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Whirlpool Corp. (WHR)

Q4 2019 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning, and welcome to Whirlpool Corporation's Fourth Quarter 2019 Earnings Release Call. Today's call will be recorded. For opening remarks and introductions, I would like to turn the call over to Senior Director of Investor Relations, Roxanne Warner. Please go ahead.

Roxanne Warner

Senior Director of Investor Relations, Whirlpool Corp.

Thank you, and welcome to our fourth 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 whirlpoolcorp.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 opened 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 fourth quarter 2019 highlights. We delivered very strong results, organic net sales growth of 1.2% and ongoing EBIT margin expansion to 7.2%, 100 basis point increase. We demonstrated a strong performance across the globe, as all regions delivered positive EBIT. North America led with record EBIT margins of 13.3%, despite industry demand softness in the US and Canada.

In our Europe, Middle East, and Africa region, we continue to realize the full benefits of our strategic actions. This represents the second consecutive quarter of sequential EBIT improvement in the European region, providing a strong confidence in our ability to drive a region to profitability in 2020. Additionally, we delivered strong free cash flow of over \$900 million with positive contributions from all regions. This result was driven by working capital improvements and capital spend efficiencies.

Lastly, we continue to strengthen our balance sheet and made strong progress towards our long-term gross debt-to-EBITDA target of approximately 2.

Turning to slide 4, I will discuss our full year highlights. We delivered record ongoing earnings per share of \$16 above our \$14.75 to \$15.50 guidance with a very strong ongoing EBIT margin expansion of 60 basis points and free cash flow of over \$900 million compared to guidance of approximately \$800 million. We took decisive action in a challenging environment by announcing and successfully executing on our global cost-based pricing initiatives and driving positive mix through product innovation.

Additionally, we remain disciplined in our approach to cost takeout and continue to optimize our overall value chain while overcoming significant headwinds from tariffs and material cost inflation.

Despite significant trade and macroeconomic challenges, we've fully funded our business investment needs and returned strong levels of cash to shareholders through continued share repurchases and increased our dividend for the seventh consecutive year. These results demonstrate the fundamental strength of our business and provide us confidence when we have the right strategy in place to deliver our long-term goals.

Turning to slide 5. We show the drivers of our fourth quarter and full year margin expansion. In the fourth quarter, price/mix delivered 100 basis point of margin expansion, as we realize the benefits of pricing actions and mix benefits from our product launches. Additionally, we delivered positive net cost takeout in the quarter.

Further, improving trends in raw materials more than offset continued tariff headwinds in North America, resulting in a favorable impact of 25 basis points. These margin benefits were partially offset by continued marketing and technology investments and the unfavorable impact of currency. Over full year, very strong margin expansion from price/mix was partially offset by the impact of tariffs, increased brand investments and currency. Overall,

we're very pleased to deliver and even slightly over deliver on our margin commitment and are confident this positive momentum will continue to drive strong results in 2020.

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 fourth quarter results for our North America region. We delivered stable revenue despite industry softness in the US and Canada, highlighting the agility and underlying strength of our business. Additionally, we delivered record EBIT with margin expansion to 13.3% as strong price/mix execution and disciplined cost takeout offset headwinds from fixed cost leverage and continued cost inflation. The region drove margin improvement of 150 basis points in the quarter, making it the ninth consecutive quarter of consistent margin expansion.

Turning to slide 8, we review the fourth quarter results for our Europe, Middle East and Africa region. Excluding business exits, unit volumes were approximately flat, with growth in Italy, France and Eastern Europe, which was offset by soft Middle East and Africa demand. We are pleased to see strong top-line exit rates in December across the region, including year-over-year growth in Middle East and Africa.

Momentum from our cost reduction and strategic initiatives delivered positive EBIT with margin expansion of 210 basis points. These initiatives remain fully on track and we delivered in line with our guidance of approximately \$100 million EBIT benefit on an annual basis with approximately \$75 million to be realized in 2019. This sustained improvement provides us confidence in our ability to return the region to profitability in 2020.

Now we turn to slide 9 to review the fourth quarter results for our Latin America region. Unit volumes significantly increased alongside a rebound in Brazil industry demand, offsetting continued weakness in Mexico.

Organic net sales, which excludes 2018 Embraco sales, increased approximately 17%, driven by Brazil share gains and very strong direct-to-consumer sales. EBIT margins contracted in the quarter as cost productivity benefits and favorable raw material inflation were more than offset by currency devaluation in Brazil and Argentina. Finally, as a reminder, our fourth quarter 2018 results include the impact of the Embraco compressor business in its consolidated results.

We now turn to the fourth quarter results for our Asia region, which are shown on slide 10. Excluding the impact of currency, net sales were approximately flat as strong top-line growth in India was offset by negative industry demand in China. India delivered double-digit EBIT and continued share gains, which was offset by brand transition investments in China. These investments remain on track with Whirlpool brand share increasing sequentially and year-over-year.

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

Marc Robert Bitzer

Chairman & Chief Executive Officer, Whirlpool Corp.

