Whirlpool Corporation

Fourth Quarter 2020 Earnings Conference Call

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Jim Peters, *Chief Financial Officer*

CONFERENCE CALL PARTICIPANTS

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Eric Bosshard, *Cleveland Research Company*

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PRESENTATION

Operator

Good morning, and welcome to Whirlpool Corporation's Fourth Quarter 2020 Earnings Conference Release Call.

Today's call is being recorded.

For opening remarks and introductions, I would now like to turn the call over to Senior Director of Investor Relations, Roxanne Warner.

Roxanne Warner

Thank you, and welcome to our Fourth Quarter 2020 Conference Call.

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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 Investor section of our website at whirlpoolcorp.com.

Before we begin, I'll 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 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 Presentation Appendix and 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 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 Bitzer

Thanks, Roxanne, and good morning, everyone.

In difficult times like the ones we are living through today, it is important that we remain true to our guiding principles. Whirlpool's 110-year history is rooted in our value-driven commitment to our shareholders, employees, consumers, and communities in which we operate.

In 2020, we faced unprecedented challenges due to the ongoing COVID-19 pandemic, yet we remained firm in our commitment to all of our stakeholders.

The health and well-being of our employees was, and it remains, our top priority. We increased safety measures at all manufacturing plants and provided additional resources to care for families and those who fell ill. We established business continuity plans to ensure our consumers received our products to improve life at home with their families, and we continued to support our global communities by procuring medical supplies, making donations, and engineering critical equipment for frontline workers.

In parallel, we made significant advancements towards our sustainability targets, resulting in ratings improvements and external recognition. Most notably, we received a Low Risk rating from Sustainalytics, a year-over-year improvement driven by our outstanding energy and water efficiency programs and our strong Global Product Safety Systems, and we were named to the Dow Jones Sustainability North America Index in recognition of our longstanding sustainable business practices. Twenty-twenty marked our 14th time on the list in the last 15 years.

I'm very proud of the way our employees have managed through this pandemic. It is ultimately the agility of our organization and the resilience of our employees which allowed us to deliver record results in 2020.

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Now turning to our fourth quarter 2020 highlights on Slide 4.

We delivered strong organic net sales growth of over 10%, driven by solid industry demand across the globe.

Additionally, we delivered ongoing EBIT margin of over 11%, a second consecutive quarter of double-digit margins and a year-over-year expansion of 410 basis points.

Lastly, we successfully executed our go-to-market initiatives and drove strong cost takeout across the globe, leading to positive EBIT and EBIT margin expansion in all regions.

Now, turning to Slide 5, we will discuss our full year highlights.

We took immediate and decisive action as we announced and executed our $500 million plus cost takeout program.

Further, we realigned our go-to-market strategy to effectively operate within a supply-constrained environment.

Structural and sustained positive demand trends and the exceptional execution of our COVID-19 response strategy resulted in record ongoing earnings per share of $18.55, a 16% improvement compared to the prior year, above our previous guidance; record ongoing EBIT margins of 9.1%, a 220 basis point improvement and a 25% increase in total EBIT compared to the prior year; and record free cash flow of approximately $1.25 billion, with positive free cash flow in North America, Latin America, and Europe.

Despite significant macroeconomic uncertainty, we strengthened our balance sheet and drove significant shareholder value.

We reduced our gross debt leverage to 2.3 times, making progress towards our long-term target of 2 times.

We delivered a return on invested capital of approximately 11%, representing the fourth consecutive year of improvement as we realized the benefits of continued EBIT margin expansion and an optimized asset base in our Europe region.

Lastly, we returned strong levels of cash to shareholders through share repurchases and increased our dividend for the eighth consecutive year.

Overall, the results we delivered in 2020 reflect the structural improvements we have made not just in 2020, but also those made during the years before. We are a fundamentally different company with an improved margin and cash flow profile. Twenty-twenty could have been a setback for us. Instead, we were able to significantly accelerate our progress towards our long-term financial goals.

Turning to Slide 6, we show the drivers of our fourth quarter and full year EBIT margin.

In the fourth quarter, price mix delivered 375 basis points of margin expansion driven by reduced promotional investments and mix benefits as consumers invest in their homes. Additionally, we delivered on our cost takeout program, positively impacting margins by 125 basis points. Further, reduced steel and resin costs resulted in a favorable impact of 125 basis points.

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These margin benefits were partially offset by continued marketing and technology investments and the unfavorable impact of currency. For the full year, very strong margin expansion from price mix and our cost takeout program were partially offset by increased brand investments and currency.

Overall, we're very pleased to be delivering on our long-term EBIT margin commitment and are confident this positive momentum will continue to drive very strong results in '21.

Now, I'll turn it over to Jim to review our regional results.

Jim Peters

Thanks, Marc, and good morning, everyone.

Turning to Slide 8, I'll review our fourth quarter regional results.

In North America, we delivered 4% revenue growth driven by continued strong demand in the region.

Additionally, we delivered record EBIT driven by the flawless execution of our cost takeout and go-to-market actions.

Lastly, we continued to optimize our supply chain operations, driving weekly improvements in our production yield.

Delivering top line growth and a record EBIT performance, the region's outstanding results again demonstrate the fundamental strength of our business model.

Turning to Slide 9, I'll review our fourth quarter results for our Europe, Middle East and Africa region.

