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Whirlpool Corp. (WHR)

Q1 2023 Earnings Call

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CORPORATE PARTICIPANTS

Korey Thomas
Head - Investor Relations, Whirlpool Corp.

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

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

OTHER PARTICIPANTS

Susan Maklari
Analyst, Goldman Sachs & Co. LLC

Sam Darkatsh
Analyst, Raymond James & Associates, Inc.

Michael Rehaut
Analyst, JPMorgan Securities LLC

David S. MacGregor
Analyst, Longbow Research LLC

Elizabeth L. Suzuki
Analyst, BofA Securities, Inc.

Eric Bosshard
Analyst, Cleveland Research Co. LLC

Mike Dahl
Analyst, RBC Capital Markets LLC

MANAGEMENT DISCUSSION SECTION

Operator: Good morning and welcome to Whirlpool Corporation's First Quarter 2023 Earnings Release Call. Today's call is being recorded. For opening remarks and introductions, I would like to turn the call over to Senior Director of Investor Relations, Korey Thomas.

Korey Thomas
Head - Investor Relations, Whirlpool Corp.

Thank you and welcome to our first quarter 2023 conference call. Joining me today are Marc Bitzer, our Chairman and Chief Executive Officer and Jim Peters, our Chief Financial Officer. Our remarks today track with the presentation available on the investor section of our website at whirlpoolcorp.com.

Before we begin, I want to remind you that as we conduct this call, we'll be making forward-looking statements to assist you in better 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, 10-Q and other periodic reports. We also want to remind you that today's presentation includes the non-GAAP measures outlined in further detail on slide 3 of the presentation.

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 with a better baseline for analyzing trends and our ongoing business operations.

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Listeners are directed to the supplemental information package posted on the Investor Relations section of our website for the reconciliation of non-GAAP items to the most directly comparable GAAP measures. At this time, all participants are in 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, Korey, and good morning, everyone. As you will have noted now, earnings release, we did start the year with a very solid first quarter. It was the first quarter which demonstrated significant improvement from our Q4 of last year. And it was a quarter which puts us firmly on track towards our full year guidance.

If you look at the drivers of this improved performance, we did not get a lot of help from a macro environment. Global industry demand was down. But frankly that is what we expected. It was instead our consistent and disciplined execution of our operation priorities that drove this improvement. We were able to achieve meaningful cost reductions, we improved our supply chain. Our product innovations drove strong consumer demand and we gained market share both sequentially and year-over-year. In short, we did what we told you we would do.

This first quarter further strengthens our confidence in our full year guidance. While the macro environment remains challenging and volatile, we know we have the right operation priorities and demonstrated that we can execute them with rigor and discipline. Our market share gains in particular in the US builder segment will continue throughout the year. Coupled with early sign of a stronger US housing market, we expect to see an improved revenue top line as the year progresses. Beyond our Q1 operational and financial performance, this morning, we will also give you a short update on our portfolio transformation, which is fully on track.

Turning to slide 6, I will provide an overview of our first quarter results. Across the globe, we're still seeing lower demand due to softer consumer sentiment impacting discretionary appliance purchases which resulted in a revenue decline of 5.5%. Our Q1 operating margin of 5.4% is 200 basis points ahead of Q4. And our North America margin improved by 420 basis points to a 10% EBIT margin. Overall, we delivered first quarter ongoing earnings per share of $2.66 in line with our expectations and are reaffirming our ongoing EPS guidance of $16 to $18.

Now turning to slide 7, I would share more details on our 200 basis points of sequential margin expansion. Our overall Q1 price mix was in line with our expectations. Our year-over-year price mix margin decline is largely driven by our limited participation in promotions during the first half of 2022.

For the full year, we continue to expect the promotional environment to be at similar levels as the second half of 2022. On a sequential basis, our price mix is slightly improved versus Q4. But frankly, this is simply a reflection of the normal seasonal promotional activities, which tend to be higher during the fourth quarter.

Looking at both net cost takeout and raw materials, let me first remind you what we told you during our last earnings call. We anticipated that Q3 and Q4 marked the peak of our cost inflation, and we would expect this to now turn favorable. And that is exactly what you see in the sequential cost progression where the total of net cost and raw materials show 0.5 point of favorable cost development.