Thanks, Jim. Turning to slide 12, we'll review our guidance assumption for 2020. In line with our long-term goals, we expect to drive organic net sales growth of approximately 3%. We expect to deliver approximately 7.5% ongoing EBIT margin, an increase of about 60 basis points. Lastly, our free cash flow guidance is \$800 million to \$900 million, which includes a net unfavorable impact of \$140 million from one-time items.

Turning to slide 13, we show the drivers of our approximately 7.5% ongoing EBIT margin guidance in 2020. We expect approximately 25 basis points of improvement related to price/mix, as we deliver new and innovative products and services to our customers. We expect net cost to drive approximately 50 basis points of improvements, as we realize the benefits of our global standardization and complexity reduction initiatives.

Additionally, based on what has been announced to-date, we do not expect tariffs to have a year-over-year impact on 2020 results. Our favorable trends in raw materials are expected to drive approximately 50 basis points of margin expansion. Further, we expect a negative margin impact of approximately 50 basis points as we continue to invest in our digital transformation journey and an unfavorable impact from currency of approximately 25 basis points.

Moving to slides 14 and 15, we want to highlight just a few of our innovative products, which allow us to drive positive price/mix during 2020. The first slide shows how we will achieve product leadership in the North America premium top load laundry segment. These products will launch throughout the first quarter of this year, replacing our entire premium top load laundry segment. These connected capable products have purposeful innovation to meet customer needs, such as Load & Go dispenser, a new pre-treat station and an extra power function.

Second example on slide 15 highlights our new dishwasher build in our first-ever true global architecture, which is set to launch in North America and Asia in the first quarter and at a later stage in Europe. By leveraging our architecture globally, we are able to drive significant improvement in parts and complexity reduction, therefore driving cost efficiencies.

Even more importantly, this innovative product features a new full-size third rack with a full functioning spray arm, the largest third rack available in the market. We fully expect to see major growth in our mass and premium segments as a result of these innovative consumer relevant features. Again, these are just a few examples of exciting innovations that we expect to launch this year that will continue to drive positive price/mix.

Now, I'll turn it back to Jim to highlight a few remaining guidance items.

James Peters

Executive Vice President & Chief Financial Officer, Whirlpool Corp.

Thanks, Marc. Turning to Slide 16. We expect to deliver ongoing earnings per share of \$16 to \$17 in 2020. Our ongoing tax rate is expected to be 20% to 25% compared to 15.3% in 2019, resulting in a year-over-year headwind of approximately \$1.55. A European tax law change in late 2019 favorably impacted our effective tax rate. Excluding this benefit, our tax rate would have been near the midpoint of our previous guidance. Additionally, several of our tax reform benefits and strategies from prior years are no longer effective in 2020, further increasing our rate to our current 20% to 25% range. Secondly, as we mentioned earlier, we expect to drive EBIT margin expansion in all regions totaling approximately 60 basis points resulting in strong earnings accretion.

Our earnings per share guidance includes a headwind of \$0.60 as 2019 EBIT includes approximately \$50 million related to Embraco. Additionally, we expect moderately lower interest expense after the repayment of our \$1 billion term loan in 2019. Lastly, we highlight the carryover benefit from our 2019 share buybacks. While we expect to continue to repurchase shares at a moderate level, we do not provide specific guidance for 2020 and do not reflect that as a driver.

On slide 17, we show our regional guidance for the year. Starting with industry demand, we maintain our cautious demand outlook for North America, while US housing starts show positive signs of strengthening that has not yet

translated into higher appliance demand. In EMEA, we expect a continuation of modest growth, while in Latin America, we expect growth of 3% to 4% as improvements in Brazil are offset by continued weakness in Mexico.

Asia industry is expected to be approximately flat, as growth in India is offset by continued demand pressure in China. In total, we expect the global appliance industry to be approximately flat for 2020. Regarding our EBIT guidance, we expect continued margin expansion in North America driven by focused cost discipline and favorable price/mix related to new product introductions.

In EMEA, we fully expect to continue to realize the benefits of our strategic actions to restore EMEA to profitability resulting in EBIT margin expansion of over 170 basis points. As a reminder, we executed several strategic actions including our business exits in the first half of 2019 driving benefits primarily in the second half.

In Latin America, we expect to deliver EBIT margins of approximately 6% as demand improvements and accelerating direct-to-consumer sales in Brazil are offset by demand weakness in Mexico and currency devaluation in Argentina and Brazil. Lastly, we expect to achieve EBIT margins of 3% to 4% in Asia, as strong India operations are partially offset by weak demand expectations in China.

In total, we expect to deliver approximately 60 basis points of margin improvement and are confident that our operational priorities and initiatives will deliver continued progress towards our long-term goals.

Turning to slide 18, I will discuss the drivers of our 2020 free cash flow. We expect to deliver approximately \$1.7 billion in cash earnings, primarily driven by margin expansion offset by the sale of Embraco. We expect \$550 million in capital expenditures as we continue to invest in our business. Additionally, we expect to deliver approximately \$50 million of working capital improvement, primarily through inventory reduction initiatives as we fully transition key product launches across the globe. And we expect \$200 million of restructuring cash outlays, which includes the reindustrialization of our Naples, Italy manufacturing facility.