Share growth in Italy and the U.K., along with strong demand in the region, drove another quarter of double-digit revenue growth. Additionally, the region delivered year-over-year EBIT improvement of $29 million led by increased demand and strong cost takeout. We overcame the challenges presented by COVID-19 and restored profitability to the region in line with our commitment at the start of the year. Our 2020 results demonstrate the effectiveness of our strategic actions and the progress we have made to date.

Turning to Slide 10, I'll review our fourth quarter results for our Latin America region.

Net sales increased 5%, with organic net sales growth of 28%, led by strong demand in Brazil. The region delivered very strong EBIT margins of 12%, with continued strong demand and disciplined execution of go-to-market actions offsetting significant currency devaluation. Overall, the region's 2020 performance serves as a proof point of the viability of our long-term financial goals, highlighting our ability to deliver double-digit margins in a strong demand environment.

Turning to Slide 11, I'll review our fourth quarter results for our Asia region.

In India, we delivered strong year-over-year net sales growth, driven by demand recovery. In China, we delivered Whirlpool branded share growth in addition to EBIT improvement led by cost productivity actions. Overall, we are pleased to see a rebound in Asia and look forward to building on this momentum in 2021.

Turning to Slide 13, Marc and I will discuss our full year 2021 guidance. I will now turn it over to Marc to begin.

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Marc Bitzer

Thanks, Jim.

Well, needless to say, some uncertainty remains as we continue to operate in a COVID environment. However, we do believe increased disposable income, investments in the home, and a favorable housing shift are here to stay and will drive strong demand. Based on our internal model for industry and broader economy, we expect global industry growth of 4%. As we have demonstrated in 2020, we are uniquely-positioned to capture these structural shifts and further advance our strategic priorities.

It is with confidence that we provide our '21 guidance, which reflects our fourth consecutive year of record earnings per share and significant top line growth.

We expect to drive net sales growth of approximately 6% as we capitalize on strong demand and share gains in all regions. Additionally, we expect to deliver above 9% ongoing EBIT margin and deliver free cash flow of $1 billion or more.

Turning to Slide 14, we show the drivers of our 9% plus ongoing EBIT margin guidance.

We expect price mix to deliver approximately 100 basis points of margin expansion through three key initiatives. One, disciplined execution of our go-to-market actions; two, recently-announced cost-based price increases in Brazil, Russia and India; and three, new product launches.

Just to give you a few examples of our legacy of innovation, in 2020, we rolled out our new global dishwasher architecture featuring the largest capacity third rack dishwasher. In Europe, we launched a red dot award winning built-in induction cooktop. In the United States, we entered the consumables detergent business with the launch of our ultra concentrated Swash detergent.

Next, we expect net cost to positively impact margin by 150 basis points as ongoing cost productivity efforts, coupled with the carryover benefit from our 2020 cost takeout program, more than offset elevated freight and labor costs.

We expect raw material inflation to negatively impact margins by 150 basis points, led by higher steel and resin costs. Further, as we continue to invest in the future, we expect increased marketing and technology investments to drive a negative margin impact of 50 basis points, while unfavorable currency, primarily in Latin America, is expected to impact margins by approximately 50 basis points.

In total, we expect these actions to deliver 9% plus ongoing EBIT margins; an EBIT improvement of over $100 million compared to the prior year.

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

Jim Peters

Thanks, Marc.

Turning to Slide 15, we show our regional guidance for the year.

Starting with industry demand, we expect a robust demand environment for North America supported by continued strength from consumer nesting trends and increased discretionary spending. Additionally, the

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impact from positive U.S. housing starts, which began to strengthen in late 2019, and strong existing home sales will translate to higher appliance demand.

In EMEA, we expect a continued recovery in the first half of the year to support strong growth, while in Latin America, we expect modest growth of 2% to 4% as the benefits from government stimulus in Brazil are lessened. Asia industry is expected to accelerate by 6% to 8% as the region rebounds from prolonged shutdowns in 2020.

Regarding our EBIT guidance, we expect very strong margins of 15% or more in North America. We expect the impact of favorable go-to-market initiatives and disciplined cost actions to offset cost inflation. In EMEA, we expect the strategic actions laid out during our 2019 Investor Day to drive EBIT margin expansion of over 250 basis points and a full year EBIT margin of over 2.5%. In Latin America, we expect to deliver EBIT margins of 7% or higher as steady demand improvements and positive price mix are offset by continued currency devaluation in Argentina and Brazil. Lastly, we expect to achieve EBIT margins of 2% or higher in Asia, driven by demand recovery.

Turning to Slide 16, we will discuss the drivers of our 2021 free cash flow.

We expect another year of very strong cash earnings of approximately $2 billion dollars driven by sustained EBIT margins. We plan to increase capital investments to historical levels to support the launch of innovative products around the globe. Additionally, we will continue to invest in world-class manufacturing and our digital transformation journey. Further, as we ended 2020 with record low inventory levels, we are planning for a moderate inventory build.

We anticipate restructuring cash outlays of approximately $225 million primarily due to the impact of COVID-19 related restructuring actions executed in 2020 and the exit of our Naples, Italy operations. Overall, we expect to drive free cash flow of $1 billion or more as we focus on continuing to deliver record EBIT margin levels and prioritizing our capital investments.

Turning to Slide 17, we provide an update on our capital allocation priorities for 2021.