As the year progresses, we do expect net cost takeout and raw materials to be the key driver of margin improvement. Our cost actions are on track, we will see more seasonal volume leverage and raw materials will

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continue to improve even though at the low end of our raw material expectations. Finally, we had a negative impact from foreign currency of 25 basis points year-over-year, ultimately delivering Q1 ongoing EBIT margin of 5.4%.

Turning to slide 8, I will provide an update on our supply chain operational priorities. We aim for flawless supply chain execution. And while our historical supply chain model has served us very well over many decades, [ph] but (00:06:01) last few years have shown us is that in order to succeed moving forward, we need a more responsive and adaptive supply chain. We have significantly expand our dual sourcing of critical components and prioritize high value strategic parts and components to derisk [ph] this (00:06:18) part of our supply chain.

Additionally, over the past two years, we have also made significant progress in reducing our parts complexity. In the first quarter, we further reduced our active parts by approximately 5%. This is a key driver in increasing our supply chain resiliency. As a result, our overall product availability is significantly improved versus 2022, even though not yet fully to pre-pandemic levels.

Turning to slide 9, we provide an update on our cost takeout. First, I want to put this in context. Our business saw unprecedented levels of inflation with $2 billion of cost inflation in 2022, on top of an incremental $1 billion of raw material inflation in 2021. Coming into this year, we were aiming to reduce our cost base by $800 million to $900 million, of which $300 million to $400 million were raw material benefits and $500 million were internal cost takeout actions. In short, we're on track.

More specifically, [ph] these (00:07:21) material cost trends will put us at the lower end of this range. While our internal net cost takeout actions of approximately $500 million are largely on track. We continue to reduce supply chain inefficiency and premium costs. Our proactive head count management delivered an additional 1 point reduction in our global salaried workforce in the quarter, bringing our aggregate reduction to approximately 5%. Additionally, we're seeing benefits from reduced discretionary spending and other indirect costs.

To summarize, our net cost actions are on track and commodity prices have eased but at a slower pace than initially expected. As a result, we're trending towards the lower end of our $800 million to $900 million total cost takeout range.

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

James W. Peters

Chief Financial Officer & Executive Vice President, Whirlpool Corp.

Thanks, Marc, and good morning, everyone. Turning to slide 11, I'll review results for our North America region. Our share recovery efforts driven by product innovation and improved supply chain execution continued to build momentum, delivering 1 point of sequential and year-over-year share gains. Consumer sentiment impacted first quarter industry demand, down approximately 5.5%, in line with our full year industry expectations of down 4% to 6%. We expect a Q2 industry decline of 5% to 10% and a second half industry decline of low-to-mid single digits as we compare to the near double digit demand declines experienced in the back half of last year. The region delivered over 400 basis points of sequential margin expansion and ongoing EBIT margin of 10%, as our strong cost takeout actions gained traction alongside our first full quarter with InSinkErator. We remain confident in the structural strength of our North America business and continue to expect our actions to deliver very strong results, including approximately 100 basis points of sequential margin expansion in every quarter of 2023.

Turning to slide 12, I'll provide additional color around our mid to long term North America industry outlook. While we are experiencing short-term demand softness, we remain very optimistic about mid and long-term demand

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trends. Replacement demand, which represents 55% of the total industry, will increase in the mid to long term. After the post-financial crisis, industry volume declined from 2008 to 2011. The industry began to grow again in 2013.

Further, with remote and hybrid work trends continue to drive elevated usage of well above 2 times pre-pandemic levels in our cooking appliances, reducing the replacement cycle by approximately two years. Combined with a very strong installed base of Whirlpool's family of appliances in two out of every three households in America supports strong replacement momentum.

Additionally, housing demographics such as a moderating interest rate environment, the oldest housing stock in US history, the need for household formations to catch up with population growth rates and the 2 million to 3 million unit undersupply of US houses, supports mid to long-term discretionary and new construction demand, which is 45% of the total industry. We feel extremely confident in our ability to capitalize on these significant tailwinds, despite the near-term pressures of housing affordability and softening consumer sentiment, impacting discretionary spending, and have reflected all of these drivers in our mid to long-term industry growth outlook of 3% to 4%.