Lastly, free cash flow was negatively impacted by approximately \$140 million related to several one-time items. Further details of these items can be found in the appendix of this presentation. In total, we expect to deliver \$800 million to \$900 million of free cash flow.

Turning to slide 19, we provide an update on our capital allocation priorities for the year. We remain fully committed to funding the business for growth, while continuing to strengthen our balance sheet and return cash to shareholders.

Consistent with our balanced approach to capital allocation, we repurchased approximately \$50 million of shares in the fourth quarter. And expect to continue repurchasing shares at moderate levels in 2020.

In line with guidance at Investor Day, our gross debt-to-EBITDA is on track, towards our long-term target of approximately 2. Lastly, I'd like to announce that starting in April, we will no longer report units sold in our earnings materials, including our 10-K and 10-Q.

As we continue to redefine what product is, this will lead to an increase in revenue from products not reported as units, such as the KitchenAid Smart Oven, plus Baking Stone and the upcoming launch of Yummly's Wireless Smart Thermometer.

Further, we continue to invest in our digital transformation journey and unlock long-term value creation, through incremental revenue from digital products and services such as our Yummly Pro subscription service.

As a result, units are becoming less of an indicator of our overall sales performance. Consequently, we will eliminate units reporting in our earnings materials, including our 10-Q and 10-K.

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

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Your first question comes from the line of Mike Dahl with RBC Capital Markets. Please go ahead.

Mike Dahl

Analyst, RBC Capital Markets LLC

Q

Good morning. Thanks for taking my questions.

Marc Robert Bitzer

Chairman & Chief Executive Officer, Whirlpool Corp.

A

Good morning.

Mike Dahl

Analyst, RBC Capital Markets LLC

Q

I wanted to start out just a couple of questions around North American volumes, and maybe a follow-up about your last comment on Jim, around units.

But just in the quarter with volumes a bit weak, it seems like on the major appliance side, a little below what AHAM said. And then I think, we all were expecting some rebound in small appliance shipments, just given the timing shifts you had indicated last quarter. Can you talk us through just the inventory dynamics, potentially at your trade partners both in major appliances and small appliances and how we should be thinking about, what happened in the quarter? And maybe how that's progressing into 2020?

Marc Robert Bitzer

Chairman & Chief Executive Officer, Whirlpool Corp.

A

So, Mike its Marc Bitzer. Let me comment on the NAR volume Q4, which as you know in total, we reported 3.8% unit decline for North America. Now, keep in mind, first of all, on the pure majors business and if you want to take one indication, the AHAM numbers were minus 1.8 for the quarter, which just to remind everybody, does not encompass the entire spectrum of what we sell, that's of course one part of that. If you look at the pure majors business, we approximately held market share in Q4. So we feel pretty good about where we are for market share, in particular during the promotion period.

On the other parts of the business, keep in mind, Canada is in there. Canada continues to have a market decline. And the Canadian market is soft and that has an impact. On the SDA volume, frankly coming into the quarter, we did expect that the trade brings inventories back to normal levels around the end of the year and they did. So the trade inventories on the SDA side are lower than the year before. But we feel very good about the [ph] sell-through for (19:36) KitchenAid SDA, which is pretty solid and pretty stable. So these are pretty much major components. And maybe Jim you want to comment again on the units reporting?

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

A

Yeah. Mike, and then on the units reporting as I mentioned, as we look at our business globally, there are a lot of parts of the world where services and other consumables products that aren't normally included in our unit count, or an increasing part of our sales. So we've typically looked at a unit is something that has a power cord attached to it and a lot more of the stuff that we sell now today whether it'd be stand mixer attachments, it'd be licensed products, it'd be as I mentioned, consumables or services just don't fall into there. And so we felt it was a much less relevant indicator while revenues is a better indicator of how we're doing on a global basis.

Mike Dahl*Analyst, RBC Capital Markets LLC*

Q

Okay. Thanks. And that was actually going to be my second question. Just – is there any way you can size up those components just before you kind of transition to the new reporting, just give us a sense of what those represent today but either in aggregate or by major region?

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

A

Yeah. I'd say right now that we don't disclose those specifically by region and all that. As we said, it's becoming more a part of our ongoing sales. And I think as we switch to this new model, we'll look at what relevant measures we think we should be communicating.

Mike Dahl*Analyst, RBC Capital Markets LLC*

Q

Okay. Thank you.

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

Michael Rehaut*Analyst, JPMorgan Securities LLC*

Q

Thanks. Good morning, everyone.

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

A

Good morning, Michael.

Michael Rehaut*Analyst, JPMorgan Securities LLC*

Q

First question I had was just on the competitive backdrop in North America. There's been a lot of chatter and concern as there always is perpetually. But given the past year with the ramp of the LG and Samsung lines, we've gotten a lot of questions around how that may or may not have affected the competitive dynamics. I was hoping you could comment on your view of the promotional environment in the fourth quarter. Seasonally there's always I think a lift in the fourth quarter, but if you could comment on how that trend has been maybe year-over-year? And if you view anything related to the ramp up of those plants as having contributed to that at all.

