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Q2 2020 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning, and welcome to Whirlpool Corporation's Second Quarter 2020 Earnings Release Call. Today's call is being recorded. For opening remarks and introductions, I'd like to turn the call over to Senior Director of Investor Relations, Roxanne Warner.

Roxanne Warner
Head-Investor Relations, Whirlpool Corp.

Thank you, and welcome to our second quarter 2020 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 a 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-Q and other periodic reports.

We also 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.

Also, as we highlight on slide 2, there is significant uncertainty about the duration and potential impact of the COVID-19 pandemic. Therefore, our discussion of the potential impact of COVID-19 on the company's business results reflects our best estimate based on what we know today.

At this time, all participants are in a 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, Roxanne and good morning, everyone. I hope you and your families are staying healthy and safe during these times. Before I begin, I want to acknowledge the hard work of all our employees throughout this year. I'm extremely proud of their unwavering dedication and commitment to Whirlpool and our customers through these difficult times.

We discuss our second quarter 2020 highlights. We delivered resilient results globally with ongoing earnings per diluted share of $2.15 and an ongoing EBIT margin of 5.2%, despite significant and continued COVID-19 related challenges.

In North America, we delivered a very strong performance of 12.6% EBIT margins, an expansion of 20 basis points and a clear indication of a region's strength and agility. Across the globe, we took decisive and meaningful actions, driving strong levels of cost take out. Lastly, we delivered year-over-year free cash flow improvement of $124 million due to strong working capital management, particularly in accounts receivables and inventory.

Turning to slide five. We show the drivers of our second quarter EBIT margin. Price/mix negatively impacted margin by 75 basis points, as unfavorable product mix shifts, due to COVID-19 related consumer purchases, were partially offset by effective promotion management in North America.

Our cost takeout actions delivered approximately 150 basis points of margin expansion. Partially offsetting a 300 basis point headwind from lower fixed cost absorption, driven by COVID-19 production disruptions and inventory reduction.

Additionally, continued favorable raw material trends positively benefited margins by approximately 100 basis points. Lastly, strong cost discipline, related to marketing and technology investments, partially offset the unfavorable impact of currency, primarily in our Latin America region.

Overall, we are very pleased to deliver solid operating margins in what was undoubtedly the most difficult quarter of a global pandemic. This impressively demonstrates the strong execution of our global teams and resiliency of our business model.

And now, I'll turn it over to Jim to review our region results.

James W. Peters

Chief Financial Officer & Executive Vice President, Whirlpool Corp.

Thanks, Marc, and good morning, everyone. Turning to slide 7, I'll review our second quarter regional results. In North America, COVID-related demand and operational disruptions resulted in double-digit revenue decline, with solid recovery in June as restrictions eased across most states. This year-over-year revenue decline of approximately [audio gap] (05:05-05:15) is comparably better than other regions due to home improvement channels remaining open. Despite lower demand, we delivered EBIT margins of 12.6% in the quarter, due to strong cost discipline and reduced marketing investments.

From an operational standpoint, we continue to experience supply disruptions due to reduced production yield in US factories and component shortages out of Mexico. Overall, we are pleased with the continued strength of our North America business and the regions ability to maintain strong margins in the challenging environment.

Turning to slide 8, I'll review our second quarter results for Europe, Middle East and Africa region. Shutdowns across Europe in April and May, and significant demand weakness across the region, drove our negative second quarter results. However, in June, year-over-year volume growth in all countries, except Russia, driven by strong demand recovery and share gains in key countries resulted in year-over-year net sales growth and positive EBIT in the month. Looking forward, a strong order pipeline extending into Q3, combined with our ongoing improvement efforts provide us confidence the region will return to profitability in the back half of the year.

Turning to slide 9. I'll review our second quarter results for our Latin America region. Demand declined strongly throughout the quarter in Mexico and through May in Brazil, with June showing strong signs of recovery. Organic net sales declined approximately 4%, as share gains across the region, and strong direct-to-consumer sales partially offset demand declines. The region delivered positive EBIT margin as strong cost takeout mitigated COVID-related disruptions and continued currency devaluation.

Finally, as a reminder, our second quarter 2019 results include the impact of the Embraco compressor business in Latin America's results. This will be the final quarter in which comparison periods will contain Embraco results.

Turning to slide 10, I'll review our second quarter results for the Asia region. While net sales were significantly impacted by the India shutdowns in April and May, demand rebounded across Asia in June. EBIT declined as cost takeout was offset by significant COVID-related demand challenges.

In China, the macroeconomic environment has become increasingly stable, though a level of uncertainty remains as we move through the second half of the year. Operationally, we are pleased to have delivered Whirlpool branded share growth in the quarter. In India, results strongly improved sequentially within the quarter as economic restrictions eased. Overall, we are pleased with our ongoing EBIT margin results of 5.2%, given the approximately 300 basis point impact from COVID-19. These results [audio gap] (08:09) our operational strategy and demonstrate the resiliency of our global business.

Turning to slide 12, Marc and I will discuss our updated perspective on 2020.

I will now turn it over to Marc to begin.

Marc Robert Bitzer

Chairman & Chief Executive Officer, Whirlpool Corp.

