

25-Jul-2023

Whirlpool Corp. (WHR)

Q2 2023 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning and welcome to Whirlpool Corporation's Second 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 second 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 our presentation available on the investors 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.

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 in our earnings release, we did post another quarter of solid sequential improvement. 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.

The global industry demand was down, but frankly, that is exactly what we expected. It was instead our consistent and disciplined execution of our operational 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. In short, we did what we told you we would do.

As we're looking towards the second half of 2023, we are leaving our industry demand outlook unchanged. Even though we are starting to see early but clear signs of a strengthening US housing market, which will benefit us disproportionately, the broader consumer sentiment is still cautious and not yet pointing towards more discretionary purchases.

We're also seeing the operating environment essentially return to pre-pandemic conditions with stabilized supply chains, improved inventories and a promotional environment, which is similar to pre-pandemic levels. Frankly, this is an environment we have demonstrated that we can successfully operate and create value in.

Turning to slide 6, I will provide an overview of our second quarter results. The world we are operating in today is very different from the first half of 2022, where supply chains were fragile, inventories were historically low, promotions were largely absent, and inflation was at historically unprecedented levels.

In the second half of 2022, we saw global demand shift with industry declines in key countries. We continue to experience this trend into the first half of 2023, with global demand declines in the mid-single-digits. Second quarter year-over-year revenue declined 6% versus the prior year, in line with expectations. The promotional landscape is normalizing at pre-pandemic levels, negatively impacting price and mix. Yet, we continue to gain momentum with year-over-year share gains in the Americas through improved supply chains and our strong product lineup.

In Q2, we delivered a strong operating margin of 7.3%. This represents a 200 basis point expansion from the first quarter, driven by our strong cost takeout actions. These actions delivered \$150 million of year-over-year benefit and are on track to our full year target of \$800 million to \$900 million of cost takeout and delivered strong second quarter ongoing earnings per share of \$4.21, in line with expectations.

Now turning to slide 7, I will share more details on our second quarter EBIT margin. The second quarter was unfavorably impacted by the normalization of promotions, which reemerged in the second half of 2022 and are now following historical seasonal trends. Sequentially, price/mix negatively impacted margins by 50 basis points with a year-over-year impact of 350 basis points.

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Our strong cost takeout actions delivered 275 basis points, both sequentially and year-over-year. And as expected, marketing, technology, and foreign currency negatively impacted margins. Overall, we are pleased with our second quarter performance, delivering ongoing EBIT margin of 7.3%.

Turning to slide 8, you can see we are on track to deliver \$800 million to \$900 million of year-over-year cost takeout benefits, including \$300 million to \$400 million of reduced raw material costs and \$500 million of additional cost takeout actions driven by enhanced supply chain resiliency, reduced parts complexity with approximately 50% fewer parts since 2021, and improved transportation rates and reduced premium freight costs. Additionally, in aggregate, we have reduced our salaried workforce by 7% and remain disciplined with discretionary spending and other indirect costs.

With the cost actions we took over past quarters, we are fully on track towards delivering our cost takeout targets. While the chart shows high year-over-year cost reduction in Q3 and Q4, it is important to note that this is entirely driven by the baseline effects in the second half of 2022 and will not require additional new cost takeout actions.

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. Good morning, everyone. Turning to slide 10, I'll review results for our North America region. Year-over-year share gains and the addition of InSinkErator was more than offset by industry decline of 1% and increased promotions, resulting in 5% revenue decline. The region delivered sequential margin expansion with solid double-digit EBIT margins of 10.3%, as our strong cost takeout actions continue to gain traction alongside the integration of InSinkErator.

We expect the region to deliver 100-plus basis point margin expansion each quarter driven by strong cost takeout actions. We are confident in the structural strength of our North America business and continue to expect our actions to deliver strong results, exiting the year with 12% to 13% EBIT margins.

