest growth in the US and Brazil is offset by continued softness in Canada, Mexico and China. The unfavorable impact of previously announced tariffs is expected to be offset by easing material costs. We anticipate approximately flat depreciation and amortization expense for the full year.

Lastly, we expect restructuring expense to be approximately \$75 million to \$100 million on a go-forward basis and an effective tax rate of 20% to 25%. Further detail on our 2020 guidance will be provided on our January earnings call.

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

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] Please limit yourself to two questions before reentering the Q&A queue. Your first question comes from line of David MacGregor from Longbow Research. Please go ahead.

David S. MacGregor
Analyst, Longbow Research LLC

Q

Yes. Good morning, everyone.

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

A

Morning, David.

David S. MacGregor
Analyst, Longbow Research LLC

Q

First question, just on EMEA, can you just remind us on the EMEA profit benefit from exiting Turkey and the Hotpoint SDA and then South Africa?

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

A

Yeah, David. It's Marc. As you may recall, when we made all these actions pretty much a year ago, we set the combination of Hotpoint SDA, exiting Turkey, the fixed cost action and everything else, is about a \$50 million annualized run rate profit, so I would say in the quarter we got pretty much [ph] back (00:16:31) share and we thoughtfully in there. And on top of that, you have the additional benefit of now having solid growth in the core key markets which kind of gave us back some volume levers. So I would say pretty much half of improvement comes back from the strategic actions, the fundamental strategic actions, the other part came back from we see some growth in our core markets and that's healthy.

David S. MacGregor
Analyst, Longbow Research LLC

Q

And just on the North American volume declines, are you able to bucket that out across kind of value mass and premium? Thanks.

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

A

Yeah, David. It's Marc. First of all, frankly I wouldn't read too much into the North American volume decline which is slightly – minus 6.9% or 7%. It's almost entirely coming from the Canadian market weakness but we didn't lose share, that's an overall industry weakness and the SDA – or KitchenAid SDA volume. As you know, the KitchenAid SDA is a heavily Q4 focused business, there for promotion period and whenever you have trade inventory [ph] move from (00:17:27) last week of September to first week of October that can have impact. At the end of the day, our North America revenues were still up 0.5% and the core major's business, we didn't have a very – I mean basically volumes are essentially flat to slightly down, so we didn't see that kind of impact.

David S. MacGregor
Analyst, Longbow Research LLC

Q

Great. Thanks, Marc.

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

Megan McGrath
Analyst, The Buckingham Research Group, Inc.

Q

Good morning.

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

A

Good morning.

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

A

Good morning.

Megan McGrath
Analyst, The Buckingham Research Group, Inc.

Q

I wanted to follow up a little bit on your 2020 comments. I know you don't want to give that much more color. But could you tell us, just give us a little color on your RMI assumptions for next year? Are you assuming commodity prices as of this week or are you taking into account – I assume you're sort of in negotiation process for contracts, how are you thinking about that having it next year?

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

A

Yeah. Megan, this is Jim. And, again, what we really start with is we look at where the prices are today going into the period where we begin to negotiate contracts and take that into consideration. Additionally we look at the tariffs that have come into play this year and that could still come into play and estimate those out. So at this point in time as we've said, we do expect unfavorable tariffs to be partially offset by favorable materials, but then once we get to the January earnings call, we'll really detail that more and we'll have a much better feeling at that point on where we think material costs will be for the full year next year.

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

A

Megan, it's Marc. Maybe just to echo what Jim is saying giving some additional color. First of all, what we layout today, that's a point in time assumption, that could well change into end of January. But right now, we certainly do see, on the raw material side, we see a moderation of raw material levels.

Keeping in mind, we still have a cumulative inflation of two years pretty much in our baseline, but we see a moderation. And from that perspective, we have a certainly – slightly positive outlook for RMI. On the other hand, back to Jim's point, [ph] even we have (00:19:28) tariffs, there's an element of carryover because not all tariffs were in effect for full year. And right now we have to take into account what has currently been announced but not

yet implemented which will be a further slightly headwind. The two of them pretty much net themselves out, but I would expect between now and January where will be some moving parts here.

Megan McGrath

Analyst, The Buckingham Research Group, Inc.

Q

Thanks. That's really helpful. And I wanted to follow up on the warranty costs in the quarter. That was sort of an unexpected expense there. Is there any more color you could give on the \$100 million? And any anticipated cash impact from that?