Thanks, Jim. As expected the second quarter was the most difficult one in terms of the impact of a pandemic on our business. While we are encouraged by the demand trends seen in June and extending into Q3, we are very mindful of the significant uncertainties which remain for the rest of the year. Because of this, we are not reinstating full year guidance, but again, want to provide our current perspective based on the information available at this time.

In line with our discussions during the last earnings call, I want to give you an update on the three fundamental questions for our business in 2020. One, what's the shape of recovery? Based on our current sell-through trends in key countries, we continue to expect a U-shaped recovery throughout 2020. However, there is a risk for W-shaped demand curve, in particular, as we look into Q4.

Overall, we anticipate a full year organic net sales decline of 7% to 12%, an improvement from our previous full year perspective of 10% to 15% due to a stronger-than-expected second quarter net sales.

Second, can we sustain our operating margins? Here, I will highlight the clear structural improvement in our margin profile compared to our business results during the 2008 financial crisis, and by that provides us confidence in our ability to sustain healthy operating margins going forward. Additionally, we can confirm we are firmly on track to deliver cost savings of $500 million or more in 2020.

Third, what's our liquidity position? Finally, Jim will discuss our strong cash position, supported by a clear focus on disciplined working capital management and our enhanced liquidity position, which enables us to withstand the current economic uncertainty we face across the globe.

Turning to slide 13, I'll highlight the updated data by continues to support our perspective of the U-shaped recovery throughout 2020. However, please note that we do not intend to share this data beyond this quarter, but we felt, given the uncertainty of the current situation, that this data will provide valuable proof points as we all assess the impact of COVID-19.

As we continue to monitor the development of COVID-19 cases and its related impact on appliance demand across key countries, we continue to see similar U-shaped demand patterns emerge albeit on different timelines.

In China, COVID-19 cases have significantly reduced even as the broad economy reopens, leading to pickup in demand [indiscernible] (10:58) with a notable shift from offline to online. In Italy and the UK, we are seeing clear signs of recovery in June, as COVID-19 cases reduce and the economies begin to reopen. We believe this is pent-up demand from the previous lockdowns and it remains to be seen if it's yet a structural recovery.

In the US, we have not seen the level of demand declines as we have experienced in other countries. This is the result of key retailers remaining open throughout the pandemic and the impact of government cash transfers to consumers.

Based on the consistent demand trends we are seeing across many of our key countries, each at different phases of a crisis, we continue to expect the U-shaped recover resulting in a full year 2020 organic net sales decline of 7% to 12%.

Turning to slide 14, I'll discuss our structural improved margin position. During our last earnings call, we highlighted our margin profile during the last financial crisis. In 2008, we saw EBIT margins dropped sharply to around 3.5% before bottoming out at a negative 1%. Contrast this with our second results in which we delivered ongoing EBIT margins above 5%, in what is the trough period of a current COVID-related crisis. These results provide a meaningful proof point indicating what we can sustain healthy margins throughout this crisis and demonstrate the effectiveness of a strong and decisive actions we have taken.

Turning to slide 15. I'll discuss the actions put in place to sustain our margins over the near-term in more detail. Overall, we're well on track towards delivering cost takeout of $500 million or more as part of our COVID-19 response plan. Year-to-date, we have delivered cost takeout of approximately $180 million with actions in place to [ph] realize (12:46) the remainder of the savings in the second half of the year.

First, we continue to focus on ensuring we capitalize on the deflationary raw material market. Second, we continue to significantly reduce both structural and discretionary spending. During the quarter, we took the initial steps to implement a large majority of the actions we outlined on our Q1 call. As of today, these actions are 80% completed and as a result, we expect to see cost savings resulting from these measures accelerate throughout the second half of the year.

Third, we have maintained our strict focus on working capital management, ensuring we have the proper risk mitigation plans in place and are appropriately managing our inventory levels across the globe.

Finally, we recently announced the workforce reduction plan in the US as part of our continued cost reduction efforts. Inclusive of our US actions, [ph] Naples (13:40) restructuring charges and anticipated additional actions, we now expect total restructuring charges of $260 million to $280 million for 2020, above our original guidance of $100 million.

Moving to slide 16. I'll now turn it over to Jim to highlight our overall financial position and ability to navigate and ultimately lead out of this crisis.

James W. Peters

Chief Financial Officer & Executive Vice President, Whirlpool Corp.

Thanks, Marc. As a result of continued efforts to support our overall liquidity needs, our financial position remains strong, with ample liquidity and flexibility to withstand the current economic uncertainty.

First, we have a very strong liquidity position, as evidenced by our current cash position of $2.5 billion, with approximately $2.5 billion available in remaining committed credit facilities.

Within the quarter, we executed a $500 million 364-day revolving credit facility and issued a $500 million 30-year bond, adding $1 billion of additional liquidity. Subsequently, we used the proceeds from the bond and new credit facility to pay down $1 billion of short-term borrowings under our long-term committed credit facility, maintaining our leverage position compared to the first quarter. Second, we continue to maintain ample buffer to withstand increased debt or a reduction in earnings without negatively impacting our covenants.

From a covenant perspective, our debt to capitalization limit is 0.65 and we are currently at approximately 0.5. While our interest coverage ratio requires a minimum of 3 times and we are currently above 10 times.