Turning to slide 11, I'll provide additional color around the US housing market. During our earnings call in October of 2022, we presented our upbeat long-term view on the US housing market. Nothing has changed, and we are very optimistic about mid- and long-term housing-driven demand trends, currently representing 15% of the total industry demand.

New housing construction has significantly lagged historical averages for more than a decade. For perspective, there was only one year in the 40 years prior to the Great Recession, in which fewer than 1.2 million new homes were built. Much of the period between 2007 and 2017 was below this level, leading to the oldest US housing stock in the country's history. In total, we estimate 3 million to 4 million unit undersupply of housing. While we do not expect housing starts to reach a steady state of supply to fill this gap in the near term, we do believe housing starts will begin to increase to 1.7 million units annually or higher due to the housing shortage.

Turning to slide 12, you can see we are well positioned to capture this trend as the number one choice for homebuilders. The combination of, one, the best brand portfolio with multiple \$1 billion brands, including Whirlpool, Maytag, and KitchenAid; two, an innovative product portfolio that targets 90% of the consumers; and three, our strong final mile delivery capabilities across the region, strongly positions Whirlpool to drive value creation as the housing market rebounds with every new home having a full suite of typically five new appliances.

It is not surprising that we have become the number one choice for US homebuilders, serving eight of the top 10 national builders.

Turning to slide 13, I'll review our results for our Europe, Middle East and Africa region. Organic second quarter revenue was down approximately 12%, driven by continued industry demand weakness across key countries. EMEA margin expansion was driven by strong cost takeout actions alongside held-for-sale accounting benefits due to reduced depreciation that will continue each quarter until the transaction closes, which is expected in Q4 of this year.

Turning to slide 14, I'll review the results for our Latin America region. The region saw demand improvement in Mexico and year-over-year share gains, resulting in a 4% revenue increase. Inflationary pressures were partially offset by higher volumes, resulting in solid EBIT margins of 6.5%.

Turning to slide 15, I'll review results for our Asia region. Excluding the impact of currency, revenue declined approximately 8%, driven by consumer demand weakness. Sequential share gains drove a 15% revenue increase compared to the first quarter. The region delivered EBIT margins of 3.7% with our strong cost takeout actions offset by negative price/mix.

Turning to slide 16, I will discuss our full year guidance. We are reaffirming our ongoing EPS range of \$16 to \$18 and free cash flow guidance of approximately \$800 million. We continue to expect to deliver approximately 60% of our full year earnings in the second half of the year, driven by our cost structure reset. We now expect to deliver EBIT margins of 7.25%, as promotional spend has slightly increased and demand weakness in EMEA has been greater than anticipated.

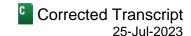
Our guidance also includes updated expectations for our adjusted effective tax rate, now 10% to 15% for the year. As the Europe transaction progresses, we will continue to assess the adjusted tax rate, which has the potential to be at the low end of our range. We continue to expect to deliver \$800 million of free cash flow.

Turning to slide 17, we show the drivers of our updated full year ongoing EBIT margin guidance. We have updated our expectation of price/mix by 25 basis points to a negative 250 basis point impact, reflecting a global promotional environment at pre-pandemic levels. All other margin drivers remain unchanged. We now expect to deliver solid margins of 7.25% for the year.

Turning to slide 18, we show our regional guidance. We see no change to our full year regional industry expectations. While second quarter North America industry shipments were slightly favorable versus our prior expectation, this was largely driven by retailer restocking and slightly higher retailer inventory levels.

The consumer sellout was relatively stable with a low single-digit decline. And while there might be some uptick in consumer demand driven by the housing rebound, consumer sentiment in the region continues to be impacted by macro uncertainty. Therefore, our market assumptions are unchanged. Overall, we expect continued EBIT margin expansion driven by our strong cost takeout actions, as well as raw material inflation tailwinds.