Turning to slide 13, I'll review results for our Europe, Middle East and Africa region. Excluding the impact of foreign currency and the divested Whirlpool Russia business, first quarter revenue was down approximately 8%, driven by continued industry demand weakness. EMEA benefited from cost actions alongside held for sale accounting benefits due to reduced depreciation of approximately $30 million. That will continue each quarter until the transaction closes, which is expected in the second half of 2023, subject to regulatory approvals.

Turning to slide 14, I'll review results for our Latin America region. The region saw signs of demand improvement in Mexico and improving, but still soft demand in Brazil. More than offsetting cost based pricing carryover actions. Continued inflationary pressures were partially offset by our cost takeout actions, resulting in solid EBIT margins of over 5%.

Turning to slide 15, I'll review results for our Asia region. Excluding the impact of currency, revenue declined 3%, driven by consumer demand that has not yet fully recovered. The region delivered EBIT margins of 3.1%, driven by our cost takeout actions, offset by negative foreign currency and price mix. We continue to believe in the long-term growth potential for the region and India in particular.

Turning to slide 17, I'll discuss our full year 2023 guidance. We are reaffirming our ongoing EPS range of $16 to $18 and free cash flow guidance of approximately $800 million. Additionally, our net sales guidance of $19.4 billion alongside approximately 7.5% full year ongoing EBIT margins with North America exiting at 14% remains unchanged. As we navigate a softer first half demand environment, easing inflation and our cost takeout actions ramp.

We continue to expect to deliver 35% to 40% of our earnings in the first half of the year. We are updating our GAAP guidance to reflect charges related to our EMEA business. First, we have recorded approximately $60 million in charges related to certain EMEA legacy legal matters. Second, held for sale accounting treatment effectively requires that we mark-to-market the value of our EMEA net assets through a quarterly assessment. Based on this assessment, we've recorded a Q1 non-cash loss related to the transaction of $222 million, primarily due to working capital changes in the impact of foreign currency.

We may have additional adjustments that increase or decrease the non-cash loss as we complete this reassessment each quarter. These items were removed from our ongoing earnings in Q1.

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I would like to highlight that the amount of consideration to be received for the transaction has not changed. Additionally, given EMEA's free cash flow is largely back half weighted, the timing of the transaction closing could impact our 2023 free cash flow.

Turning to slide 18, I will discuss our capital allocation priorities, which remain unchanged. We remain committed to funding innovation and growth and expect to invest over $1 billion in capital expenditures and research and development this year, including InSinkErator's largest product launch in over a decade, which Marc will discuss in a moment. Additionally, we remain confident in our ability to generate strong free cash flow alongside our strong cash balance, we continue to have flexibility to support our commitment to return cash to shareholders, demonstrated with nearly 70 consecutive years of cash returned to shareholders through our very strong dividend.

In the near term, we will continue to prioritize debt repayment, driving an optimal capital structure and maintaining our strong investment grade credit rating. Now I will turn the call over to Marc.

Marc Robert Bitzer

Chairman & Chief Executive Officer, Whirlpool Corp.

Thanks, Jim. Turning to slide 20. Let me provide an update on our portfolio transformation. Whirlpool today is a very different company from Whirlpool of a past. In the last five years, we have taken several significant steps to transform the company to a higher growth, higher margin business. These actions will create an even stronger and more value creating Whirlpool and position us for the future.

Turning to slide 21, I will highlight how the addition of InSinkErator is strengthening our portfolio and supports our number one position in the Americas. In the fourth quarter of 2022, we closed our acquisition of InSinkErator, the largest manufacturer of food waste disposers in the United States. Our integration efforts are well underway and remain on track. With sustained EBIT margins of above 20%, 75% replacement demand, we're excited about the rich history and strong product legacy that InSinkErator adds to our portfolio. We continue to expect InSinkErator to add approximately 50 basis points to our consolidated EBIT margins.

Turning to slide 22, I am pleased to highlight our upcoming product launch. InSinkErator already has the best selling product line with an overall 4.7 star rating, and we're excited to launch the next-gen product during the summer of 2023. This marks the biggest InSinkErator product launch over past decade. Our fully redesigned disposers bring multiple innovative new features and performance improvements, including InSinkErator's quietest performance with sound seal noise reduction technology and a rugged induction motor with enhanced multi-grind performance, allowing consumers to [ph] divert a (00:17:02) more food waste from landfills. The easiest install ever, thanks to a complete redesign of a disposer. And like our current disposers, the next-gen units will be manufactured in our Racine, Wisconsin, facility. The next generation disposer is expected to deliver growth and margin expansion through enhanced product offerings and manufacturing efficiencies.