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

A

Michael, it's Marc. As you mentioned already with question around the competitive background in North America, they're almost a perennial questions i.e. they have been around for the last 10 years and in the last 10 years we expanded our margin on a consistent basis in North America. Of course, it's an intense competitive environment. But I think we've also impressively demonstrated that we can expand margins despite a highly competitive environment.

In particular when it comes to the onshoring of the two washing machine factories, as we always said, we welcome that because it's a level playing field and we feel very confident that we can compete in that environment. So as such, no, we did not see a negative impact on the broader competitive environment from the onshoring of that production. I would say it's pretty much the same intense environment.

Particularly relates to your question around the promotional environment, yes, in Q4 we saw a slight uptick on the promotional intensity, particularly from two competitors, but not the entire marketplace. And that doesn't entirely surprise us. But you've also seen that despite a broader market contraction, we delivered 13.3% EBIT margin in North America, which demonstrates that even in a promotional environment, even for declining markets, we are able to deliver very, very strong margins.

Michael Rehaut*Analyst, JPMorgan Securities LLC*

Q

Right. So, I appreciate that, Marc. And maybe just to dive in a little bit more as my second question on the North American margins, which obviously is very, very impressive. If you could give us any sense of – perhaps just being a little more granular around the drivers of that 150 basis point year-over-year improvement. In particular, obviously, you have the price/mix component. And I'm also curious about cost productivity. What's driving that bucket and what was the contributor there? Particularly as obviously you don't have any additional volume levers to take advantage of. So really what was driving that other bucket?

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

A

Yeah, Michael. This is Jim. Let me maybe start a little bit with that. I'd say for North America, the margin expansion was driven by similar levers to what we said globally. And so there's not a significant difference there. We did obviously have positive price and mix within North America within the quarter.

From a net cost perspective, we also began to see some cost progression there. And what we're seeing is one, and as we talked about going into 2020, a reduction in headwinds in terms of what we're seeing on materials. Tariffs were very stable within the quarter. So that was positive for us. And then we did make some investments similar to what you see on our walk for the whole quarter. So there's nothing unusual within North America outside of what we demonstrated globally that it was really pricing and mix and then a positive cost environment that offset some of the cost headwinds we had to deal with.

Michael Rehaut*Analyst, JPMorgan Securities LLC*

Q

Great. Thank you.

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

A

Thanks, Michael.

Operator: Your next question comes from the line of Susan Maklari with Goldman Sachs. Your line is open.

Susan Maklari*Analyst, Goldman Sachs & Co. LLC*

Q

Thank you. Good morning.

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

A

Good morning.

Susan Maklari*Analyst, Goldman Sachs & Co. LLC*

Q

To start off with, can you talk a little bit about inflation and how you're seeing steel prices and other kind of key inputs as we think about 2020?

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

A

Yeah, Susan. So when it comes to inflation, let me first repeat what we said several times. Coming into 2019, we basically had a cumulative inflation of around \$700 million in our business. That is result of raw materials, tariffs, cost inflation throughout the entire value chain, in particular logistics. That was still in total headwind pretty much throughout mid-year 2019. And as of Q3 and in particular Q4, we saw that slowly coming around in terms of a total net cost takeout.

If you break it down more in terms of the external factors on this one, yes, we saw globally a turn in the raw materials pretty much around Q3 and then more impact in Q4. And as you've seen in our guidance for 2020, we also expect another improvement on the raw materials side. What has changed since our last earnings call is our outlook on the tariffs because in the last outlook we had to work with what was announced at that time. And based on what we know today now, the tariffs will not have a negative year-over-year impact. And as a result of that we basically see this 0.5% margin expansion just coming from better raw materials.

The other inflation elements like logistics or other cost elements, so far we don't see yet turning around. So that is still working against us and that's what we're trying to address. But again summarizing, I would describe 2020, we will see less of an inflationary environment. But it's not completely gone and it's certainly not reversed. And it's obviously our key operational priority to kind of double down and really improve our cost takeout throughout the entire system.

Susan Maklari*Analyst, Goldman Sachs & Co. LLC*

Q

Okay. That's helpful. Thank you. And then just turning to your EMEA business, can you talk to how much of the improvement in the margin this quarter came from kind of the core business and maybe your improving position within that relative to some of the benefits of the restructuring actions that you've taken there?

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

A

Yeah. Susan, I think it's pretty balanced. I mean at the end of the day, it's the combination of all these measures. Keep in mind, the biggest actions which we drove pretty much for the last several quarters is the fixed cost takeout, the kind of exit of certain non-core businesses like Turkey, like South Africa [ph] and all points (28:00), small domestic appliances and the refocus of investments in driving growth in our core markets. And frankly, I would say we delivered on all three of these levers. So I think it's a combination of these ones which drove the year-over-year improvement.