Third, I'd like to remind everyone that we have no additional bond maturities until the second quarter of 2021, which is only approximately $300 million. It is through our strong financial position and our continued actions that we strive to maintain our strong investment-grade credit rating.

Lastly, I'd like to mention that our revised capital allocation plan remains unchanged at this time. Until our future liquidity needs become clear, our temporary suspension of share repurchases will remain in effect. Overall, we are confident that we have the liquidity needed to support our operations during this crisis and remain focused on progressing towards our long-term gross debt-to-EBITDA goal of 2 times.

Now on slide 17. I'll turn it back over to Marc to summarize our key messages.

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

Thanks, Jim. Our second quarter performance demonstrates the resiliency of our business model and highlighted the strong execution of our global teams, as we delivered healthy operating margins in what we believe is undoubtedly the trough period of a COVID crisis. The decisive actions we took mitigated significant volume loss across the globe and helped to ensure we continue to sustain strong margins in the future.

Additionally, we continue to maintain a very strong liquidity position and remain firmly committed to driving our business towards our leverage goal of 2x over the long-term. As we continue to invest in our operational priorities and digital transformation journey, we are positioning ourselves to win in the eventual economic recovery. These continued investments and the resilient year-to-date performance give us confidence in our ability to drive long-term value for our shareholders.

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

QUESTION AND ANSWER SECTION

Operator: Certainly. [Operator Instructions] Susan Maklari with Goldman Sachs. Your line is open.

Susan Maklari
Analyst, Goldman Sachs & Co. LLC

Q

Thank you. Good morning. And well done for the quarter, guys.

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

A

Thank you.

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

A

Thank you.

Susan Maklari
Analyst, Goldman Sachs & Co. LLC

Q

My first question is just, Marc, you mentioned that you are 80% done with the cost actions that you plan to take. Can you maybe give us a bit more color on how much of that is structural versus discretionary? And maybe how we should be thinking about it rolling through as we think about the margin trajectory, especially maybe going into 2021?

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

A

Yeah, Susan, and I would particularly like to refer to what is page 26 in the slide presentation because that breaks down exactly what you asked for. So first of all, we are very confident on our $500 million total cost takeout for 2020. And as we said in the prepared remarks, $500 million or more of which $150 million is roughly raw material. I wouldn't call that structural. And of the remaining $350 million, there is about $100 million, which are non-structural like furloughs or travel expense reduction, whereas $250 million structural actions, which we largely implemented in the second quarter, that's what the 80% refers to, which of course, will have an impact – had some impact already in Q2, but the large impact is in the second half.

There will be by definition, just that for the fact of a calendar year. Yes, there's a carryover impact of structural actions into 2021, but keep in mind that also next year, we're running a comparison of a non-structural actions, so you can mitigate some of that. So yes, there is a carryover impact of the structural actions, which probably in a ballpark of $50 million to $100 million carried over into 2021.

Susan Maklari
Analyst, Goldman Sachs & Co. LLC

Q

Okay. That's helpful. Thank you. And then given some of the movements we saw this quarter, especially as it relates to COVID, it seems like maybe there was some shift in market share that happened. Can you just talk a little bit to that and kind of give us some sense of how you expect that to trend as we've now kind of emerged from the kind of real key parts of COVID and are getting to perhaps in more stable operating environment?

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

A

Susan, are you referring to North America or globally?

Susan Maklari
Analyst, Goldman Sachs & Co. LLC

Q

Yes, I'm sorry, North America. Yes.

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

A

Yeah, so North America and as we also highlighted in our remarks, we saw, in particular – first of all, throughout the entire quarter, the demand impact was less pronounced than any other market around the world. And that's just a result of key channels remaining open. And frankly, also with consumers benefiting from a government stimulus program with having cash available.

So combination of relatively solid demand and stores remaining open that took probably less of a severe impact in the second quarter than other markets. With that in mind, even though we kept our factories running through the entire second quarter, the COVID impact on the supply chain is relevant. It comes back to social distancing in the factories. How you prepare factories for it? You could have had temporary shutdown of factory because of flare-ups. And we also had component challenges coming out of Mexico.

With that in mind, and particularly over last six weeks of a quarter, we were supply constrained. And that led to a market share loss over last six weeks in North America. We are in our way of working through that and out of it. But I also want to be mindful of, as long as COVID is around us, there is a certain risk to the supply chain. We work on the existing challenges, and we're confident we will get them behind us. But the risk remains throughout the rest of the year as long as COVID is around us.

Operator: Curtis Nagle with Bank of America. Your line is open.

Curtis Nagle
Analyst, Bank of America Merrill Lynch

Q

Good morning. Thanks very much for taking my questions. So maybe, Jim, a question for you. If we could break out the $118 million in costs taken out related to restructuring. How much was that attributable to COVID-19? And how much would you bucket to North America?

And maybe just could you give a little bit more detail in terms of what exactly these costs were attributable to, and in your words, fixing and reducing the cost structure? And why are they being stripped out if they're for things that are either [ph] one-time-ish (21:44) in the quarter or at least kind of the front half of the year?

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

A

Yeah. So Curt, I believe what you're talking about the incremental restructuring costs that we added on. And obviously, this is significantly related to the downturn in volume that we had, which is a one-time type of event in terms of a pandemic and the need to reduce our cost structure at a higher level than we had originally anticipated.