We remain fully committed to funding the business, driving innovation and growth, while continuing to strengthen our balance sheet and return cash to shareholders. We expect to invest over $1 billion in capital expenditures and research and development, highlighting our commitment to driving innovation and growth in the future. We have reinstated our share repurchase program that had been temporarily suspended during the height of the pandemic. With a clear focus on returning increased levels of cash to shareholders, we expect to repurchase shares at moderate levels. Lastly, we have a clear line of sight to delivering on our long-term goal of gross debt to EBITDA of 2 times.

Now on Slide 18, I'll turn it back over to Marc to summarize our key messages.

Marc Bitzer

Thanks, Jim, and let me just recap what you heard over the past few minutes.

We are extremely pleased to see that, despite the enormous challenges of operating in a global pandemic, our teams were able to deliver on our long-term value creation targets.

In North America, we delivered nearly 16% EBIT margins for the full year, significantly above our long-term margin goal for the region of 13% plus.

We restored the Europe region to profitability.

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In Latin America, we capitalized on strong industry demand, demonstrating the long-term margin potential in the region, and finally, we delivered record free cash flow of $1.25 billion, or 6.4% of sales, above our long-term goal of 6% of sales.

Further, we demonstrated an unwavering commitment to our environmental, social, and governance priorities, resulting in significant advancements to our targets.

Building on the momentum of our 2020 performance and the operational excellence of our global team, we are confident that we are well-positioned to deliver another record year in '21.

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

Operator

At this time, I would like to remind everyone in order to ask a question, please press star, then the number one on your telephone keypad. We'll pause for just a moment.

Your first question comes from the line of David MacGregor from Longbow Research.

David MacGregor

Yes. Good morning, everyone, and congratulations on the strong quarter and the good guide.

Marc, I guess I wanted to just ask about North America and the 4% revenue growth, and you indicated price mix was up close to 4%, implying flat volumes versus core 6%. It was up 20%, so you noted that you'd be back to normal in terms of the manufacturing efficiencies by the end of the second quarter, but what does the recovery path between here and there look like, and what are the implications for first quarter? Then I've got a follow-up question as well.

Marc Bitzer

Yes. First of all, David, good morning and thanks a lot.

First of all, stepping back in North America Q4, and not just Q4, we're needless to say exceptionally pleased with the overall financial performance in North America and the margins which we achieved in light of a pandemic which is still pretty severe.

Now, specifically to the volumes and the supply chain, now, I would say our overall volume directionally are in the line—in the scope of what you talked about, which also means we're on a sequential base Q3 versus Q4. We directionally kept market share, but year-over-year, we're down, so it's the same down which we had also in Q3 and Q4, which is ultimately related to the supply chain constraints which we have.

Now, our supply chain constraints—and we talked about it in the prior earnings call—they are fundamentally pandemic-driven, i.e., you have absenteeism in factories, you have labor shortage, you have component shortages, which have been significant, and we have transportation bottlenecks, so, yes, of course, we're improving month-by-month, but it's also against the demand, which is rising month-by-month, so we're—we're still having a fairly significant back order situation, slightly better than at the end of Q3, but only slightly, and from everything which we see right now, that's where we—in our prepared remarks, that's probably by the end of Q2, a little bit depending on the progress of the pandemic, we should be out of the constraints, but it will be around us pretty much as long as COVID is

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around us. It also be crystal clear, it impacts pretty much everyone producing in the Americas, producing in Europe. It is less, almost no impact if you produce in China or Asia.

David MacGregor

Is the recovery path through the first half? Do we see the first quarter look more like the fourth quarter and then we see the inflection in 2Q, or just how should we think about first half?

Marc Bitzer

No. David, it's not going to be an inflection point. It will be gradual improvement month-by-month, and actually, frankly, already in January, it's slightly getting better. February will be slightly better, but we will—the back-order situation will not be resolved in short term. It's just too big from a back-order overall perspective, so our production yield has increased a lot. We're also adding capacity, so every month, you will see improvement, and frankly, we've already seen them in January, so—but it will take us—still take us time to work through it.

David MacGregor

Okay. Well, good luck with that, and my second question was just with regard to your ongoing EBIT margin guidance where you indicated that the net cost would be 150 basis points against that RMI, raw material inflation, of negative 150 basis points. I guess just trying to get some sense from you of your confidence in that 150 basis points on net cost, and I guess a third of that's the carryover, but just could you talk a little bit about your ability to just carve into costs further in '21 and offset that raw material inflation?

Jim Peters

Yes, Dave, why don't I start here, and then Marc, you can follow up, but I'd say, David, as you said—you highlighted, that 1.5%, I'd say you've got $50 million to $100 million that is our carryover from last year, and again, we continue to implement and drive actions related to that, so we'll also have some additional actions that rolled out in Q4 that will continue to get a benefit for this year.

The second thing is, if you look across our broader production base and as we get more efficient in understanding how to deal with some of the COVID inefficiencies that have come around, that will be a help for us. Incrementally, we expect volume to be—as we've talked about, volume to be higher this year, so that will help to drive additional cost savings, and then on top of that, within any given year, we typically look to drive a certain amount of reduction in what we'll infrastructure and SG&A spend, and so that's probably another big portion of what comes out there, but where we start the year in terms of the cost takeout programs we've already initiated versus what we've got in the pipeline, we feel very good about that number.

Additionally, as we've talked about, from a manufacturing footprint, we ceased production in our Naples facility in Italy during Q4, and so we'll start to see the benefits of that also rolling in this year from a cost perspective.