But in particular, when it comes to the core markets and this maybe is embedded in our overall unit number which we have for Europe, we had in our core markets growth in Q4. And that's a good thing. So we stabilized or regained market share in most of our core markets. And again that's a very encouraging sign as we look into 2020.

Susan Maklari*Analyst, Goldman Sachs & Co. LLC*

Q

Okay. Great. Thank you.

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

A

Thanks, Susan.

Operator: Your next question comes from the line of Sam Darkatsh with Raymond James. Your line is open.

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

Sam.

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

A

Good, Sam. Good morning.

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

Q

Couple of questions if I could. First, you're mentioning expectations for flat industry units globally and also a 3% organic sales growth expectations. I'm trying to figure out the rank order, the reasons for the outperformance in sales dollars where you expected in fiscal 2020 versus the flat industry shipments. I'm guessing some of that's the D.R. Horton win, I'm guessing some of that's price/mix. But if you could help rank, what are the drivers of that gap, Jim?

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

A

Yeah. Sam, here's what I'd probably start with is, if you look at it what we'd say is demand being flat globally. Obviously, we do believe we'll have some share win in certain markets around the world. And you pointed to some of the specific examples in North America. But I think also as Marc just talked about. Within EMEA, we also expect to gain back some of the share we lost there, so that will help drive us from a revenue perspective despite an industry being flat globally.

The second thing is, as we mentioned, there's an incremental amount of price mix in there which also does help us on a revenue base. We assume that to be slightly positive for the year, so both of those that would probably be the second biggest driver that I would say.

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

Q

And then my second question, the net cost benefit of 50 basis points in 2020, that's obviously constructive, but I think it's still below where you'd like to be ideally at least from a productivity standpoint. Are you still anticipating having production below shipments in fiscal 2020? I know, you mentioned inventories maybe being down a little bit. But that sounded more like efficiencies than it did production cuts. So if you could talk about production expectations versus shipments please?

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

A

I can take that, Sam. First of all, on a full year basis, as you point out, we're certainly not planning on a net cost takeout to have benefit from volume leverage. Or put it differently, we're not going to increase production beyond the sales forecast. We actually contrary, we're planning to takeout further inventory we have some opportunity. However, I would say that is not a huge item in there. It's a small negative in the cost takeout efforts. But the other element is, we still have logistic costs that are elevated throughout the world, and that is still a factor. The good news is we're making good progress on the fixed cost takeout in Europe and some other parts. We see some benefits from our global product architecture, so it's all coming to materialize. And yes, internally, our job over time is to tackle even more, in particular on the supply chain and logistic costs.

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

Q

So long-term what should that net cost number be as opposed to the 50 basis points?

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

A

I mean – and again, Sam, I would come back to what we said at the Global Investor Conference. Our aspiration will be, yeah, 0.5 point to a 1 point should be the net cost takeout, absent of a raw material impact. And that's kind of the long-term expectations would have a business of our size.

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

Q

Thank you.

Operator: Your next question comes from the line of Curtis Nagle from Bank of America. Your line is open.

Curtis Nagle*Analyst, BofA Securities, Inc.*

Q

Good morning. Thanks very much for taking my questions. So the first one would be, just trying to understand what is driving the view that, North America demand or unit demand will be higher this year versus last given things like the replacement cycle and housing obviously being late stage. And I think your commentary that we haven't seen much of a push up from that. So I'm just trying to reconcile, again how to think about this year versus last?

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

A

So, Curtis, let me – again on North America. First of all, to repeat the numbers, we expect North America industry to be somewhere between minus 1% and plus 1%, so pretty much flat year-over-year. As you know, we are basically simplified by two major components in the industry demand. One is the replacement demand year one, which is somewhat related to housing or remodeling.

On the replacement and that's a little bit the same like last year, we're now comping against the low years post-recession. And that had been around us for the last one or two years and probably will be around us for another year or so and just because you're comping against these low years. And that was already factored in 2019.

Coming into 2019, frankly we expected more momentum coming out of housing. And of course the – and then again we're now going back in time Q4 2018, where weak housing impacted what we sold in the housing related market in 2019. The housing was I would say a little bit the softer side, compared to what we originally expected coming into 2019. As you turn the page in 2020, I would say, we're reasonably optimistic on housing. But we still want to wait and see.

What I mean with that is the initial data points which we got in December from housing were in fact very encouraging. But it's the first positive data points, and we want to see that stabilizing. I would also add, when you look at the news from homebuilders, these were in fact very strong, very encouraging signs. But I also want to remind everybody is between an order of a new house and the actual planning shipments you typically have 9 to 12 months. So, the good signs which we've seen now on the order side it takes a while until it shows up in our revenue line. So – but I would say, if housing stabilizes and sees more positive trends like we've seen in December, I would say that spells good news for our industry in first.

Curtis Nagle*Analyst, BofA Securities, Inc.*

Q

Okay. I understood. And then just as my follow-up. Yeah, I mean I guess, how should we think about restructuring cost and I guess kind of the path going forward? A commentary from you guys is for a few years from now we should expect that to kind of tick down. This year it's going to be elevated. And I understand for I guess what I'll call a one-time item. But past 2020, do you guys still think we will see a tick down, or how should we think about it?