I mean, if you want to think about that, it kind of happens pretty ratably across the globe as you look at it, because this is the portion. The initial $100 million was the restructuring we were doing mainly within EMEA around the closure of the Naples factory and a few other things. These incremental actions are being implemented across the globe, almost in an equal amount about where our revenues are.

Most of these are – the majority of these are people costs, and that's just the reduction that you see. We did a couple of different things here is: one, we ran a discretionary early retirement program within the US than additionally we had some involuntary layoffs that we also did throughout the process. So using both of those tools, those are what add up to most of those costs there. And as I said, you just got to think about it. It's pretty even across the globe because we've taken actions everywhere to bring our business in line with the volume that we see for this year and the potential risks we see going forward.

Curtis Nagle

Analyst, Bank of America Merrill Lynch

Q

Okay. Understood. Maybe just a quick one kind of shifting back to the US and the promotional environment. As I understand it, it was pretty subdued. I think kind of similar to what you saw in 1Q for obvious reasons, in terms of [ph] the overall (23:21) demand. Do you think there are any risks kind of going forward as the operational and kind of demand environment normalizes? You could see a pick up in promotional intensity or competition from some of your competitors?

Marc Robert Bitzer

Chairman & Chief Executive Officer, Whirlpool Corp.

A

Curt, it's Marc. As you know, we're not making forward-looking statements on promotion – promotional environment. And I don't know what competitors will be doing. I would say the Q2 promotion environment is [ph] in the far (23:48) unusual because at least for our case, we decided there's no point in promoting products, which you don't have available to some extent. And that's why Q2 was subdued. Plus, in addition, you had a very peculiar demand situation with the drive towards freezers, refrigerators, et cetera. So it's nothing in Q2 was normal in that respect. Q3, keep in mind, there will be supply constraints also throughout Q3. So I'm not quite sure I would take a broader promotion environment, Q3 as representative of a normalized market environment.

Operator: Eric Bosshard with Cleveland Research. Your line is open.

Eric Bosshard

Analyst, Cleveland Research Co. LLC

Q

Hi. Good morning. Thank you.

Marc Robert Bitzer

Chairman & Chief Executive Officer, Whirlpool Corp.

A

Good morning.

James W. Peters

Chief Financial Officer & Executive Vice President, Whirlpool Corp.

A

Good morning, Eric.

Eric Bosshard
Analyst, Cleveland Research Co. LLC

Q

On the revenue side, it sounds like the adjustment to the full year, you attributed exclusively to the 2Q better than expectations. Am I saying that right that you haven't had a different view on the second half revenue outlook from what you had said previously? And I guess the follow-up within that is why not?

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

A

Eric, fundamentally, yes, the numbers are similar to what we laid out before, and Q2 came in stronger. The color I want to provide in addition and we alluded to this one in the prepared remarks, we feel very good about July and August. So July and August remains as strong as June. But we are cautious about what happens September-December. There's just too much uncertainty in the form of what happens once the government stimulus tapers off. We don't know how people react to COVID and consumer demand. We don't know how unemployment will be dealt with and how it impacts consumer demand. So, in a certain way, yes, we factored in that caution in our second half outlook. If it doesn't materialize, yes, then it will be better. The good news is July and August, we're – it actually looks pretty good.

Eric Bosshard
Analyst, Cleveland Research Co. LLC

Q

And then I guess, related to that, in terms of your supply chain, and I'm sure the whole industry has got supply chain limitations. But in terms of your supply chain limitations to participate in better industry demand, are you now at the point where you're running full speed and you can do what others are doing in the industry? Or at what point will you be able to be fully participating in the industry recovery that's taking place?

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

A

So Eric, first of all, we never shut down our factories. And I'm talking about the US factories. So of course, every part of the world is slightly different. What you fundamentally need to understand, when you make a factory COVID safe, or as safe as you can do, because of social distancing, because of [ph] recovery (26:31) in the factories because you physically have to extend the line spacing on an assembly line, et cetera. Because of risk, which you have with flaring up of case in certain locations and frankly, also higher absenteeism, which we are experiencing right now. You can never – even if you run the factory, you can't run it at 100% capacity. That's a simple reality of COVID.

In addition, the Mexican components which are delivered into our US factory, we had some challenges because the Mexico situation [indiscernible] (27:04) even more complicated because of the decision about if a factory can operate or not is delegated to the states of Mexico and delegated to individual health inspectors, and that drove just a lot of stop-and-gos.

As you said before, it's not only impacting us, it's – I would assume it's impacting entire industry. But these are the two fundamental elements in this one. So as I said before, we are right now working through the known issues and it's getting better. But again, based on what we've seen in the second quarter, we should expect, in Q3 and Q4, we may face similar issues, and we will have to manage them down.

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

A

Yeah. And maybe, Eric, I'd add to that. And just say that as each week goes by, we see improvements in our ability and our suppliers' ability to meet the demand. But to Marc's point, that there also is just a backlog of orders that we work through throughout the upcoming quarters. And we know many of our competitors are in the same situation. So it is improving, but we are still catching up to where the demand has been.

Operator: Michael Rehaut with JPMorgan. Your line is open.