In North America, we expect to deliver full year margins of approximately 11.5% with the region's strong cost takeout actions, partially offsetting a promotional environment that is at normal pre-pandemic levels. We expect to partially offset the impact of the promotional environment with positive mix driven by a strong lineup of new product introductions, delivering year-over-year share gains. We now expect EMEA to deliver approximately 1.5% margins, as the region continues to be impacted by soft consumer sentiment. Lastly, EBIT margin expectations for Latin America and Asia remain unchanged.



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 very different from the Whirlpool of the past. In the last five years, we have taken several significant steps to transform the company into a higher growth, higher margin business based on three structural pillars, small appliances, major appliances and commercial appliances, with steps in changing our company portfolio labor foundation for a company with a double-digit EBIT margin profile, which is very different from our historic mid-to-high single-digit profile. As we look forward, we are reassessing our operating segment structure in anticipation of a potential change after the completion of the Europe transaction.

During one of our future earnings calls, we expect to share more information about our assessment and potential resegmentation, specifically about our strong value creating small domestic appliance business.

Turning to slide 21, I will provide an update on InSinkErator and how it is strengthening our portfolio. Our integration efforts are well underway and nearing completion after acquiring InSinkErator in Q4 2022. InSinkErator's rich history and strong product legacy, I was very excited about the brand's largest launch nextgen, which we presented during our last earnings call. We continue to be pleased with the sustained EBIT margins of approximately 20%, contributing approximately 50 basis points to our consolidated EBIT margins.

Turning to slide 22, I will provide an update on our EMEA transaction. In January, we agreed to contribute our European major domestic appliance business into a newly formed entity with Arçelik. The Europe transaction and the regulatory processes are ongoing and progressing as expected, including executing an agreement to sell our Middle East and Africa business. We continue to expect to close the Europe transaction in the fourth quarter of 2023. Until then, we will continue to focus on EMEA delivering the best products and consumer preferred brands.

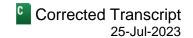
Let me also remind you of the benefits of this transaction. We will own approximately 25% of a new company, which will be well positioned to deliver value to consumers through attractive brands, sustainable manufacturing, product innovation, and best-in-class consumer services, and is expected to have over €6 billion of annual sales with over €200 million of cost synergies. We have a potential to unlock long-term value creation through our ability to monetize our minority interest. Coupled with a 40-year Whirlpool brand licensing agreement, we expect \$750 million net present value of future cash flows.

Additionally, post-closing, we expect the transaction to improve our value creation metrics by \$250 million of incremental free cash flows and a 150 basis points improvement in ongoing EBIT margin.

Turning to slide 23, 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. Additionally, we are confident in our ability to generate strong free cash flows. This, coupled with our balance sheet strength, provides us the flexibility to support our commitment to returning cash to shareholders. In the first half of 2023, we returned \$193 million in cash to shareholders, representing nearly 70 consecutive years of dividends.

Turning to slide 24, let me further discuss our commitment to maintaining our strong investment-grade credit rating. We are confident that we are well on our way to delivering debt leverage to below historical norms and towards our target of 2 times or below, with \$1.3 billion cash on hand and strong free cash flow, which as

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mentioned earlier, we expect to be \$250 million higher after the close of the Europe transaction. We continue to prioritize debt repayment, with approximately \$500 million of acquisition-related term loan paydown expected by the end of the year.

Turning to slide 25, I will review our healthy debt ladder and how it gives us flexibility and de-risks our balance sheet. We have an attractive weighted average interest rate of approximately 4.25%, with 70% of our debt held at a fixed rate of just over 3%. Additionally, over \$2 billion of our debt is due after 2030. This gives us a balance sheet flexibility to deliver strong shareholder returns and maintain our solid investment-grade rating.

Turning to slide 26, let me close with a few remarks. Despite a dynamic external environment, we delivered another solid quarter with sustained margin expansion. Through strong execution of our operational priorities, we delivered results in line with our expectations and remain on track to deliver \$16 to \$18 of ongoing earnings per share and approximately \$800 million of free cash flow. More importantly, the strength of our brands and products is resonating with consumers to the point of year-over-year share gains.