Now turning to slide 23, I will provide an update on our Europe transaction. As a reminder, in January, we agreed to contribute our European major domestic appliance business into a newly formed entity with Arçelik. We expect the transaction to close during the second half of 2023, subject to regulatory approval. We will own approximately 25% of the new company and the new company's expect to have over €6 billion of annual sales with over €200 million of cost synergies. We have a potential to unlock long-term value creation for our ability to monetize our minority interest. Coupled with our 40-year Whirlpool brand licensing agreement, we expect $750 million net present value of future cash flows.

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Additionally, post-closing, we expect positive impact of the transaction to our value creation metrics of a 200 basis points improvement to return on invested capital, alongside 150 basis point improvement in ongoing EBIT margin and $250 million of incremental free cash flows annually.

Turning to slide 24, let me close with a few remarks. The broader macro cycle has continued to present challenges for most industries, and the impact of the recent banking crisis has renewed consumer concerns, impacting sentiment and demand. In this environment, we executed our operational priorities, delivering a solid first quarter performance, and we're confident in the medium to long term demand dynamics while remain focused on operating the business in a way that allows us to benefit from rebounding demand.

We expect our 2023 operational priorities to deliver $800 million to $900 million in cost takeout alongside our North America business delivering share gains, driven by product innovation and improved supply chain execution. We reaffirm our ongoing EPS guidance of $16 to $18 and continue to unlock value with our ongoing portfolio transformation efforts. A common theme we've discussed over the last [ph] three (00:19:30) years is that Whirlpool has successfully navigated the fast changing environment.

We expect to do it again this year with our operational priorities plus $1.4 billion of cash on hand, providing balance sheet flexibility and our expectation for mid to long-term demand tailwind. Whirlpool is well positioned to deliver significant value creation. Now we will end our formal remarks and open it up for questions.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Your first question comes from the line of Susan Maklari from Goldman Sachs. Your line is open.

Susan Maklari
Analyst, Goldman Sachs & Co. LLC

Q

Thank you. Good morning everyone.

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

A

Good morning, Susan.

Susan Maklari
Analyst, Goldman Sachs & Co. LLC

Q

My first question is, the market share gains that you saw this quarter were impressive. Can you talk a bit more about what drove those and how you're thinking about your business relative to the industry outlook for volumes that you outlined for the second quarter and then the back half?

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

A

Susan, so let me just give you a little bit more color on the market share gains in North America in particular. So as we indicated in the prepared remarks, we basically – both sequentially and year-over-year, we gained slightly more than a point of share, that is larger result of one, supply chain just been in a much better shape, not completely resolved, but in a much better shape. And two, we have a number of really good market innovations

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out there, well like 2 in 1 laundry or the Maytag pet washing. So there's a couple of really good innovation also on dish side, which drive a lot of very healthy business. So ultimately, supply chain and innovation in market allowed us to regain that market share or some of the market share.

On a full year base, as we indicated before on a full year base, the US, we expect the industry to be down 4% to 6%, more front-half loaded than back-half, back-half we expect an improvement. And I would also expect on a sustained base, we will gain share every quarter.

Susan Maklari
Analyst, Goldman Sachs & Co. LLC

Q

Okay. That's helpful. And, you mentioned that the easing of the commodity prices has been perhaps a bit more tepid than what you'd initially expected. We've obviously seen steel come off of its more recent trough lately. Can you talk a bit more about how you're thinking of the cadence of those commodity pressures? And what you're expecting for price cost as we move through the balance of the year?

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

A

Yeah. So, Susan, so again, put in perspective, we indicated on a pure raw material side that we would get a $300 million to $400 million benefit this year. And that is on top of the $500 million kind of internal cost they got, which we targeted for.

On the raw materials side, we're within the range. But frankly, we're probably more right now trending towards the $300 million as opposed to the $400 million and that is simply a reflection of, yes, material prices are coming down, but maybe not at the pace that some people would have expected, but well within the range.