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

A

Yeah. Curtis, this is Jim. And what I'd say is we expect to be from a P&L perspective at \$100 million of restructuring costs this year. And most of that is related to the already announced action we're taking around our Naples factory, within EMEA. So that's also – the \$100 million is about the run rate you should expect better or less on a go-forward basis. What we do have within this year is we still have assumed \$200 million of cash

outlays for restructuring. And that's just some of the ongoing projects that we have including Naples that's the finalization of those, but we've already taken the P&L charge for those. But somewhere \$100 million or less than that is what you really should think about on an ongoing basis that we'll see.

Marc Robert Bitzer

Chairman & Chief Executive Officer, Whirlpool Corp.

A

Curtis, it's Marc, and let me also echo what Jim is saying is. And again stepping back in time, post the acquisitions which we did and also post-recession, we had several years where we had restructuring \$150 million to \$200 million or over \$200 million. And rightfully many of you asked when is that coming down? So I would say 2020 is now the first significant year where we basically take it down to \$100 million. And again to Jim's point, the cash is following it over time, but the charge as such will be \$100 million. And I would say 2020 is the first significant year where you see a significant reduction in restructuring and that I think should be a trend going forward.

Curtis Nagle

Analyst, BofA Securities, Inc.

Q

Okay, understood. Thanks very much.

Operator: Your next question comes from the line of David MacGregor with Longbow Research. Your line is open.

David S. MacGregor

Analyst, Longbow Research LLC

Q

Yes. Good morning. Congratulations on the quarter. I thought it was a good quarter overall. I guess just on Europe, just to go back to an earlier caller's question on Europe and just looking at your 2020 EBIT guide of 100 basis points to 150 basis points. How much of the expected improvement is related to a full year of the savings that you've delivered so far versus how much is related to top-line drivers like listing growth and favorable mix?

James Peters

Executive Vice President & Chief Financial Officer, Whirlpool Corp.

A

Yeah. Well, I'd say David if you start off with, we said that actions we took deliver about \$100 million on a run rate basis. And we really realized about \$75 million of that so far. So there's about an incremental \$25 million that will come within next year from those actions we've already planned.

And then additionally, we've got other continuing cost takeout initiatives that we've entered into there and we continue to drive. We have, as I mentioned, the action around the Naples factory that at some point in time while we don't expect it to be a significant benefit within 2020, it will be from an ongoing perspective.

And then as I mentioned earlier, really volume lift or regaining some of the market share in some of our key markets is what we see as the opportunity that will then close the gap in terms of that margin progression there.

David S. MacGregor

Analyst, Longbow Research LLC

Q

I don't want to get cut-off because I've got a second question, but if I could just ask you to elaborate on the answer you've just provided. And just how much of a drag on the segment EBIT was the EMEA business?

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

A

David, the EMEA business was a drag throughout pretty much Q3. As you know we had some issues around recertification against the new industry standards. But EMEA in Q4 was pretty much in line with where we historically had it and where we should be. But it was a drag pretty much until September. So it's about a little bit drag on a full year basis. So, yes, I would say that is a further leverage of – a lever for further operational organic improvements in 2020 because you're just now comping against [ph] our three quarters (38:40).

David S. MacGregor*Analyst, Longbow Research LLC*

Q

Right. Okay. And then my follow-up question, I guess with respect to the North American business, I guess there's a lot of questions in the market today regarding – you've got negative North American units. The working capital certainly was below the guide that you discussed on the October call, yet revenues were generally flat and you put up some pretty impressive margins. I guess within the revenue growth math, can you talk about how strong is the mix? And just how confident are you that the mix will remain strong through 2020? And I guess you've got a lot of innovation in the market right now. Is this a matter of just – we had a good year in mix and then we end up against some pretty tough mix comps? Are we in the beginning of maybe a two, three, four year stretch driven by innovation of very strong mix contribution to the P&L?

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

A

So David, overall I would say in Q4, first of all, it was driven by pricing, was driven by yes, our continued discipline in line with our established policy around promotional and participation would create the value. But second of all to your point is product mix where we started – I emphasize started leveraging some of the product innovation. And that's also the reason why we showed early in the script our kind of two major new product ones because they both impact in North America. So – and that's why we're confident we will have good mix, solid mix across brands, across products, also on a go-forward basis and that is our big opportunity.

David S. MacGregor*Analyst, Longbow Research LLC*

Q

Thanks very much.

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

A

Thanks, David.

Operator: Your next question comes from the line of Seldon Clarke with Deutsche Bank. Your line is open.

Seldon Clarke*Analyst, Deutsche Bank Securities, Inc.*

Q

Hey, thanks for the question. Just given all the moving pieces in free cash flow, what do you think the right way to think about long-term EBITDA to free cash conversion is?