With our strong position as the US builders' number one choice and serving eight of the top 10 national builders, Whirlpool is well positioned to benefit from a housing-driven demand recovery, and we continue to unlock value with our ongoing portfolio transformation.

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

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] And your first question comes from the line of Mike Rehaut from JPMorgan. Your line is open.

Michael Rehaut

Analyst, JPMorgan Securities LLC

Thanks so much. Good morning. And thanks for all the detail. First question, I wanted to hit on the promotional environment, if I could. You kind of mentioned it's now reverted back to pre-pandemic levels, which I guess is maybe a little higher than perhaps you were expecting at the beginning of the year, and it appears the driver of the reduced North American margin outlook.

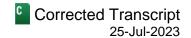
I was hoping to get a sense from you in terms of how this affects – how this might affect price/cost in the back half and into 2024? And also from a margin perspective in North America, I believe, last quarter, you were expecting to end the year at roughly 14%. Just want to get a sense of how that changes and how we should think about the new baseline for the business outside of additional price/mix gains in 2024?

Marc Robert Bitzer

Chairman & Chief Executive Officer, Whirlpool Corp.

First of all, Mike, good morning. It's Marc. So let me try to answer that fairly wide question. On the promotional environment first, you asked a question about where we expect – is it higher than we expected? I would rather call it the promotion normality came earlier than expected. And what I mean with that, we always assumed that, at one point, the normal promotional environment will return back to pre-pandemic levels. Honestly, we probably would have expected more close to Q3, Q4, and it now basically came in Q2. So that's, as such, not a surprise. It just happened one or two quarters earlier. That's the only change.

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The level of promotional depth is, frankly, not surprising relative to what we've seen pre-pandemic. So, I wouldn't see that as an overly concern. But in that context, what I really want to remind everybody on the call is – and refer back to page 7 of our presentation, because I think that tells the full story, and I think it's very helpful in that context, because you see both a year-over-year comparison on a margin walk and the sequentially.

If you first start on year-over-year comparison, you see, and Jim alluded to this one earlier, yes, there is a big price/mix decline year-over-year. But I really want to remind everybody, Q1 and Q2 last year were pretty much the last quarter basically absent of any promotion. It was basically kind of a dark period from a promotion perspective. These promotions started to kind of resume in the marketplace in Q3 and Q4. So you saw the slow ramp-up. So as such, yes, but year-over-year comparisons look big, but that's not surprising given that we all knew promotions are coming back into the market.

The more relevant perspective, and we pointed towards this already in the last earnings call, is right now the sequential look. Sequentially, over Q1, we lost 0.5 point of market share. Keep in mind, Q2 in the marketplace has Memorial Day and July 4 in there. So by definition, it's a little bit more promotional-heavy than Q1 is. So with 0.5 point price decline, I wouldn't call that out of a norm.

Even more relevant is when you look at relative to the cost takeout. Sequentially, we took 2.75 points of cost out. Put it differently, basically, we basically reinvested in the marketplace 20% of our cost takeout. I would call that that's a very measured and reasonable approach to approaching promotions. And frankly, it worked for us, because we picked up market share and we expanded our overall margin by 2 points.

So put that all in context, I would consider the promotional environment, yeah, we're back to pre-pandemic levels. We know how to operate in that environment very successfully, as we have evidence for over many years, and I think as we have evidence in Q2.

Now, more specifically also to the North American margin, we expect North American margin by year-end to be around 12% to 13%. And also coming back to this pre-pandemic margin run rate, that was pretty much a margin run rate we had coming into the pandemic. It was around 12% or 12%-plus in North America. And yes, we fully expect that to be back on that level and then we can see where we can expand it from there on.

Michael Rehaut

Analyst, JPMorgan Securities LLC

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Great. No, no, I appreciate that, Marc. Thank you very much. Secondly, I wanted to hit on InSinkErator for a little bit. I wanted to get a little color or more granularity on how the product launch is unfolding and what that's contributing to the business? And also just in context of that or maybe in addition to that, I think more broadly, I think you did notch down the full year revenue contribution outlook. So I wanted to understand the drivers of that as well.