I also want to remind everybody the big raw material items like steel, we don't buy spot. We typically have, in most cases, 3 to 12 months contract, which give us a little bit of protection against any kind of spot volatility. But again, overall, we're $300 million to $400 million, right now, more trending towards $300 million, but obviously still a lot of volatility in the market.

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

Sam Darkatsh
Analyst, Raymond James & Associates, Inc.

Q

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

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

A

Good, Sam. Good morning.

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

A

Hi, Sam.

Sam Darkatsh
Analyst, Raymond James & Associates, Inc.

Q

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Two just real quick clarification questions, if I could. With respect to your production versus your shipments from a volume unit standpoint in the quarter, did you under produce the shipments again? And what was the impact of earnings or profitability, if you could?

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

Yeah. I'd say, Sam, if you really look at I wouldn't say that we under produced the shipments, in fact, we did build a little bit of inventory in some key areas. But what we did do is we produced obviously less than we did last year in Q1 and we did produce less than we did in Q4. So you've got both a lower year-over-year and a quarter-over-quarter impact, just lower volumes and the leverage we get off a bit. But in terms of where our production are, we're pretty well matched to what our shipments are, with just some strategic areas that we've decided to reinforce some of our inventories as we head into more of a peak season around the globe.

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

And again, Sam, just to reiterate, because I think you're raising a very important question. So I think we produce pretty much in line with shipments and towards – compared to January 1, we built a slight amount of inventory. However, on a year-over-year base, we produced less. And that's just simply we don't want to get the inventories out of the hand. We want to backfill some spots where we had some availability issues. So we feel pretty good about where right now the supply chain is and where we balance from an inventory perspective.

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

And then my second question and this is just housekeeping and I apologize. The ongoing corporate expense for the quarter was around $75 million. I think it was running around $30 million to $40 million each quarter last year. What the reasoning for the step up sequentially and then what are your expectations for the corporate expense for the year, just to make sure we're all looking at the right line?

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

Yeah. And Sam and that's a good question. And part of what's in there that increases that run rate is because that's before you had the adjustments from GAAP to ongoing. And so you do have some transactional costs within there that are related to the EMEA transaction that are then included in that bucket. But on our GAAP statements and then you'll see that in the corporate bucket to begin with.

Then the other thing is, also last year within the first quarter when you're looking at a little bit of a comparison here, we did have a gain in the first quarter of last year that came from a sale leaseback that sits in that number also. So right now, typically what we would say is for the full year, we expect that to run around $200 million is what it historically has on a full year basis. It will be a little bit elevated this year with some of those transaction costs in there that then just get – included in the gain and – from an ongoing perspective on the gain and loss due to the sale.

Operator: Your next question comes from the line of Mike Rehaut from JPMorgan. Your line is open.

Michael Rehaut
Analyst, JPMorgan Securities LLC
Q

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Thanks. Good morning, everyone.

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

A

Good morning.

Michael Rehaut
Analyst, JPMorgan Securities LLC

Q

Just wanted to circle back to the market share gains and I appreciate before you kind of talking about the drivers of those gains in terms of what allowed for them, in other words, from a supply chain angle, et cetera. I was wondering if you could also kind of address it from the end market perspective. In other words, do you feel like the gains occurred more in the builder channel versus retail, or any product categories or any parts of retail? Any other color around from that perspective where the gains came from?

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

A

Michael, so – and again, I presume it's particularly US market specific question. So if you look at the Q1, we feel very good about the share gains in laundry, dish and cooking, and we still have some work to be done in refrigeration. That's from a product perspective.

On the distribution side, it's pretty much across the board, we feel actually pretty good [ph] about balance there (00:27:14), which we have a more trade customers. We feel in particular good about our not just short-term, but long-term share gains, which we have in the builder segment. Now, needless to say, in Q1, that is not a big driver, because the builder channel in Q1 was not very high. I think that's more a reason to be bullish in the mid and long term, because our position within the builder segment is a very strong and has strengthened over the last couple of years.

Michael Rehaut
Analyst, JPMorgan Securities LLC

Q

Great. Thanks for that, Marc. I guess, secondly, there're comments before about your expectations around the promotional activities for 2023, being in line with the back half of 2022, but still below pre-pandemic levels. And it appears that first quarter came in line with expectations from a price mix perspective. So I guess the question is, what are the indications so far that you've seen that give you confidence to reiterate your expectations for promotions for the full year? Obviously, it's a big concern for investors as demand will be overall for the year down year-over-year and concerns particularly around the back half that promotional activity might increase.