Marc Bitzer

David, the comment I would want to add is, first of all, also coming back to last year, as you know, in last year we significantly dialed up our cost takeouts. We started the year with a certain assumption, which we also gave you in the earnings call, and then we—once the pandemic hit us, we massively ramped it up to

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$500 million net cost takeout, and we did, so I would say we have a—I know you see it, we have a track record of being able to deal with costs.

Now, of course, we do know raw material is a headwind this year, and we showed earlier it's $250 million to $300 million, but I think we have other tools to overcome some of these headwinds, and there's carryover, there's additional measures which we're taking, and as you also know, it’s not the first raw material headwind we're dealing with, and we have dealt with very successfully in the past.

The other thing also in raw material, because I see in some writing, not in your writing out there, people always referring to spot prices, etc. Keep in mind, we are either having long-term contracts or hedged in certain positions, so I would say we're less exposed to volatility you see in spot markets than most other players, and that's a good thing, and I think that also gives us probably a higher level of confidence that's pretty much to the range which we're talking about.

Operator

Your next question comes from the line of Eric Bosshard from Cleveland Research.

Eric Bosshard

Good morning.

Marc Bitzer

Good morning, Eric.

Eric Bosshard

Good morning.

Two things I'm curious about. One, if you could just give a little bit more insight into what you're seeing in North American demand trends, how that behaved through 4Q, and then secondly, I think you commented about gaining share in the U.S. in 2021. When, during the year, do you think the supply chain—your supply chain, will be in position that's effective to allow you to start to accomplish that?

Marc Bitzer

Eric, let me maybe first talk about the demand trends, and maybe, Jim, you want to cover the supply chain piece again.

Eric, on the demand trends, first of all, we’ve got to recognize in 2020, yes, you've all seen the North American industry volume was a positive. I think what most people lose sight of is the quality of the demand has changed in a positive way. In particular, in Q2 and beginning of Q3, you saw a lot of duress or COVID-related stress purchases; the freezers, the microwaves, etc., but that has gradually shifted more and more into of a more higher mix, i.e., remodeled kitchen upgrades or rebuilding our entire home construction, so beyond the numbers of a volume, we're really pleased with the mix which comes with the increased volume, but it also means we do not see the demand as well with the COVID spike. Yes, there was a little bit of a COVID spike. This is structurally and sustained powerful demand which is, yes, coming to extremely strong housing trends, but it's more than housing. It's the entire home improvement, and we do not see that fundamentally changing anytime soon.

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Of all the global regions, I would say North America may be the region where we're most bullish about. From a structural demand trend, it's very healthy, and we just do not see that slowing down, so I know the number which we've guided to, but it could even better—it might be even stronger, so we're very confident about the structural sustained demand trends. Particularly as we get our supply chain constraints resolved, I think we're confident we can capitalize on these demand trends, so—and that's the demand.

Jim, do you want to cover the supply chain?

Jim Peters

Yes, and I'd say, Eric, from a supply chain perspective, as we talked about earlier, is one, we've seen our supply chain now being able to at least keep up with the existing levels of demand. We're beginning, as Marc talked about earlier, starting to see improvements here early in the year in terms of our ability to start to catch up on some of that backlog.

As we've talked about, by the middle of the year is when we expect to begin to have worked through that, assuming that nothing in the environment changes around us, because most of these, as we've said, supply chain issues are COVID-driven, so that would put us in a place where we've really caught up only—not only on the demand, but on the need for higher retail inventory levels, and then as you get into the back half of the year, you'll begin to see us build our inventory level slightly as we return to what would be a normalized environment, and we talked about during 2020, how our inventory levels came down during this time period, so I think that's the path we see throughout the year, but by about mid-year normalizing from a trade inventory level, and then in the third to fourth quarter, normalizing our inventories.

Operator

Your next question comes from the line of Sam Darkatsh from Raymond James.

Sam Darkatsh

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

Jim Peters

Good morning, Sam.

Marc Bitzer

Sam, good morning.

Sam Darkatsh

A couple of questions, if I might. First off, with respect to the expectations for share gains in all of the regions embedded within your Fiscal '21 guidance, I'm trying to get a sense of what gives you the degree of confidence to categorically state that. I know you're going to have some easy market share comparisons and you've noted the new product rollouts, but I'm mostly interested if the industry promotional activity resumes, like the normalized promotional activity resumes, as lead times normalize, as the discretionary replacement demand continues to improve, if that were to reoccur, what gives you confidence that you would still gain share in that sort of backdrop?

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Marc Bitzer

Sam, let me take this one.

First of all, as you rightly highlighted, I mean, I start with our new product innovations. The dishwashers which we launched, the new top loaders—I mean, the product pipeline which we put in place is very strong, and we know from a trade flooring or trade reaction, the perception is very well, first of all, on the innovation.

Second of all, just do the math. As I mentioned before, our back-order level is still significant. I don't need to promote back orders. I just deliver them, so there's no promotional pressure on the back order resolving that. That on its own is a fairly sizable portion.

Now, on the promotions going forward, as you know, we're not commenting on our go-forward pricing strategy. The only thing which I want to hint to and repeat is our promotion strategy has not changed, no matter what. We participate when we can create value for us, the trade customer or the consumer, but we make a case-by-case decision, but it's—in general terms, knowing that there is raw material pressure, knowing that particular China transportation costs are rising rapidly, I'm not quite sure the promotional pressure will increase so rapidly as some people assume.