Marc Robert Bitzer

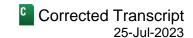
Chairman & Chief Executive Officer, Whirlpool Corp.

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Yeah. And Mike, again, let me give a context on InSinkErator. First of all, we are very pleased with that business. The margins hold up very strongly. It's up 20% plus. So it's a very EBIT accretive business. We like the team. We like the product lineup. We like the product – production efficiency. It is a very, very strong business.

There's obviously two factors. One is the broad revenue. I would say, InSinkErator is even more exposed to the US housing market than our normal appliance business. And as such, as we always expected, the first half or the

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first three quarters of this year will be somewhat soft from housing before the housing fully rebounds. So that is one element, but hasn't changed in terms of where we are from a market share perspective on InSinkErator.

The second part, in particular, on the new product introduction of next-gen. First of all, you need to know, the next-gen carries margins which are stronger than the rest of the line. So inherently, it's a margin-accretive product. And right now, you're going through, what we call the phase-in and phase-out. So we started the first shipment actually in July. So that is now underway.

But in the short term, given that we have product placement cost and the phase-in, phase-out costs, which we do not capitalize, we take it into our ongoing cost, it's actually even a slight burden in both Q2 and Q3. But the inherent margin of next-gen is very attractive, and we're now fully in the process of ramping up the production, and we would expect the full sales element of a new product to be fully visible in Q4.

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

Yes. Good morning, everyone.

Marc Robert Bitzer

Chairman & Chief Executive Officer, Whirlpool Corp.

Good morning, David.

James W. Peters

Chief Financial Officer & Executive Vice President, Whirlpool Corp.

Good morning, David.

Marc – yeah, good morning, guys. I wonder if you could just talk a little bit about volume demand or market demand right now. I mean, we had the [ph] core 6% (00:27:22) number out that you indicated in your prepared remarks included some restock. I wonder if there's any way of just giving us a sense of what you're seeing right now in terms of replacement demand versus the builder channel, which you've highlighted as a growing importance to you versus maybe discretionary demand is, obviously, down. But just trying to unbundle that for us to give us a better understanding of just the composition of the volume growth?

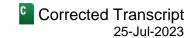
Marc Robert Bitzer

Analyst, Longbow Research LLC

Chairman & Chief Executive Officer, Whirlpool Corp.

David, it's a very good question. So, first of all, it's a little bit similar to what we already qualitatively alluded in Q1, with discretionary side of the demand continues to remain soft, and we see that in the major appliances. And I think as one of your colleagues pointed out, we see [ph] it almost (00:28:07) small domestic appliances. That's the nature of discretionary demand, which is right now still impacted by uncertainty in consumer sentiment, which is still not in a positive territory.

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What is holding up strong is replacement side, as we always expected, because we said this pandemic becomes increased usage of appliance, which drives replacement demand, and that is holding up very strong.

To put it on in the numbers, as you've seen the kind of industry, and I'm more referring to US industry, shipments were minus 1%. In all transparency, the consumer sellout, we expect to be – expected to be slightly weaker, and we think it was around minus 3%, minus 4%, pretty much in line with what we usually guided the industry shipments to. The difference is retailers were restocking what were pretty low inventory levels. So there's a restocking element in there, and that explains the difference.

Now going forward, as you know, we left the industry assumption unchanged, frankly, because there's still uncertainty out there. Now, there are clear, and that's probably to your point, clear signs and data points about the housing recovery. And what I'm referring to, I mean, in this morning, [ph] a number, (00:29:23) nationally recognized big builder came up with numbers, the order intake of a builder is very strong across the board. You do the math to pick an order translates into an appliance shipments anywhere 6 to 10 months after the order comes. That's just the time it takes to build the house. And as you know, appliance always come in last when the house has been completed.