James Peters

Executive Vice President & Chief Financial Officer, Whirlpool Corp.

A

Yeah, Megan, and this is Jim. To begin with, this is something that we're in the middle of the process of and we've identified a component related issue with the product we sell in EMEA. And right now we put our best estimate out there of what it will cost to rectify that. And again, at this time, that's an estimate and there's a lot of work going on to identify what the final remedies will be. If we look at it from a cash flow perspective, we would expect it more to be a early next year type of issue in terms of when we'll see the impact, as I said, as these actions are kind of unfolding as we speak.

Megan McGrath

Analyst, The Buckingham Research Group, Inc.

Q

Thank you.

Marc Robert Bitzer

Chairman & Chief Executive Officer, Whirlpool Corp.

A

Thanks, Megan.

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

Curtis Nagle

Analyst, Bank of America Merrill Lynch

Q

Good morning, guys. Thanks for take the question. Just a quick one in terms of, I guess confidence in the EMEA turnaround, another negative margin, although I guess some progress made in this quarter. Looking at what's implied for 4Q, I think it's something around a 3% margin, which is a pretty significant uplift from where you are now. So I guess just what give you the confidence and what do you have in place like right now, I think you could – help you achieve that.

Marc Robert Bitzer

Chairman & Chief Executive Officer, Whirlpool Corp.

A

Curtis, it's Marc. First of all, I would see – the way I would look at this Q3, it's a very encouraging sign but our actions which we put in place are fully on track. And to have pretty much a \$35 million year-over-year improvement is no matter where you come from, is a big move. But we're still losing money, but we're pretty close to breakeven.

Having said that and that's I would call the normal seasonality and on European business, which is a little bit more skewed towards Q4 in our regions, with the normal seasonality, we will be above breakeven and positive in Q4.

I'm not quite sure I fully agree with the math of 3% and we can follow up separately on this one, but it will be in the positive territory but probably not to the magnitude of 3%.

Curtis Nagle

Analyst, Bank of America Merrill Lynch

Okay. Thanks very much.

Q

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

Michael Rehaut

Analyst, JPMorgan Securities LLC

Thanks. Good morning, everyone.

Q

Marc Robert Bitzer

Chairman & Chief Executive Officer, Whirlpool Corp.

Morning, Mike.

A

James Peters

Executive Vice President & Chief Financial Officer, Whirlpool Corp.

Morning.

A

Michael Rehaut

Analyst, JPMorgan Securities LLC

I wanted to focus for a minute on the North American margins in the third quarter, very strong results, a little bit more than we were looking for. And I was curious if you could kind of drill down a little bit in terms of the drivers of that improvement, if it was all effectively price/mix or if there was some other drivers there. And particularly as part of that answer if you could also address any changes in the competitive backdrop as LG and Samsung have been ramping production this year at their own facilities.

Q

James Peters

Executive Vice President & Chief Financial Officer, Whirlpool Corp.

Yeah, Michael, this is Jim. And let me kind of start off here and then Marc will add some more commentary to this too. But as we look at North America, again, it was a very strong quarter. We are seeing continuing benefits of many of the price increases that we've taken as well as mix, coming from recent product launches and all that, so that's one of the bigger drivers that we see. Obviously, cost has been a headwind within North America, whether it was material costs that have started to moderate some, but tariffs continue to be a year-over-year cost increase, as well as we've talked about freight cost. So we've been able to offset that, obviously with the price increases we took but also as we said, the mix of our business is very healthy.

A

In terms of the competitive environment, what I would say is through Labor Day, we did see some increased levels of competition, again, not outside our level of normal and not outside of what we expected. As we look towards the Black Friday holiday period, that'll obviously be an indicator of where things are and all that. But as we've said in the past, we do participate in promotions when we see that they create value, and right now I think we've had a very good track record within the North America business of continuing to balance margins versus the promotional periods.

Marc Robert Bitzer

Chairman & Chief Executive Officer, Whirlpool Corp.

A

Yeah, Michael, it's Marc. Maybe a bit of additional color I want to give on North America. At the end of the day, not just Q3 but the entire year, this is an environment where frankly we do not get a lot of help from the outside. I mean the industry demand has been pretty much moving sideways the entire year, we have cost inflation and tariffs and logistics costs. To your point, LG and Samsung were full in production and yet we delivered 12.8% EBIT margin, which basically tells me no matter how you look at the North America business, this business is in a really, really good shape and we have very strong momentum, and we have a lot of confidence for that business.