Jim Peters

Yes, I think, Sam, the other thing maybe to add to that is you talked about on a global basis, and I'd say if you look at EMEA right now, the share gains we've had there, especially within some of the key countries that we do business in, we expect to continue into next year, as well as our supply chain, while affected there, is not as deeply affected as we see within the U.S., and then even within other large markets such as Mexico and India, we anticipate that we'll continue to gain share there, and Brazil, as we've highlighted, has also been a very healthy market for us, so around the globe, we really do see multiple opportunities this year in terms of just the trends and where they are right now.

Sam Darkatsh

Then my second question, Jim, if you had this in your prepared remarks and I missed it, I apologize. Normal seasonality from an earnings delivery standpoint is roughly about 40% in the first half, 60% in the second half, but I'm guessing your cost takeout rollover hits you in your first half, your volume load-in is going to be early on in the first half, so should we expect the normal seasonal earnings delivery to flip this year? I'm guessing the answer is yes, but I'm just trying to get a sense to what degree.

Jim Peters

Yes, Sam, I think you're thinking about it the right way in terms of the variables you're putting in there, and we do expect it to flip; now, not to the extreme. In many of the more recent years, maybe we've been closer to 45%, 55%, but we do expect actually higher earnings in the first half of the year, due to the things you highlighted is that, one, as we catch up on our supply chain and the production, as well as just the carryover of cost, and so I would just expect it to be slightly higher in the first half than it is in the second half of the year right now.

Operator

Your next question comes from the line of Michael Rehaut from J.P. Morgan.

Michael Rehaut

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Thanks. Good morning, everyone.

Jim Peters

Good morning, Mike.

Michael Rehaut

First question I had was just circling back to price mix, particularly in the U.S., and this has obviously been a big area of focus by investors following 2Q, and particularly 3Q, and now in 4Q in terms of the dramatically reduced promotional backdrop helping price mix, and obviously you saw that come through in the 4Q results.

How should we think about price mix as 2021 progresses, particularly in the U.S.? I mean, Marc, you talked about obviously not having to promote your backlog, and by all accounts, it appears that the demand trends that have allowed for that reduced promotional backdrop seems like will continue into the first half, and if that's correct, I mean, should we be thinking about more of a flat to down price mix dynamic in the back half?

Related to this is, I heard that—if I heard right, you talked about price increases in Russia, Brazil, India, but not the U.S., despite obviously having significant raw material inflation, and I was just wondering if the—in lieu of those, normally what we'd expect would be some price increases to offset raw materials. In effect, you're getting those because of the reduced promotional backdrop at least in the first half.

Marc Bitzer

Michael, it's Marc, so, let me try to answer this one.

First of all, as you know, we're not giving quarterly guidance on price and mix. We gave a full year number, which is a positive, so—and we're confident in this one.

As you point out, there are several elements which come here into play. One is you have carryover. There's a certain carryover element, which will give us quite a good momentum. Two, we have innovation, which I alluded to. Three, and that's a really important part, is coming back to the demand trends. The mix on the current demand is rich, okay, so we have mix opportunities, and then fourth, yes, we had already some price increase in certain markets as we allude to Russia, India, Brazil, and we're not commenting on any planned future price increases. The only thing I want to repeat, again, in the past, we've demonstrated our ability to pass on necessary pricing—cost-based price increases to the market, okay, but that doesn't mean we have any precise plans, nor will we announce any precise plans.

Jim Peters

Yes, I think the other thing to think about, and you alluded to this, is Q1 is our least promotional quarter, so when you look year-over-year and even the first half of the year, it tends to be less promotional. While, as Marc said, there's carryover, the amount of impact is less than it would have been in the back half of the year of what we saw this year.

Michael Rehaut

Okay. All right. Well, that's helpful. I appreciate it, and certainly, obviously, mix, I appreciate you highlighting that because I think that's important and maybe underappreciated to a degree.

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Secondly, maybe to focus a little bit on the EMEA region with the margins there—the margin trajectory, down a little bit sequentially in the fourth quarter versus the third quarter, and the guidance being for 2.5% plus in 2021. I was hoping maybe you could comment on how you feel the margin improvement trajectory is unfolding, and what are the markers that we should expect over the next two or three years in order to drive that margin closer to what you'd expect to be more of a normalized level?

Jim Peters

Why don't I start with it, Michael, and then I can have Marc add some comments to it?

To begin with, as we look at—we're very happy with the performance that we saw in the back half of the year within EMEA and the margin improvement that we made. Now we have to remember that EMEA typically does have—their first quarter is their lowest quarter of the year, so we do expect to continue to be profitable, but obviously, when you look at a quarter—sequential quarter-over-quarter, we wouldn't expect to see continued margin growth within Q1.

For the full year, we do expect the margin growth to—obviously, to materialize to 2.5%, and a big part of what drives that is, one, you've got cost takeout actions that took place, and many of those were not implemented until the back half of the year within EMEA.

Two, as I've talked about with the share gains that we've seen and the continued improvement in volumes there and demand there, we do feel very positive on that, and so both of those set us up coming out of 2021 on what I would say is a good trajectory that we feel will put us on track to our longer-term margin goals there.