So I'm wondering if – for some perspectives, how channel inventories are progressing or just the overall cadence of what you've seen year-to-date or maybe looking into the second quarter. But I was wondering if you could expand a little bit about how you're thinking about promotions this year and what still gives you the confidence that things are on track relative to last quarter?

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

A

Yeah. Michael, so, of course, as you know, it's always difficult to make prediction in promotion environment. But we said in the prepared remarks, we expect full year 2023 to be similar to the back half of 2022. I think the prime driver of confidence behind this one is the second half and even the first quarter played out in the market pretty much as we anticipated because, of course, people compared to 2021, but 2021 was pretty much a complete

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absence of promotion. So I think you have now what I would call a reasonably normalized promotion environment. And, of course, we monitor that very closely. We participate in smart value creation promotion that has been our stated guidance and policy internally.

So as such, the last three quarters, we were not surprised by what we've seen and how we participated. And also Q1 played out pretty much exactly to that level. And from that perspective, our [ph] stand from (00:29:59) promotion, where we participated and where we don't – hasn't changed and we don't intend to change that.

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

And I'd say maybe if I'd add a little bit, Michael, too, is, when we look back to try and compare the patterns and all that and the periods of promotion, we see things that are similar to 2019, not necessarily the level of depth, as we said, we don't see that at the levels that were pre-pandemic, but the amount of promotional periods and the durations of some of them are very similar to that type of a time period. So it's kind of normalized from what we saw during COVID.

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

Michael, just because you also raised the trade inventory. First of all, and I know you're fully aware of it, last two or three years have seen extreme swings on inventory up and down, given the supply chain disruptions which we all faced in the industry. I think we now see more normalized trade inventory levels, and from what we see across the board, most trade inventory levels end of Q1 were pretty much normalized. So [ph] either (00:30:56) elevated or hugely kind of significantly low. So we feel pretty good about the trade inventory position. I don't think there's a lot of pressure out there from excess inventory. So I think by and large, it's pretty well balanced.

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

David S. MacGregor
Analyst, Longbow Research LLC
Q

Yes. Good morning, everyone.

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

Good morning, David.

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

Hey, David.

David S. MacGregor
Analyst, Longbow Research LLC
Q

Good morning, gentlemen. Slide 12, where you laid out the history of the AHAM data, it was interesting, that's total appliances rather than [ph] core six (00:31:29), I guess. But I wonder, I really want to isolate replacement demand and see if you could talk a little bit about what you've got baked into the 3% to 4% and then anything you

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can provide on discretionary or builder as well, would be interesting as well. But just trying to sort of parse out individual components of that number and see what it is you're thinking?

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

So, David, as you all know, basically in the most simplistic terms, you can split the demand in two components. One is the replacement and the other one by and large discretionary. Replacement demand, even in the last couple of quarters actually has been pretty stable, as we expected even slightly up because, of course, COVID and also post-COVID drove significantly higher appliance usage. So such replacement demand is very solid [ph] in either side (00:32:18) increasing.

What has taken a beating the last 12 months is that, frankly, with discretionary demand, because of course, consumer sentiment is a key driver of discretionary demand and consumer sentiment because of war in Ukraine, interest rate shocks and all kind of other external and bad news may drove sentiment down. So that is the part which you've seen come down the last couple of quarters. Now on a go forward base, again we continue to expect replacement demand to be solid or even increasing and we also see a kind of rebalancing of discretionary demand.

In particular also really to your question on housing, of course, when you read all the articles in housing, you feel a little bit like sky falling. We don't fully subscribe to that point of view. And actually, if you look at the Q1 housing data, if you look at housing starts 1.42 million, [ph] actually (00:33:13) has been way strong the most business anticipated. You look at the builder results and D.R. Horton came up with strong results, Pulte had this morning, pretty strong results. The housing market is not as bad as most people anticipated and if you take the housing starts and you then you add, [ph] you took (00:33:29) completion six to nine months to it.