Michael Rehaut

Analyst, JPMorgan Securities LLC

Q

No, that's great. I appreciate that. And I guess secondly, just to revisit an earlier question on EMEA and the profitability there, and obviously, you still expect a lot of big things out of that region or a lot of improvement over the next year or two. Right now, as you kind of look at the business plus or minus breakeven, I was hoping if, given you're another quarter or two into the turnaround and you laid out some the plans at your Analyst Day.

If you could kind of just remind us of how we should think about the next year or two in terms of the next two or three steps that are right in front of you in terms of driving improved profitability for the region. Is it all essentially – is it much more driven by recapturing some of the new product introductions and retailing wins that you hope to achieve? Maybe if you could give us an update on how those initiatives are progressing and how we should think about the next 12 to 18 months, particularly in a backdrop where Europe is still overall somewhat challenging.

James Peters

Executive Vice President & Chief Financial Officer, Whirlpool Corp.

A

Yeah, Michael. This is Jim, I'll start off with that. And I think the way you need to look at it is we talked about the actions earlier, and Marc talked about these and we talked about them on Investor Day, remember those were implemented this year. So you have carryover going into next year benefits of that of us being out of Turkey, of us having disposed of the South Africa business and of the cost takeout.

You'll see a continued level of cost takeout within the EMEA business, again, just because we've done a lot of the big actions doesn't mean that we don't have a lot of other things we're focusing on there to continue to adjust our costs, but also then we talk about the 5% core growth within that business, and we do expect that to continue into next year as we gain back share in some of the countries where we lost it. So again, it's going to be a balance next year of cost takeout with an incremental volume coming in due to a stability of that business.

Operator: Your next question comes from 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 & Chief Executive Officer, Whirlpool Corp.

A

Hey, Sam.

James Peters

Executive Vice President & Chief Financial Officer, Whirlpool Corp.

Good, Sam. Morning.

A

Sam Darkatsh

Analyst, Raymond James & Associates, Inc.

A couple questions. First, regarding North America, specifically, and in light of the volumes being down 7%, how are you feeling about inventories? Was your production in line with shipments this quarter? What are you expecting for production? And then also looking into 2020, are you where you want to be from a production versus shipment standpoint? I'll start there.

Q

Marc Robert Bitzer

Chairman & Chief Executive Officer, Whirlpool Corp.

Sam, it's Marc. In short, we are where we want to be at that. To give you little bit more color, our inventories are in pretty good shape. As you know, we've spent a lot of time this year bringing down our inventories early in the year and we're pretty much well on track. Obviously that hurt us a little bit on the production leverage, but we've dealt with that.

A

The more important part and that's behind the units which I was referring to earlier, we feel pretty good about the trade inventories out there, in particular, small domestic where you have a lot of volume in Q4, I would even describe trade inventories as right now being fairly low. The more important thing for us is what we see on the sell-through, i.e. the sellout in the stores. On both majors and small domestic, we're in pretty good shape and we feel very good and that gives us a lot of confidence for Q4.

Sam Darkatsh

Analyst, Raymond James & Associates, Inc.

And then my follow-up question is actually follow up on a prior inquiry about RMI. You mentioned that you expect to moderate tailwind from raw materials next year, perhaps offset by the tariffs. There's a fair amount of confusion though as to why that tailwind is only moderate based on what we can see, obviously, with the steel markets and copper and aluminum and what have you. So I'm wondering why it's only moderate. Were you letting more of your steel purchases float this year? Do you have longer dated hedges for some of your purchases of base metals and plastics and what have you? Just trying to get a sense of why that might be based on what we can see externally.

Q

Marc Robert Bitzer

Chairman & Chief Executive Officer, Whirlpool Corp.

Sam, it's Marc. Let me maybe try to take this one. First of all, as a reminder, on both steel and particularly on the base metals, as you know, we try to either buy very long or hedge as much as we can, between our policies and guidelines. So by definition, the flipside, it means we never buy spots. The spot barely impacts us and in particular, during times it's elevated raw material prices, you should assume we have quite a bit of a discount in our books versus the spot rate.