Michael Rehaut
Analyst, JPMorgan Securities LLC

Q

Hi. Good morning, and congrats on the results in a tough environment.

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

A

Thanks.

Michael Rehaut
Analyst, JPMorgan Securities LLC

Q

First question I had was on mix. Obviously, kind of a headwind for you guys this quarter despite being partially offset by the reduction in promotions, which makes sense in the backdrop in the second quarter. How are you thinking about mix in the back half, particularly in North America, as you kind of referenced last quarter that some of the purchases initially of that real lower end, perhaps helped by stimulus checks or getting second freezers or such? How are you seeing mix change throughout the quarter? And how does that influence you thinking about the back half?

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

A

Michael, so as we referred to earlier, our price/mix over quarter was negative 75 basis points. The important thing is and that probably partially answers your question is, that negative was, in particular, in April and May and got a lot better in June or late May and late June. And what you see in there is the heavy down mix from a product mix was, in particular, the beginning of a COVID. And then we saw a very significant amount of low-end refrigerators, microwaves, et cetera. And that mix gradually is getting better as long as the [ph] pandemic (29:43) remains. There's now people rediscover the ovens, the [ph] cookers (29:46). I mean, they just spend time in the kitchen, and there's cash available with consumers. So that ultimately now starts driving better mix.

In addition, we have just less promotional investments. So that's why the June mix was certainly better than the negative 75 basis points, which we saw for our entire quarter. And that's probably – the June one is probably more reflective of what we might expect going forward.

Michael Rehaut
Analyst, JPMorgan Securities LLC

Q

I appreciate that, Marc. And if there's any way to talk about maybe mix turning flat or positive as part of that, I'd appreciate it. But second question on cost cadence obviously remaining on track there is very encouraging, a big part of the margin story, how should we think about the second half in terms of 3Q, 4Q, you talked about – previously, you said $70 million, maybe there's a little more in the first quarter, $100 million in the second, or $180 million combined, how should that break out 3Q, 4Q?

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

Yeah. So Mike, if you think about it this way that leaves about $320 million remaining for the rest of the year in the $500 million. And materials is pretty ratable throughout the year at about 100 basis points a quarter. So you can think about that's approximately maybe $70 million to $80 million in the back half of the year, which leaves another $250 million of our net cost takeout that comes within this time. And as the cost actions begin to ramp up, you could probably think about that as 40% of that maybe coming in Q3. And then 60% of that remaining amount coming in Q4, would be the logical seasonality of how all these actions build. So I think that's the best way to think about it.

Operator: Sam Darkatsh with Raymond James. Your line is open.

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

Good morning, Marc. Good morning, Jim. I hope you both are well.

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

Same to you, Sam. Good morning.

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

Same to you.

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

My two questions. First, seasonally, typically, Whirlpool generates all its cash flow in the back half. Knowing that you're expecting second half sales down somewhere in the 4% to 14% range, are you anticipating free cash flow positive for the year, knowing that you're, I think, $900 million in the whole as we stand after the second quarter?

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

Yeah, Sam. Here's what I would say is we're definitely expecting positive free cash flow within the year. And if you even look at where we are in terms of our cash usage right now, compared to prior years and compared to last year, we're almost $100 million better than we were last year at this point in time. We feel very good about where our working capital levels are from a cash flow perspective.

Obviously, our inventories have come down as we've sold a lot of product out of our inventories, but our receivables are a little bit lower. And our payables are significantly lower because of the lower production volumes. So, we do expect the same seasonality of cash that we see in a normal year. And as sales pick up throughout the fourth quarter, we do expect to collect more cash.

So – and the other thing I'd probably add in within there is, you'll also see in the back half of the year, more of the benefit of some of the capital projects we've been delaying. As you look out throughout the year, we won't have as much outflow due to capital expenditures in the back half.

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

A

Sam, maybe just the only additional comment. So yes, we're very pleased with how we managed the cash flow in the second quarter, given everything else. Despite enormous seasonality, don't do a mistake of just adding that improvement to the full year number of last year, and the reason why I'm saying this one is the working capital, in particular, the inventory which, as you know, impact cash flow are very unusual. We have the highest amount of inventory reduction ever in the second quarter. And when you rebuild inventory, you basically negatively impact your working capital, and that has a certain cash range. So, there's a little bit of rebalancing around the inventories. I do expect this to be completed before year-end, so we should more or less get back to a normal situation. But, we absolutely do expect a positive cash flow, and we're firmly on track on this one.

Sam Darkatsh
Analyst, Raymond James & Associates, Inc.

Q

My second question revolves around US retailer inventories and their status. Obviously, demand sell-through was really uneven and worsened late in the quarter, yet AHAM improved as the quarter progressed. And I'm just trying to get a sense of where you view retailer inventories? And are they – what kind of shape they're in also on a category-by-category basis, if you could?

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

A

I mean, in general terms, Sam, I would describe the retailer inventory at somewhere between low and very low. And it's unusually low, frankly, because again, the supply constraints have impacted the entire industry to some extent, or to a large extent, and as such, also the retailers. So keep also in mind, the starting point is not every retailer has inventory, may have different amount of inventories. But across the board, the inventory levels in the US trade is low.