I think towards the backend of this year, I think you may see more strength coming out of the housing market than most people anticipated. So we feel gradually good about increasing discretionary demand in particularly coming out from builder side, now frankly not exactly by next one or two quarters, but towards the year-end I think we feel pretty good.

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

I'd say the other thing as we look at it longer term, as we've mentioned is there's still an undersupply of housing in the US and you've got to take that into account and replacement side of the business, as we know is going to grow for an extended period of time if you just look back at some of the previous peaks.

So, also from a long term perspective, there are just a lot of things out there that indicate to us that that we should see continued growth. And even additionally, if the housing market stays where it is, then you most likely see an increase in the number of remodels. As consumers will invest in their existing home if they're not going to move, if it makes sense. So, we see all of those as opportunities on a mid to long term basis.

David S. MacGregor
Analyst, Longbow Research LLC
Q

Okay. Thanks for that. Jim, you had made reference when you were talking about the sale of the European business that because of the seasonality working capital, there could be some impact on your full year free cash flow. Can you just talk about the risk that might represent to the $800 million guide number?

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

Yeah, David. And here's what I'd say is, the seasonality of our business overall with working capital tends to, we build throughout the first half of the year, it comes down throughout the second half of the year and EMEA is a little bit more pronounced on that. And so depending on, when we would close this transaction, obviously due to the regulatory approvals that are still to come, you would see being closer to almost a net zero effect at the end of the year versus what could be, $100 million possible impact if it's earlier within the quarter. So that's the kind of range that I think you should just put there and expect that, it could be in that type of range. But the closer we get to year end, the closer it will probably most likely just be at a net zero type of level.

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

Yeah, David, let me maybe also echo what Jim is saying. First of all, to reiterate what Jim said off in prepared remarks, what we get as [ph] proceeds (00:35:47) and future value creation out of the Europe transaction has not changed. Now, with the held for sale accounting, various moving parts left and right and up and down, it's basically mark-to-market, but it doesn't change what you get for the business. The cash flow seasonality is, Europe of all our region is the one which turns positive on cash flow, the latest in the year, typically turns positive in Q4. So the closer you get to the year end, the more – this is basically [ph] zero-zero for the (00:36:13) cash flow and depending on where we exactly close it that could have an impact.

Operator: Your next question comes from the line of Liz Suzuki from Bank of America. Your line is open.

Elizabeth L. Suzuki
Analyst, BofA Securities, Inc.
Q

Great. Thank you. I'm just curious how much InSinkErator contributed to North American net sales and whether it's fair to assume that excluding InSinkErator that North American sales would have looked more like down the high-single digits. And then if the share gains that you cited were independent of InSinkErator.

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

So, Liz, first of all, the share gains were independent of InSinkErator because that's not captured in the T5 and T6 what we typically report. So that is purely a major domestic appliance sales. The InSinkErator again consistent with what we previous – we expect 2023 about $600 million of net sales. Q1, Q2, because of seasonality, will be slightly lower, so ballpark $130 million, $140 million, so that's pretty much what you should include in this. Keep also in mind that the North America sales numbers, we also have [indiscernible] (00:37:18) and KitchenAid small domestic, and the small domestic appliance business Q1, Q2 also we expect it is still a little bit softer than the major domestic market, but a major appliances we had a very solid share gain and actually on a pure major appliances, we were pretty close to revenue zero-zero.

Elizabeth L. Suzuki
Analyst, BofA Securities, Inc.
Q

Okay. Great. Thanks. Very helpful.

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

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Eric Bosshard
Analyst, Cleveland Research Co. LLC

Q

Two questions for you. First of all, curious about your take on the current consumer demand trends. There are some moving parts in 2Q. But even if you clean up the comparisons in terms of industry growth, I'm just curious how you would characterize the momentum in terms of current demand?

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

A

Eric, I mean, in short, in particular, US demand, as expected, so that's how I would characterize it. Again, we base – because of course, the baseline which you had in 2022, but [ph] based also on (00:38:24) what we see in consumer sentiment, we expect the first half to be softer in the ballpark of minus 5% to minus 10%. It may be a little bit close to a minus 5%, and we expect the back half to get close to the zero line. So again, part of it is just the baseline effect of 2022, which was a little bit softer in the second half. But we also do see a gradual improvement of the discretionary side of demand, which has been a little bit suppressed in Q3, Q4 and Q1. And there may be some carry over into Q2. By and large, it's as expected, which also means it's not as bad as some people were saying it could be. And, of course, when you read the press [ph] around (00:39:05) or articles about the macroeconomic environment, frankly, I think the US economy is more resilient than most people expected. And that's what we also see on the consumer demand as the year progresses.