A

So as such, yeah, what you probably referring to are the spots coming down and we see that. But again, we bought below the spot and our full year costs are below spot prices. Having said that, we're certainly encouraged by the trends, certainly encouraged by the momentum of raw materials, you may also know that the big steel contracts [ph] that should hopefully (00:30:13) get negotiated towards the end of the year, early next year and I

think the current momentum puts us in a good shape and good position towards these contract negotiations, but we will not know until end of January.

The other big and that typically moves a little bit faster element in the raw materials is the plastics. With plastics, you can't go out long, we typically buy quarterly or even shorter-term because you simply cannot go long. So any volatility you may have on oil prices, ultimately in most cases, reflects back on volatility on the plastics and that is still a little bit in uncertainty, even though that was certainly a good guide for us in 2019.

Sam Darkatsh

Analyst, Raymond James & Associates, Inc.

Thank you, both.

Q

Marc Robert Bitzer

Chairman & Chief Executive Officer, Whirlpool Corp.

Thanks, Sam.

A

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

Alvaro Lacayo

Analyst, G.research LLC

Good morning.

Q

Marc Robert Bitzer

Chairman & Chief Executive Officer, Whirlpool Corp.

Morning.

A

Alvaro Lacayo

Analyst, G.research LLC

I wanted to start with price mix in North America. It looks like sequentially there was an acceleration which I assume is driven by mix. Maybe if you could talk – you try to parse that out for me between price and mix? And then maybe give some high color on how you expect mix to evolve from here and maybe call out some of the things you're doing to drive that mix going forward.

Q

Marc Robert Bitzer

Chairman & Chief Executive Officer, Whirlpool Corp.

Alvaro, it's Marc. And let me maybe first take that. First of all, what most people should avoid is to – don't try to just take the unit decline and then take the revenue and assume that's price/mix because it's not that high. On our major domestic appliance business, again, where we have basically flat to slightly down volume, we had revenue growth which is indicative of we had very favorable price mix in North America. We communicated for the entire company with 1.5% price mix in Q3 and North America was above that. So North America led that and that's a very good performance.

A

In particular, if we take into account where we're kind of running against already last year's price increases to some extent, not all, but to some extent which basically tells you the price mix we should get in Q3 is a combination of both the announced price increase and how we execute it, but we also feel pretty good about the

mix management which came from new products and what we're rolling up in market, so we feel pretty good about the mix.

Alvaro Lacayo

Analyst, G.research LLC

Q

With regards to the D.R. Horton win, can you give us little bit more color, one, do you currently already do business with D.R. Horton? Or would this all be 100% incremental? If you could talk about does this include all major appliances? And then what does that mean for your overall margin? Would this be accretive, similar or how would you categorize that going into 2020?

James Peters

Executive Vice President & Chief Financial Officer, Whirlpool Corp.

A

Yeah, Alvaro. This is Jim. I'll probably start with it and Marc can add some comments to it. This is a new customer for us and again it's a big win that we're very excited about. It will involve all of our major domestic appliances and so again as we look forward to this, it is a volume increase for us next year and an increase in terms of the margin of the business, it's not outside of the norms of the margin of our overall business. So again, we feel very good about it.

Marc Robert Bitzer

Chairman & Chief Executive Officer, Whirlpool Corp.

A

Yeah. Alvaro, it's Marc. Obviously, we won't get into the details about the volume and the margins, but it is 100% incremental. I think the more important thing is we, for years, have been talking about us, we want to focus more and more on the homebuilder and the housing market, it's a big part of it, D.R. Horton is the leader in North America, a highly respected company and we're very proud to have won this – have been awarded with an exclusive contract, so it's a big deal for us.

Alvaro Lacayo

Analyst, G.research LLC

Q

Okay. Thank you.

Marc Robert Bitzer

Chairman & Chief Executive Officer, Whirlpool Corp.

A

Thanks.

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

Mike Dahl

Analyst, RBC Capital Markets LLC

Q

Morning. Thanks for taking my questions.

Marc Robert Bitzer

Chairman & Chief Executive Officer, Whirlpool Corp.

A

Morning, Michael.

Mike Dahl

Analyst, RBC Capital Markets LLC

Q

Marc, just back on the North American volume, I wanted to just better understand that a little more, because you call out Canada as being a headwind and that makes sense. But last we saw, Canada is only 8% of that business from a revenue standpoint. So I guess I'm still struggling to understand how any decline could really explain the majority of the 7% overall decline, so maybe a little more color on that and when you talk about the KitchenAid timing, what exactly that contributed.