Operator: Adam Baumgarten with Credit Suisse. Your line is open.

Q

Hi. This is actually [ph] Marius (35:12) for Adam. Just a quick question on the restructuring costs. You did mention that most of the costs are in North America. And was just wondering if the remaining of the costs for – they are going to come in the second half are going to be mostly in North America as well?

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

A

Well, as we said, actually, the first $100 million were primarily in EMEA. And then if you take the additional $180 million in the back half of the year half of the year are the ones that we added, we said that that's about ratable across the globe. So you could assume it's close to 50% of that approximately, falls within the North America business just based on what I said earlier.

Q

All right. And do you expect most of that to come in the third quarter?

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

A

I would say we expect it to come throughout the third and the fourth quarter, and we haven't really given a split on that, because many of those actions, depending on the timing of execution and the accounting rules around how you recognize it, it will come either in the third or the fourth quarter. But we did add an incremental amount here in the second quarter also that we've already taken the charge for.

Operator: David MacGregor with Longbow Research. Your line is open.

David S. MacGregor
Analyst, Longbow Research LLC

Q

Yeah. Good morning everyone.

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

A

Good morning.

David S. MacGregor
Analyst, Longbow Research LLC

Q

Yeah, congratulations, Marc. Nice job this quarter and through a really difficult environment. I guess, you talked a lot about North America. Let's talk about Europe. And encouraging to hear that you were profitable in June, you were profitable in the fourth quarter before this whole mess kind of gone underway. It sounds from your comments as though you're feeling good about your ability to be profitable there in the second half. I guess, I want to – as a consequence of those comments, maybe go back a year or two your Analyst Day, where you talked about kind of the expectations for restoring profitability to your European business. And the thought that once you could get out of Turkey and get the fixed cost reductions and regain some of the volume, that sort of the first stop on the journey to that longer term goal was kind of 3% to 4% margins.

So I guess, I'd love to get your thoughts in terms of based on kind of now getting back reestablished with some of these key retailers and getting your balance of trade back up, getting your mix moving in the right direction, how patient should we be thinking about needing to be to see at least 3% to 4% kind of progress towards that longer term goal?

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

A

Yeah. So David, on [indiscernible] (37:44), particularly if you referred to a year ago. As you recall, in last year Q3 and Q4, we [ph] finally saw (37:52) the European numbers starting to come around. And we were also encouraged by what we saw certainly before COVID until pretty much February. Now we all know two and a half quarters don't make a trend yet. But of course, frustrating that – just when we kind of had the quarter trending in the right way that COVID hit. COVID hit Europe in a very hard way, similar to what we've seen in India or other markets and a lot stronger than in North America and Brazil, because essentially we had entire countries and retailer shutdown.

So the April, May was devastating, frankly, from a bottom line, because you had very limited revenue and you had the fixed costs, despite what you did on costs. So April, May was way worse than you see our entire quarterly results. June was solid. And in terms of being very – I mean, profitable, not just above breakeven, but really profitable, a solid demand. And July and August also look good. And frankly, that's why Jim said earlier, we will make a profit in Q3 and subsequently also Q4.

To your question about, when do we see the 3% or 4%? We haven't yet given guidance for 2021. 2021 will be a milestone towards these numbers, but maybe not yet fully to these numbers. But we, in a certain way also if we factor in 2021 in the year-over-year comparison when we mentally need to take off the COVID impact out and knowing that we were on a reasonable run rate, that's what we expect to continue into 2021.

David S. MacGregor
Analyst, Longbow Research LLC

Q

Okay. Second question, maybe just talk about the builder channel in the North American market, and we're seeing a lot of positive indicators around residential, construction and residential demand. You built a nice business there over the past few years. I guess you've been able to gain share through that channel.

Could you just remind us kind of around the parameters of that business, the size of that business, the profitability? How we should be thinking about the potential contribution from your builder business into the second half of this year?

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

A

So David, of course, we can spend a lot of time talking about the builder business. It is a peculiar channel, as you were well known. And I'm talking about both the national builders and the smaller builders, which go for the home improvement channel.

In particular, on the national builders, these are typically multiyear contracts, which are either exclusive with us or they kind of focus on maximum two suppliers. So these are long running contracts, which technically on the kind of purely gross margin are a little bit lower, but because the cost to serve are a little bit lower, they are good channel for us and the profitable channel for us.

And they bring certain continuity and the very good effect. Now on the builders, as you know, there was a little bit, I would say, slowdown, as – not surprisingly, in February, March, April, but I think the momentum which we've seen on the builder side, coming out of May and June and now for rest of the year was very strong.

And so when I refer to cautiously optimistic about the rest of the business on builders, I am optimistic, because a combination of low mortgage rates, still in undersupplied markets and the broader nesting trend, which we see across consumers, I think spells good news for the builder channel, in which we are very well positioned.

As you model the impact of this one, keep always in mind, we're at the very tail end of a value chain of a builder. What I mean of that, the appliances are the last thing, typically, which goes into the house. So, between a housing start and us seeing the revenues of appliance [ph] there is typically (41:29) six to nine months. And but anyhow, so that's – I would call it, that's very good news down the road.

Operator: 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 W. Peters
Chief Financial Officer & Executive Vice President, Whirlpool Corp.