Now, the bigger drivers of that will continue to be cost takeout. In addition to, with the market share gains that we're seeing right now and some of the new product introductions we're doing, we do expect to grow volumes there, and we've talked about that over the next few years. That's one of the key drivers to get those margins to a healthier, longer-term level.

Marc Bitzer

Yes, Michael, just what I want to add on Europe, a little bit echoing Jim's point is we are actually very pleased with the 2020 full year results in Europe. As a reminder, the pandemic from a consumer sellout hit Europe harder than it did Latin America or North America, so Q2, as you all remember, was pretty devastating from a demand and (inaudible), so I'm very pleased that that huge dent in Q2, we were able to achieve, on a full year base, a profit in Europe, which mid-year was a very difficult target to even think about, but we achieved the full year profit.

Now, we all know achieving a profit is not a heroic achievement, but it's an important milestone, and what it basically tells me with the second half performance is we're back on track with the trajectory which we laid out in front of you which says we want to get Europe very quickly to 2% to 4% and when—while we work on the long-term strategic levers, get it on track towards a 7% or 8% operating margin target, which we talk about, and today, I would say Q—the second half performance—I'm not reading too much between Q3 and Q4—the second half performance gives us all the confidence we're back on this trajectory.

Operator

Your next question comes from the line of Curtis Nagle from Bank of America.

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Curtis Nagle

Good morning. Thank you very much for taking my question.

Forgive me if you guys have already addressed this, but just a quick one on the backlog, so in 3Q, I think you said it was seven to eight weeks. That compares to one to two weeks normally. Where does that stand—or where did that stand in 4Q, and roughly—I know there will be improvements coming through to 2Q—at the end of 2Q, but how should that phase through the first half of the year in terms of that time?

Jim Peters

Yes. Curt, this is Jim, and what I would say is, listen, it continues to be—as we've said previously in the call, it continues to be at that similar seven to eight week level, but right now that our production is caught up with the current levels of demand, and we haven't given a forecast or an outlook of how that's going to go, but throughout the upcoming two quarters, but what we do see in terms of production improvements, we do believe we will have it resolved and have worked through it by the middle of year, so, you could think about that that would obviously be relatively ratable throughout the first two quarters.

Curtis Nagle

Okay. I guess just a quick follow-up. In terms of cancellations, I think you'd said no issues there. Is that still the case? Then just a modeling question here in terms of demand flow. At the Analyst Day in 2019, I think 55% was replacement 15% new—sorry, 15% new housing, 30% discretionary. Presumably, that math has changed a little bit. Could you give an update in terms of where those percentages stand now?

Marc Bitzer

Yes. Curtis, it's Marc.

Without getting into details of our percentages, I think let me maybe more make the qualitative comments, which also adds why we're confident, particularly in North America on the long-term demand trends. As you know, on the replacement side, we were running against the trough of the industry in 2008 to 2010. We're now pretty much coming out of this trough.

Keep also in mind when people typically take this reference to 8 to 10 years' appliance, that's when you replace. Last year was a year of extreme intense use at home, which probably accelerated that replacement of—the need for replacement, so I would say on a fundamental replacement, we're now coming—I think, soon, the trough will be behind us, so, that will give strength.

On top of that, we saw last year, throughout the year, I talked about significantly higher discretionary demand, first coming from really the duress and stress to really structure improvement, and I think on top of that, the housing side will come stronger and stronger and stronger.

The housing side, the only thing where you probably don't see extreme numbers in the short term is it's housing supply constraints, okay, but you saw housing starts 1.7 million or 1.667 in December. That is a promising sign, and it's been the highest in a long time; still far away from where we believe it should be. It should be around two million housing starts, so that is not yet fully in the numbers, but again, that's—these are all the data points which give us the high degree of confidence in the structural demand improvements.

Operator

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Your next question comes from the line of Mike Dahl from RBC Capital Markets.

Michael Dahl

Hi. Thanks for taking my questions, and appreciate the color so far.

Marc, I share the overall enthusiasm around home improvement spend and what that can do for long-term appliance demand. I guess I'm trying to think more about cadence and to the point of some of the replacement cycle potentially got accelerated. For all the comments around potential for structural shifts and stay at home, there's also viewpoints out there about this roaring ‘20s post-vaccine distribution and potentially some shift in pent-up demand towards restaurant dining and dining away from home in general. As to what extent do you—again, appreciating the favorable overall construct, to what extent does that play into your view on cadence for demand for this year, especially later in '21?

Marc Bitzer

Mike, first of all, you hit already all the points which I would have answered—but it's—again, it comes back to the fundamental confidence in consumer demand. Now, first of all, in macro scheme, of course, there's uncertainty. There's uncertainty every year around what happens in raw material, currency, etc., but I think this year—and that's different from the last few years, we have a high degree of confidence in structural demand trends, and that's just real, okay? It's the housing side, it's the home improvement side, and the one thing which I really want to emphasize is—which sometimes outside observers get wrong, is everybody thinks about post-COVID, everything will go back to where it used to be. It won't.

First of all, COVID will be around as longer than we want it to be. Second of all, a consumer who has been more than one year essentially at home will not change behavior overnight. Consumer mind is not a flash memory which you just erase. That behavioral trend is not going to go away, and also in the context of how people talk about future work, you should assume that, going forward, the average consumer spends more time at home than before. It's just going to be that way.