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

A

Well, as we've always said, we see our long-term free cash flow goal around a 5% to 6% of sales. So as we begin to exit this year, I think, you start to look at a conversion that begins to get into the 85% plus area. And again, I think 2020 as we mentioned we still have some key one-time items that we need to do such as some legal settlements and other things. But once you get beyond that we do expect to be in that 5% to 6% of sales as a free cash flow percentage.

Seldon Clarke

Analyst, Deutsche Bank Securities, Inc.

Q

And that's you think starting in 2021?

James Peters

Executive Vice President & Chief Financial Officer, Whirlpool Corp.

A

In 2021, I'd say, we're going to get – we will get much closer to there and it will be a progression as you go through over the next few years. But most of these items as we mentioned coming out of 2020, our restructuring cash outflows will be less and we'll have some of these, whether they're legal settlements or product actions that we had to take, behind us. And so we do feel confident that our free cash flows will begin to reflect that stronger performance.

Seldon Clarke

Analyst, Deutsche Bank Securities, Inc.

Q

That's helpful. And then I know you manufacture the majority of your appliances in the US, but do you anticipate any major impacts to production stemming from this Coronavirus outbreak, whether it'd be related to Whirlpool specifically or just the industry more broadly?

Marc Robert Bitzer

Chairman & Chief Executive Officer, Whirlpool Corp.

A

Seldon, it's Marc. I would say at this point the answer is no, we don't expect a major impact. To elaborate a little bit on this one and first of all it's going to – our biggest concerns right now are around our people, but it so far looks like all our 10,000 people are safe and healthy. Beyond this one is – of this Coronavirus, from what you can see today, it may have three potential impacts. One is the China domestic market. Obviously, when people don't go into stores the market will decline. You all know that our exposure to the China domestic market is limited. So yes, that's not going to hurt us a whole lot.

Two is then on production and three is on components. Production, China production is largely serving Asia and to only a lesser extent Europe and to almost a very small extent North America. As you know North America, 80% of what we sell in North America or US is produced in US. So that exposure is somewhat limited in particular with one factory where we export from China is almost a thousand miles away from Wuhan, so we're a little bit, I would say protected, but it's a little bit further way.

The third element is components. Keep in mind this whole thing happens around the Chinese New Year. Every year around Chinese New Year, you plan with your supplier inventory levels when they stop production, when they start production. I would say we're pretty well-covered. We're also well-covered for these three or four days of extension for Chinese New Year. And beyond this one, we've got to see. The other thing which you also need to keep in mind, throughout the last couple of years, the most critical components we went aggressively for dual sourcing. So we're not – we're single source only in very, very few components. We're largely dual source and which gives you a little bit of a hedging.

Seldon Clarke*Analyst, Deutsche Bank Securities, Inc.*

Q

Okay. That's helpful. Appreciate the questions.

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

A

Thanks, Seldon.

Operator: Your next question comes from the line of Eric Bosshard with Cleveland Research. Your line is open.

Eric Bosshard*Analyst, Cleveland Research Co. LLC*

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.

Eric Bosshard*Analyst, Cleveland Research Co. LLC*

Q

Two things in the US market, I'd be curious about. First of all, your expectation of share, it looks like you've got some key new product launches. Interested in how you think about your major appliance market share performance in 2020. And then secondly, curious how you're seeing retailers managing their business in what looks to be a sustained somewhat slower growth environment and also an environment where it appears Sears is probably giving up less share funding their growth.

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

A

Yeah. So, Eric, it's Marc. I mean as you've seen in our outlook, so for North America, we have a lot of new product innovations, where we do believe we have some share growth opportunities. Certainly on the two products which we've just shown on top load and dishwasher, dishwasher platform or architecture which we have almost 10 years [ph] ago (44:34), so I mean bringing in such an architecture with such great features, that should open opportunities for some share growth. And I'm not talking about promotional share growth, I'm talking about structural share growth in a healthy business. So yes, we have certain ambitions for share growth in North America.

Related to your question about retailers, yes, it's obvious that we kind of windfall which came out of a serious decline for many other retailers that has diminished. I mean that's basically non-existing. But right now, I would say, it's a reasonably stable retail environment. The home improvement having a strong growth in home appliances, Best Buy being very well established, but also some other good region players. So I think it's – right now, we don't see a dramatic move across the retail landscape.

We've seen some ins and outs when it comes to inventory management of retailers. And I think you all have seen that in the [ph] AM (45:27) shipment data in October and then subsequent in December. So there's been some moves which of course impact us and our entire supply chain. But beyond this one, we don't see dramatic moves across the different retailers.

Eric Bosshard*Analyst, Cleveland Research Co. LLC*

Q

Great. Thank you.

Operator: Your next question comes from the line of Ken Zener with KeyBanc. Your line is open.

Kenneth Zener*Analyst, KeyBanc Capital Markets, Inc.*

Q

Good morning, everybody.

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

A

Morning.

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

A

Morning, Ken.