Marc Robert Bitzer

Chairman & Chief Executive Officer, Whirlpool Corp.

A

Yeah, Michael, I can only repeat what I said earlier. The entire volume decline is largely due to Canada and small domestic appliances. Canada market has been down. And on small domestic appliance, again, you've got to keep in mind the vast majority of sell out on small domestic appliance happens in Q4. Every year there's a lot of inventory moves typically happening around September or October in that industry. We feel good about the sell through, but right now – trade inventories are right now fairly low.

But I am not overly nervous about it. At the end of the day, despite all of this, when we showed 0.5% revenue growth in North America with these kind of margins, so I'm not at all nervous about these volumes and in particular, knowing that our major domestic appliances, we did not lose any share. So we feel very good about that.

Mike Dahl

Analyst, RBC Capital Markets LLC

Q

Okay. Got it. And then the second question is a follow-up on the tariffs. There's been a lot of commentary this year that you guys have been able to provide around monthly numbers of tariff impacts. On the website, you've posted List 4 and the step up if it happens in List 1, 2 and 3 could mean on a monthly basis. But given your earlier commentary around just the carryover effect into 2020, can you just quantify how much is truly incremental to 2020 if we consider all current implemented tariffs and then the proposed increases and or List 4? Just give us kind of what impacted 2019 and what's incremental in 2020.

Marc Robert Bitzer

Chairman & Chief Executive Officer, Whirlpool Corp.

A

Yeah, Michael, it's Marc. So again, to your point, there is the element of already implemented tariffs where we have a certain carryover. As you may recall at beginning of the year, we talked roughly about \$10 million every month, and now we talk about in the range of 12 to 14, also depending on how much volume we have, how much you import. So put a number behind the carryover, it's probably around \$20 million, but we can provide more details, maybe a little bit more.

But then you have the additional element of tariffs announced but not implemented. And right now as it is prudent, we have to take that into account, and that is an additional element of a small headwind. But we, of course, all recognize there is uncertainty around the actual implementation and probably by end of January we will know more.

Mike Dahl

Analyst, RBC Capital Markets LLC

Q

Okay. Thank you.

Marc Robert Bitzer

Chairman & Chief Executive Officer, Whirlpool Corp.

Thank you, Michael.

A

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

Kenneth Zener

Analyst, KeyBanc Capital Markets, Inc.

Good morning, gentlemen.

Q

Marc Robert Bitzer

Chairman & Chief Executive Officer, Whirlpool Corp.

Good morning, Ken.

A

James Peters

Executive Vice President & Chief Financial Officer, Whirlpool Corp.

Good morning, Ken.

A

Kenneth Zener

Analyst, KeyBanc Capital Markets, Inc.

So a lot of questions asked. So if we could just take a step back. I was looking at your 3Q presentation last year where you gave guidance for this year, and you guys did pretty well, obviously. If you look at 1Q, we can start seeing where the parts switched around. For example, we had lower volume, which hurt your net costs. You got better price mix by a little bit and RMI tariff. That moved in your favor. So clearly that was a variety of things moving.

Q

How does that kind of play out? I mean, was that a one-off situation because RMI went down so much, I mean you're talking about modest tailwind for RMI next year. But how often does that occur given you guys kind of experience where you have volume come down, which hurt your net cost out capabilities basically offset by RMI? That's kind of my first question. I mean is that something that is normal, or does that tend just to happen once when inflation drops dramatically the first year?

James Peters

Executive Vice President & Chief Financial Officer, Whirlpool Corp.

Yeah, I'd say, Ken, to say that it's the norm – not say that's the norm. When you look at it, obviously, when volumes come down, you do expect the pressure on demand to come down also and in terms of commodity costs and all that. So as we look forward to next year, again, as Marc talked about earlier, that's really why at this point in time we're giving guidance on indications on what we see on materials but not necessarily giving the guidance yet, because there are a lot of moving parts still. And once we get to January, we have a much better understanding, just like we would have in the third quarter last year versus when we got to January of this year.

A

Marc Robert Bitzer

Chairman & Chief Executive Officer, Whirlpool Corp.

Yeah, Ken. It's Marc. Maybe also some additional color, obviously, this year our entire company business was riding heavily on the price increases previously announced price actions, and we had to deal with cost inflation.