What it leads to is a fundamental reorientation of a consumer towards the house, the purpose of the house, how I live in the house, and how much money I invest in the house, and frankly, some people refer to (inaudible) as more of an open housing play. I wouldn't even say it's a housing. We're a home play. I don't care—well, I do care, but if you improve your home, it will benefit us. If you upgrade the kitchen, it will benefit us. If you build a new house, it benefits us, so there is multiple trends, which are all ultimately coming from consumer reorientation to the home, which will really play in our favor.

Michael Dahl

Got it, and just a quick follow-up to that, and I think it plays into an earlier question around seasonality of earnings, so based on that answer, we shouldn't expect that, within your guidance, there's necessarily a huge spread in your growth expectations for first half versus second half, i.e., not some up high single digits in certain parts of the first half of the year and then flat to down in the second half of the year?

Jim Peters

No. Michael, this is Jim.

You shouldn't assume that there's some high first half. Now, what you should assume within there is think about when you're looking year-over-year, you're going to see the first half of the year just being stronger, because around the globe you had numerous closures of various—within various countries that would have impacted, obviously, our shipments and our sales, so we will show stronger year-over-year growth,

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but when you think about it starting from Q3 of this year and on through Q4 of next year, quarter-over-quarter growth won't be anywhere near as dramatic as it was this year.

Marc Bitzer

Michael, just to add to this one, Jim highlights an important point is, this will be a year where the baseline comparisons are just a little bit misleading, because you had this all—I mean, we all know April, May, and you had—so just the year-over-year comparisons just will not make a whole lot of sense, so I think you should particularly look at the sequential, the run rates, and I think that's where you need to be looking at, and with that in mind, I would see—you see a lot less seasonal swings this year. We will have a very balanced year. Yes, we'll have a very strong first half, but frankly, also the second half will be strong, so I would say you see much more balanced dispersion of earnings throughout the year, and that's a good thing. It's just the baseline comparisons are—will be a little bit misleading.

Operator

Your next question comes from the line of Susan Maklari from Goldman Sachs.

Susan Maklari

Thank you. Good morning.

Marc Bitzer

Good morning, Susan.

Susan Maklari

My first question is focusing on capital allocation. You mentioned that you are modestly resuming your share buyback activity this year. I believe in that past—when you use that language, it refers to a $200 million to maybe $300 million range. Is that how we should be thinking about it this year, and any thoughts in terms of the cadence there and your appetite to be buying the stock back?

Jim Peters

Well, Susan, this is Jim, and obviously, in the past, we haven't given specific guidance on the amount or the cadence that we'll do it within the year, but what we always have said is, one, we at least intend to buy back any dilution that comes through any of our executive compensation programs or other things, so that's the minimum that we look at.

Again, when we say a moderate amount, we're also going to keep an eye on what the situation is around us and globally, and we feel very confident, as we've talked about, our balance sheet is in a very strong position, but also we to be cautious throughout the year just with any of the unknowns that could come, so I think you should think about it being, as I said, at a minimum, on that lower level that at least eliminates the—any dilution that could occur.

Susan Maklari

Okay. All right. That's helpful, and my second question is turning to Latin America. You had another quarter with a really nice margin in that region. Can you maybe just talk to the sustainability of what—of that; a little bit of what's going on, on the ground there? I know you mentioned that you're putting some price increases through in Brazil. Just any color on that part of the world?

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Marc Bitzer

Yes, Susan, I would read right now the second half performance in Latin America, it's not only Brazil. We also had Mexico very strong business in the other part was very impressive. The way I read it is this is a demonstration of what this region can deliver.

Now, there are, of course, crazy swings coming from currency, and you all have seen what the Brazilian real does, and Mexican peso has now strengthened the region a little bit, so I would say that performance is even more impressive from knowing how much currency losses we had, in particular, in Brazil, so the way I would look at it going forward, that region is absolutely reached from a structural perspective, which is able to deliver 8% to 10%, and right now, we guided 7% plus, and we're pretty confident, and I would also emphasize, we're confident on—plus, our Latin America business is a very well-run business, operating very strong. We have exceptionally strong brands.

The demand trends, and that probably has been really positive surprise, held up pretty strong in Latin America, and I would even argue last year was the least impacted from the demand trends of all regions, which is largely a result of the COVID stimulus in the respective countries, so—but we see that continuing. The demand holds up strong. Of course, we're observing currency fluctuations. We're observing the raw material increases, which weren't particularly impactful in Latin America, but again, by—coming from the second half of last year, very encouraged by what our Latin America business can deliver.

Operator

Your next question comes from the line of Adam Baumgarten from Credit Suisse.

Adam Baumgarten

Hey, good morning. Thanks for taking my questions

You guys did outline the industry growth for North America of about 4% to 6%, yet you still will have some capacity constraints in the first half, so maybe if you could walk us through Whirlpool's ability to grow with the market next year given some of the constraints in the first half.

Jim Peters

Yes, Adam. This is Jim, and as we talked about here is, one, we believe and we know that our supply chain is caught up with where the demand levels are, so right now, it's just working through a backlog, and if you think about last year, that backlog is what we built, and as Marc talked about earlier, that was due to disruptions in our supply chain that were a result of COVID, and whether it was impacts our suppliers or our own factories, so we're confident right now that we're able to keep up pace with the industry and where it is, and so again, for us, we see it as more of a positive as we begin to work that backlog down throughout the year.