A

Morning, Ken.

Kenneth Zener
Analyst, KeyBanc Capital Markets, Inc.

Q

Wow, going to talk about North America and then just want to go into EMEA, [ph] that's going to (41:54) second question. But, the North American supply chain issues, can you talk about how much that might have related to it? I don't want to say sales shortfall, but considering your volumes were down, it sounds like you might have had more, if not for the supply chain issue.

Your margins were up. And your North America business, you guys obviously believe it's very solid. I think your pricing discipline within a fair competitive environment is affirmed, generally and certainly by this quarter. So can you talk about the sales shortfall? How the margins were so good?

The conviction you're having around July and August, in terms of backlog, was it like a 5% shortfall on these supply chain issues? And why is that not necessarily impacting margins? Is pricing actually good if the industry is in kind of short supply? I'm just trying to put these – the shortfall in context.

Marc Robert Bitzer

A

Chairman & Chief Executive Officer, Whirlpool Corp.

So Ken, first of all, I like your quote of wow, because I think our North American numbers very impressive by any definition. And are just testimony of a strong business model and the strong execution of our team's spirit.

Now specifically to your question about the supply constraints, keep in mind that impacted, particularly the back half of the quarter. So you had demand declines, which just across the board in April, May. And then in June, when the demand was starting to recover, we were faced with some supply constraints. So I would say of entire North America revenue drop, which you saw, was around 12% or 13%, a few percentage points were related to supply, but certainly less than half. There is an industry demand, which was just slowed down in April, May. But with June one was hampered. So yes, we could have had seen even "better revenue" [ph] without which (43:51) constraints.

On the margin side, and again, that's testimony to a very strong execution. It is the combination of decisive and strong cost measures taken throughout the quarter, not only on costs, which we talked about, but also on [ph] rev-gen (44:08) and travel expenses, all of the things where we're very strong disciplined in how we manage the costs.

And then as we saw the supply constraints, a good response in terms of the promotional strategy, which we basically had to turn. Put that all together, that's led to the very strong margins. And I think, in the past, there's – not necessarily by you, by a lot of people always ask, so, yeah, we see now the peak margins, but what our trough margins? If you have a North America business with trough margin of 12.6%, I think it answers a lot of questions.

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

A

Yeah, Ken. Just to kind of highlight what Marc had said there and add a little bit. I think a lot of the structural changes we've made over the years to this point have really put that business in a good position to be able to deal with situations like this, and especially the way we manage fixed costs over the years.

Kenneth Zener
Analyst, KeyBanc Capital Markets, Inc.

Q

Yeah. I mean it's just amazing – you're up year-over-year on margins. So my second question was just, I guess, actually, I [ph] won't (45:09) expand on the first, but you did confirm that EMEA you expected it to be profitable in the second half is what I believe? So just so I don't – misunderstand that. And given that type of commentary for Europe, with margins up year-over-year, albeit only 20 basis points in 2Q. Is it reasonable to assume that cost savings, et cetera – margins in North America? Is it realistic that will still have a 12% EBIT handle on it? I mean, there's, obviously a big range there considering last year's 12.7%. So do you think this year's EBIT in North America will still have a 12% handle on it?

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

A

Ken, as you know, we don't give quarterly guidance, and particularly [ph] on (45:54) regional quarterly guidance. Having said that, so just to reconfirm, yes, we said we expect Europe to be profitable not only second half, but Q3 and Q4. So you will have, as such, in Europe, a positive margin lift. And also – North America, we've always kind of revenue down 12.6% in Q2. We would also expect a solid performance or strong performance in Q3 and Q4.

To be a little bit more specific, and again, I'm – we're not going to give a quarterly guidance, but I think you heard before, we feel very good about July and August. Our July and August company margins will be very good. We're just not yet certain about what it all means for September, October, November, December of this year. There is macro uncertainties still around us. But the short-term horizon, we're very bullish.

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

A

And Ken, maybe to add on the EMEA piece, the reason we have confidence in the back half of the year is April and May were the biggest declines when you look at the down 20% revenues. And as Marc said, the order pipeline or the orders in June and then order pipeline early in Q3, has been very strong. Additionally, the cost actions that we are taking there just due to the amount of time it takes to implement come more in the back half of the year. So that's why we feel confident in Q3, we'll begin to show a profit again.

Operator: Seldon Clarke with Deutsche Bank. Your line is open.

Seldon Clarke
Analyst, Deutsche Bank

Q

Hey. Good morning. Thanks for the question. So you mentioned back half guidance being basically unchanged from a top-line perspective, and I understand the uncertainty here. But just given the stronger-than-expected top-line trends in the second quarter, how are you now thinking about underlying decremental margins either in the back half or for the full year?

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

A

Yeah. Well, what I would say is, Seldon, as you look out throughout the back half of the year and we begin to see demand recovering, we've always said that, again, incremental volume has about a 20% impact on it. Now you can kind of take that and assume that that's the impact of the volume down. But as we said, our cost savings are more than offsetting a lot of that in the back half of the year as we look at it. And I think that's the key thing to think about there when we talked about the seasonality of the cost savings earlier.

So again, we think the back half of the year will not be – have a significant of an impact as the second – obviously, the second quarter did, but nothing's changed from our assumptions around how you should look at that.