Eric Bosshard
Analyst, Cleveland Research Co. LLC

Q

Okay. And then secondly, in terms of the promotional environment and perhaps it's linked to your outlook that you expressed there. You talked about the stable promotion environment, and I appreciate your comments on second half were similar to your expectations of last year, the second half also did get more promotional. And so, again, what underlines your expectation that promotions are stable from here after the step up that we saw take place in the back half of last year? Why doesn't it not step up again?

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

A

Eric, I can only repeat what I said in the earlier question is, right now, the last three quarters turnout from promotion environment exactly as we expected. Again, when people refer to more promotion that compares to 2021 with no promotions, okay. So right now, we see a reasonable, stable promotion environment and that's we now extended over nine months. Of course, we have a sense about what's happening in Q2, but also here we don't expect major surprises. The US industry will always be an environment where you see some promotions around certain holidays, but we don't see that right now getting out of hand in any way or reaching whatever [ph] 2016, 2017 (00:40:36) level. So that's what right now gives us the confidence what we expect to see a reasonable, stable promotion environment.

Operator: Your next question comes from a line of Mike Dahl from RBC Capital Markets. Your line is open.

Mike Dahl
Analyst, RBC Capital Markets LLC

Q

Hi. Thanks for taking my questions. Just a couple kind of follow up housekeeping. [ph] Guys (00:41:00), on the held for sale accounting with the depreciation suspension. So it sounds like that's about $120 million for the year. So tax affected, maybe that's like $80, $90. I guess the question is, was that already anticipated in your prior guide or is that incremental in terms of that impact versus what you laid out earlier this year?

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

A

No, that was already included. If you look at the 2.5% that we guided to of margins for EMEA for the year that's included in that. And obviously, we had a small little bit of that in Q4 that came as we turned these assets to held for sale.

And I think as we look at that, you step back, the thing you've got to keep in mind is as you go to 2024 and once this transaction gets approval and closes, you're going to take the entire EMEA business out of it to look at what our ongoing run rate of the business will be. And so whether you have depreciation or not this year, the underlying business or the remaining business that will stay, that's got the same. And what that will drive year-over-year, if you just look into next year alone, it's about 125 basis points to 150 basis points of improvement in our overall margins just by taking the EMEA business out this year.

So, it is included. But I think as you look forward, you've got to say, you know, what EMEA will be completely – will not be in the picture post-2023.

Mike Dahl
Analyst, RBC Capital Markets LLC

Q

Right. Okay. That makes sense. Thanks, Jim. And then the second question again, kind of follow up here. Just on the corporate side, similar to that held for sale with respect to depreciation, was there anything in terms of potential like stranded overhead costs that got shifted out of EMEA into corporate? I know you highlighted a couple of things that were maybe transactional in nature, but is there something that's more ongoing in terms of how we should be thinking about those stranded costs potentially?

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

A

No, I would say there's nothing that we shifted out of EMEA into our corporate bucket. Again, I highlighted a few of the just the unique items that are in there. And, obviously we also have some other things where we may decide to make investments at a corporate level throughout the year that can cause that bucket to go up and down on a quarterly basis. But again, to my point earlier, we expect that to be about $200 million a year on a run rate in an existing situation today. So no other significant items to highlight within there.

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

A

Michael, just to echo what Jim is saying and to be crystal clear. So held for sale only applies to the assets and business, which are part of the scope of the agreement, okay? There is no corporate element in this held for sale that is sitting in our normal corporate ongoing costs and it's not stripped out in any way. So that's crystal clear on this one.

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

So now we came to the last question, I just want to thank you all for joining us today. I think you heard that we are off to a very solid start. We feel good about how our operational priorities are being executed upon. There's no big surprises from what we see from a market environment, which is still challenging, but we knew they're coming in. But we feel we executed very solid Q1 and we feel confident about the full year.

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So with that in mind, I wish you all a wonderful day and talk to you at our next quarterly earnings call in July. Thanks a lot.

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