Adam Baumgarten

Okay. Got it. Thanks, and then, in the presentation, you noted the potential for opportunistic M&A. Maybe if you could give us a sense for what that may entail. Would it be a geographic base? Could it be new product categories? Maybe just a little bit more color.

Jim Peters

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Yes, Adam, this is Jim again, and as we've talked about at our various Investor Days over recent years, as we look in all those areas—and the first thing we really look to do is see is it value creating? Is it something that we think can be earnings accretive, and do we have the management capacity to do it, and we don't limit it to any specific thing, so again, we're continuously looking at product expansion within the portfolio we have, or on top of the portfolio we have, as well as geographic expansion, and one of the things that we had talked about in recent years is that we believe that the first thing we needed to do was focus on some of the existing acquisitions that we did over the prior years, whether they be in Asia or they be in EMEA, and we feel very good with where those are right now, so we'll continue to look and we always are looking, but there's nothing specific that we would highlight outside of what we've talked about in our Investor Days.

Operator

Your next question comes from the line of Ken Zener.

Kenneth Zener

Good morning, everybody.

Marc Bitzer

Morning.

Jim Peters

Good morning, Ken.

Kenneth Zener

What a year. Very well done.

Obviously, with a lot of this, what you would focus on in mix and perhaps structural changes due to accelerated cycle uses. Could you just expand on your North America margin guidance of 15% in the context of lower seasonality and sequentiality as opposed to year-over-year? I guess what I'm looking at is, I just did the average margin swing in North America in '18 and '19, so the quarters versus the average, and it was only about 50 basis points, which surprised me, but not really considering how you guys are executing better. Is that a reasonable way to think about margin volatility in '21? Is that it's going to be off the average by maybe that much each quarter given your comments around seasonality lacking?

Jim Peters

Yes, and Ken, this is Jim, and I think the best way to think about it is that our North America margins will be relatively similar to our overall seasonality of the business that we've talked about, because just think of the percentage that they are of our overall business and our overall profits, so that's obviously one of the bigger drivers there.

Two is, as we've talked about, as we look towards the year, we do believe in terms of volume and demand, the front half of the year being strong as we work through some of the backlog, that will help normalize our business on a full year basis, and especially within North America.

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Additionally, as we've said, we had more of the cost savings there within probably starting in the second quarter through the fourth quarter, so the dispersion of additional cost savings isn't as big in North America as it might be in the rest of the globe, so I think, yes, thinking about it that way is probably correct.

Kenneth Zener

Okay, because just, it surprised me, actually, to see such low EBIT volatility in '18 and '19 pre-COVID.

Just switching across the continent, I was really surprised, I mean, Indesit—I think when you guys did the Indesit, FY'21 was when you were supposed to earn $21 is my memory, so do not—dollar's at the high end is off, but it's been quite a ride, and EMEA, if you're looking at 2.5% margin, it really seems like your, A, market share has improved. I know you guys have been really focused on delivering positive EBIT, but was there—it seems like you must have gained a lot of share, so perhaps because it's a country-by-country event, and you guys really lost a lot of floor space, and usually it took you a while to get back in. I know you had success at IKEA, but what really happened? I mean, did you guys just have better throughput so people accepted your product perhaps ahead of your expectations in terms of share gains, because it seems like you might have actually leapfrog—leapfrogged where you were pre-COVID in terms of your expectations in Europe.

Marc Bitzer

Ken, it's Marc.

First of all, it is true that towards the back half of last year, we started structurally gaining share back, okay? As you also know, there is no European market. There's a lot of countries, and I'm particularly pleased that in several of our key countries such as U.K., Italy, bit of France, and now, also, lately, Russia, we expanded our share position, which I think ultimately is a result of we have strong product, strong placement, and very good execution, so I think it's a combination of all of that, but I also want to be very clear; we're not yet back to the level where I would expect us to be from a share perspective, I think there's still quite a bit of room to grow. You also know, strategically, our particular focus is on the kitchen business where it naturally takes a little bit longer to gain back per share, and that remains our focus, so I would say—I would read the share gains. Yes, we're proud, promising sign, but we're not done.

With that in mind, and also given that we're coming almost back to the top of the hour, so this was the last question, so before you all check out and hang-up and get on your keyboards, let me just pass on one important last message though, just stay with me another one or two minutes.

When I reflect on your questions, a lot of them were what happens next quarter, two quarters down the road, supply chain, seasonality, so they were short term, and maybe rightfully, and that's what you also obviously talk about, but I would also strongly encourage you zoom out, and what I mean with that, look at the long term, look at the fundamentals.

Last year has been the third year in a row where we delivered all-time record EPS. We just guided towards a fourth year in a row. Four years in a row doesn't make it a one-time wonder. We're not a COVID play. This is a structural improvement and a different company. I know, Ken, you just highlighted what we promised several years ago. We are delivering towards our long-term shareholder targets, and I'm very pleased.

Along the way, you guys had some questions. We are delivering. We are guiding $19 to $20, so if you—beyond, of course, the short-term challenges, I think you should also give us some credit that we demonstrated sustainability to deal with whatever is thrown at us. It's three years in a row, now four years

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in a row. That is an exceptional strong long-term fundamental trend, and I think it is fair to say that Whirlpool today is a very different company than it was 10 years ago, so with that in mind, thanks for listening to us, and have a wonderful day.

Operator

Ladies and gentlemen, this does conclude today's conference. We thank you again for your participation. You may now all disconnect.

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