A

The good news is as we come to the end of this year we still a benefit of a pricing and we're really now starting to turn the corner on the cost side. So that's good news. So in a year from now, no, I don't think we will be reliant on one of these two drivers. I think you should expect more cost takeout from us, in particular, as you get a little more tailwind from RMI. And of course by definition when you run into [ph] anniversary (00:39:37) price increase, you will have less pricing.

Having said that, keep also in mind we have in a lot of our business, a lot of product innovation coming into play into Q4, Q1 and Q2 next year, which always gives us a significant mix opportunity. So in short, I don't think we will be entirely reliant on pricing, you should expect more from cost but we will give details in January.

Kenneth Zener

Analyst, KeyBanc Capital Markets, Inc.

Q

Understood. Now related to I am assuming a lot of its product innovation, Marc, with the US volume where it was for the year, is, was, yet the price/mix and I think you're obviously implying there was some good mix in North America given that you didn't lose share. Does that seem strange to you all that you're seeing flat volume, but the consumer is mixing up as opposed to your initial expectations of volume growth? What is that, I mean, how does that sink in your mind that people are trading up, but the volume is flat?

Marc Robert Bitzer

Chairman & Chief Executive Officer, Whirlpool Corp.

A

Ken, I am not quite sure, and – I don't think we said, but the industry of the total consumers mixing up, our business has been mixing up with good products [indiscernible] (00:40:59)

Kenneth Zener

Analyst, KeyBanc Capital Markets, Inc.

Q

Yeah, exactly, your business, yeah.

Marc Robert Bitzer

Chairman & Chief Executive Officer, Whirlpool Corp.

A

Yeah. Our business is really, we have a good mix up opportunity. As you know, we introduced an entire Whirlpool kitchen range. We will have next year brand new dishwasher platform which will be really superior in the marketplace. We are introducing a new vertical top loader which is a significant part of our business which comes out in Q1, so the product innovation give us the power to mix up and in the marketplace, and then consumer will pay for it. I'm not quite sure that it's reflective of the entire market, the entire market I would say is pretty much flat.

Kenneth Zener

Analyst, KeyBanc Capital Markets, Inc.

Q

Okay. If I could, one last question. Comment on India? Thank you very much.

James Peters

Executive Vice President & Chief Financial Officer, Whirlpool Corp.

A

India, India continues to be a very strong business for us. Again, we're seeing significant growth within the India market, very strong margins there, and so from that standpoint it continues to be one of the bright spots that we have within the different countries that we do business in. But nothing significantly different, again, we are performing very well there, maintaining and gaining share and continue to see good results.

A

Marc Robert Bitzer

Chairman & Chief Executive Officer, Whirlpool Corp.

Ken, it's Marc, but I certainly do appreciate that you let us end on a positive note India, because it's a really good business, something we're very proud of.

Marc Robert Bitzer

Chairman & Chief Executive Officer, Whirlpool Corp.

So now we come to the end of our Q&A, so let me just maybe summarize some of our key messages on slide 19. As you've seen, we're certainly very pleased with the momentum in our global business and the level of margin expansion we delivered year-to-date. And having Q3 at 7.2% EBIT margin ongoing is a very strong performance.

In North America, again, no matter how you look at it, our strong fundamentals have allowed us to be agile in volatile macro environment. And despite changes in economic trade and competitive landscape, our North American business has delivered margin expansion now for eight consecutive quarters. And in Europe, we're pleased to see the continued momentum from our strategic initiatives, and we delivered near breakeven results on an ongoing base. And it's now been pretty much a year since we laid out our strategic initiative for returning the region to profitability. And since that time, we've sold and exited unprofitable businesses, we regained volume in key countries across Europe, and have successfully executed our various cost takeout initiatives.

So overall, I think we laid out the plans, we are executing according to plans and now we start seeing results. And additionally, we completed the sale of our Embraco business units and used to proceed to pay down our outstanding term loan, and make a significant progress towards our growth set to EBITDA goal of 2.0.

I would also like to mention a few key highlights that reflect our commitment to environment, society and governance issues. We are named in the 2019 Dow Jones Sustainability Index for North American and we were named the leading company on the 2019 Diversity Best Practices Inclusion Index. So, I'm very pleased with our performance year-to-date, I'm confident we are executing on the right operational priorities across the globe. I just want to thank you for joining us today and we look forward to speaking with you again on our fourth quarter earnings call in late January.

Operator: Thank you. Ladies and gentlemen, this concludes today's conference call. Thank you for participating. You may now disconnect.

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