Seldon Clarke
Analyst, Deutsche Bank

Q

Okay. So still the same framework to the full year number that you...

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

A

Yeah.

Seldon Clarke
Analyst, Deutsche Bank
Q

...provided on the last call? Okay. And then so, I guess, if you look at the breakdown of your $500 million cost takeout, about half of it is structural. And so if things start to normalize next year as it relates to COVID, people can travel again and raw material costs. And I know you're not giving 2021 guidance. But under that scenario, where those items do normalize? How should we think about the margin profile of the business beyond 2020? Is there anything you've learned in terms of some of these non-structural actions or discretionary cost takeouts that could potentially be more structural? Or is it fair to say, at this point, that 50% of this $500 million could potentially reverse in a more normalized environment? So just how do we think about the margin profile in that scenario?

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

Seldon, it's maybe – yes, it's in the nature of non-structural actions that we don't expect them to fully repeat next year. And what I'm referring to, furloughs, et cetera, we don't expect that will happen again. Travel expenses will come back to your point, maybe not to a full extent as we've seen in prior years, because people will have probably different behaviors.

So yes, we're not counting on a repeat of $100 million. Might we be creative in terms of developing ideas, which comes out of that experience for next year? Yeah, we could be. But that will then at one point be just part of our structural cost actions.

Structural cost actions were one, which also, to some extent, to large extent are behind these restructuring actions, yes, we do expect to carry over. And that ultimately will provide us with a better structural cost position as a company. So yes, for next year, in a certain way, we expect a better revenue line, maybe not fully back to the 2019 levels, hitting a structurally better cost structure.

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

Yeah. I think maybe the other thing to learnings that I would add to that is the agility that we've had is we've had to deal with swift volume and revenue declines and dealing with our discretionary cost base. I think demonstrates that in times when the investment will provide a return, we'll continue to make it. And in times when we need to pull some of that back in because the return is not there, we have the ability to adjust it.

So while some of these are non-structural, there are things we have control over. And I think we've demonstrated our ability to quickly react and control those costs.

Operator: Mike Dahl with RBC Capital Markets. Your line is open.

Mike Dahl
Analyst, RBC Capital Markets LLC
Q

Morning. Thanks for taking my questions, and a lot of helpful color so far. Just back on the North American supply chain dynamics, helpful outlining the some of the revenue side. I think if we look at the margin bridge that went into part of what was a 300 basis point headwind, which was partially offset by the cost actions. As we think about that split of the margin dynamic in 2Q, Marc, how much was directly related to the production yields and some of the other supply chain issues that is still going to carry forward in the second half?

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

A

So Mike, I think as you look at that 300 basis – this is Jim. If you look at that 300 basis point impact that we had, a big portion of that is due to the reduced production levels due to safety requirements we had to put in, due to supplier issues, all the things that Marc talked about before. I think to put it in context, the easiest way to think about it look at our inventory numbers and the trends in our inventory numbers. And typically, in Q1 and Q2, we build inventory as we head into our prime season. But as we had supply constraints, we were actually reducing our inventory levels by about $400 million in the second quarter. And on a year-over-year basis, it's about a $500 million difference. So that has – that's what causes that significant impact. And as you build inventory back to normal, that begins to wash out.

Mike Dahl
Analyst, RBC Capital Markets LLC

Q

Got it. Okay. Thanks, Jim. And then just second question, a quick follow-up on the – again, kind of North American and sell-out versus sell-in. It still sounds like despite some of those constraints, you may have still seen a bit better sell-in than those sell-out trends on the graph shown in the slide deck in the US, but just wanted to kind of clarify whether or not there were – when we're looking at specifically to the last four or five weeks of the quarter, whether your sell-in trends were better than those sell-out [indiscernible] (53:38) would suggest?

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

A

No, Mike, actually, I'd probably say it's about the opposite. And it's mainly because what Marc talked about earlier. One, with the supply constraints that we had, retailers, their inventory levels actually were going down as their sell-out increased and our sell-in into them was below what they were selling out. So if anything, right now, we also talked about that we have a significant number of orders that we're working through to provide to our customers. That's in excess of the normal backlog we might have. So if anything, I do believe sell-out was stronger than sell-in within the quarter, and that's why we also believe and we're confident in the demand we're seeing here in July and August, and the amount of orders we're seeing.

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

So let me maybe wrap up here and wrapping up the Q&A. First of all, thank you all for joining. I think you heard us today talking about, of course, our business was impacted by pandemic as expected. But I think you got all the sense. We're actually proud of how our company, how our people manage to this crisis. And we're proud about the kind of margins which we were delivering despite the strong impact from pandemic. I think Q2 positions us very well for the back half, both in terms of what we've done on the cost actions and what we've done on management of business in a more agile manner. We're very well positioned, but you also heard we're a little bit cautious till what happens September to December. And that's just prudent, which you develop as you go through with crisis.

But I feel very good about how our company is positioned today and how we're looking at the rest of the year. And I'm looking forward to talk to you in our next earnings call. So stay safe and healthy. Thanks a lot.

Operator: This concludes the Whirlpool Corporation's Second Quarter 2020 Earnings Release Call. We thank you for your participation. You may now disconnect.