Kenneth Zener*Analyst, KeyBanc Capital Markets, Inc.*

Q

Jim, I just had a quick question. So, look, the EPS mix given your expansion in margins that you guys are giving guidance. Should we basically expect kind of a normal EPS cadence meaning front half, a little under half the earnings, first quarter kind of that 21%, 22% range just given the strength and the different moving parts. I just want to make sure we're kind of thinking about if your business balance is shifting this year.

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

A

Yeah, Ken, I think you should expect within this year a similar seasonality. And I mean even in the first quarter, we tend to be pretty close to 20% is what if we look at historically. But a similar 45:55 type of split that you've seen in other years is a safe assumption.

Kenneth Zener*Analyst, KeyBanc Capital Markets, Inc.*

Q

Okay. And then, given the kind of in North America and I understand you're moving to – away from the volume price/mix discussion given AHAM and a long history there, I understand. I'm wondering, if you might be able to anticipate. I mean if the result – if the revenue is down, I mean, how are you guys going to go about kind of explaining this? Or what type of communication could we expect to hear from you absent that those data points, just so none of us get caught by surprise you all or us in terms of if results are better or worse just so we can properly interpret it.

I mean, do you think, you'll be able to talk about volume, even though you're not reporting it or the price/mix? How will that dialogue change?

James Peters

Executive Vice President & Chief Financial Officer, Whirlpool Corp.

A

Ken, I would expect first thing is there'll still be obviously industry data out there that will give an indication of which direction the industry is going. And especially from a North America perspective, now that it's really two key markets and the biggest one being the US, currency also doesn't play a big difference within there.

So, as I said, I don't think that whether we disclose units or not within the North America business will make a significant difference because a couple of big variables that already drive it are out there. Obviously, we will talk about how we believe we're doing from a share perspective. And then, what the benefits of price and mix are, we'll continue to talk about that on a go-forward basis, which also is an indicator of revenues versus what unit performance is doing.

Kenneth Zener

Analyst, KeyBanc Capital Markets, Inc.

Q

Okay. And then, I guess, this is – just looking at AHAM, it's kind of interesting right, I mean you had for the year, laundry was up 1 to 2 points, kitchen fridge was down I think 3 to 4 points. How do you think about – or what does that say to you about, kind of the market that we're seeing some of these categories in a sustained growth challenging environment relative to, Marc, the fixed cost? Because this global architecture that you mentioned in the laundry, seems to be a really important factor for Whirlpool given your global platform to kind of extract leverage from categories that really are challenged in terms of growth.

Marc Robert Bitzer

Chairman & Chief Executive Officer, Whirlpool Corp.

A

Yeah. So Ken, I mean on a go-forward basis, to be honest, we don't see dramatic differences across the different product groups in terms of where we would see the industry growth or development. Given what I said before, it's kind of there is at least the early indication that the housing may strengthen. The housing strengthening that typically translates in kitchen suite. So that should help the cooking, the dishwasher, refrigeration business, but I would not get read too much into this one.

So I wouldn't break down the pieces too much. I would say, right now our guidance for next year industry is pretty much flat. But very frankly, I think the uncertain factor to the upside could be the housing and how housing now develops, if that's stabilized and if we see the growth trends extending beyond the December number. But again, don't read too much into the different subcategories.

Kenneth Zener

Analyst, KeyBanc Capital Markets, Inc.

Q

Thank you. And I enjoyed your interviews yesterday.

Marc Robert Bitzer

Chairman & Chief Executive Officer, Whirlpool Corp.

A

Okay. I appreciate it, Ken.

Marc Robert Bitzer

Chairman & Chief Executive Officer, Whirlpool Corp.

First of all, thank you for joining us all. And let me given that we just came to the last question. Let me just quickly wrap up and summarize. First of all, I want to start out with all the numbers in and out. I want to remind everybody we had an all-time record year last year.

We feel very good about it and we closed an all-time record year with the best quarter ever in our history, which I think is more remarkable given that we did not have a lot of tailwinds throughout the year. Industry demand didn't help us. We still saw cost inflation for most part of the year. So we feel very good about what we've achieved last year, but now we're in January 2020. The most important thing about last year is that it gave us a good momentum as we exited the year. So we feel very good about momentum which we'll carry into 2020. And I hope you heard all that confidence throughout the earnings call.

As we look into 2020 and we laid that out, we have three operational priorities. We are very focused on getting the cost out of the system. We are focused on executing the product launches which we talked about. And obviously there's a lot more launches beyond those two ones which we highlighted. And from a region perspective, of course, we have a key focus not only in maintaining strong margins in North America, but particularly continue to turn around Europe and China. That is a key focus.

But then in a broader perspective and this comes back to our Investor Day, I want to remind everybody, our strategy has not changed. Beyond the operational priorities and delivering on our commitments, we have a very strong focus on continuing to execute along our strategic imperatives, which is not only about product leadership but it's our entire digital transformation, be it on redefining what the product is, be it on winning digital consumer journey. So there's a strong focus in our company around the strategic transformation. And we feel very good about where we are, and we will kind of increase our efforts throughout the year to kind of create a long-term strong and sustainable business.

With that in mind, I just want to thank you for joining us today and talk to you next quarter.

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

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