So we do know there's a significant momentum building on the builders' side. The only question is how much of that will fall into the calendar year of 2023 versus 2024. But it will come, because these orders are real, and I think we've seen now six or seven builders have really impressive order intake. So that potentially could translate into some upside on the industry shipments. But right now, we've been reluctant to already update that, because, again, there's still uncertainty on the discretionary side. But we know and we see it, the housing momentum is starting to build, and that's very, very positive news for us.

David S. MacGregor

Analyst, Longbow Research LLC

Thank you for that. And then just as a follow-up. You talk about the cost takeout program, and you've got some very well-defined goals for 2023. And you mentioned most of that is just coming from the year ago comp. What does that imply in terms of the 2024 carryover benefit at this point?

James W. Peters

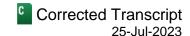
Chief Financial Officer & Executive Vice President, Whirlpool Corp.

Yeah. David, this is Jim. And what I'd start with is, first off, we are extremely happy with, as you said, that we're on track to deliver the \$800 million to \$900 million, and we're seeing what we expected in raw materials. I think, as we look forward – and we haven't and we won't give guidance yet, at least, on next year. But as we look forward, there are some of these actions, obviously, as we've had head count reduction via attrition throughout the year, but also different projects we've implemented that have reduced costs within our products that will carry over into next year.

I mean, if you look on a typical basis, and as we've always said that we typically, in any year, target to do, at least, 0.5 point to 1 point of cost reduction. Typically, give or take, 25% to 35%, 40% of that is carryover. So right now, at this point in time, we don't have a specific number, but we do expect to come into next year with some strong tailwinds from a cost perspective.

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

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Analyst, Goldman Sachs & Co. LLC

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Thank you. Good morning, everyone.

Marc Robert Bitzer

Chairman & Chief Executive Officer, Whirlpool Corp.

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Hi, Susan.

Susan Maklari

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Analyst, Goldman Sachs & Co. LLC

My first question is around the mix. Are you saying that, that has been changing either positively or negatively for you? And what role is that having within that price/mix shift that we're seeing?

Marc Robert Bitzer

Chairman & Chief Executive Officer, Whirlpool Corp.

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Susan, it's Marc. So, I think, overall, we don't see the big mix down effect, which some people have referred to, and particularly, in North America. Actually, if you would look in the detail, our JennAir business and KitchenAid business are performing very well. So we feel pretty good about it. Coupled with that, we have a couple of product introduction, like the Maytag Pet, the dishwasher, which really are just benefiting the mix. So – and of course, mix also going forward will be a major lever to offset any promotional pressure. So I would say, in general terms, for North America, but it's also pretty true for most of every region, there's a slight pause at mix, and that is right now offset by the promotional pressure out there. But, again, mix, in particular, for product innovation so far has been a good guide for us.

Susan Maklari

Analyst, Goldman Sachs & Co. LLC



Okay. That's helpful. And then you're targeting the \$300 million to \$400 million in terms of raw materials for the year. Can you talk about any changes to where you expect to fall within that range, especially as perhaps some of the raws have moved over the last few months and what that could imply for the back half of the year?

James W. Peters

Chief Financial Officer & Executive Vice President, Whirlpool Corp.



Yeah. Susan, this is Jim. And what I would say is, if you remember in Q1, as we kind of, at the end of Q1, we talked about, we thought we were at the lower end of that range as we were looking at where the commodity prices were. Now as we look at where we are today and what happened within the second quarter, commodity prices have improved some, but we're still within the range. And whether we're at the midpoint or slightly better than the midpoint, we're probably at that point.

So it won't have a significant impact for us in the back half of the year against what we guided before, what we're guiding now, because it's still within that range that we thought. So I don't think it's going to be a big impact for us. And then as I mentioned earlier, we won't be guiding for next year until later till in January of 2024.

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

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Analyst, Raymond James & Associates, Inc.

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

Marc Robert Bitzer

Chairman & Chief Executive Officer, Whirlpool Corp.

Good. Good morning, Sam.

James W. Peters

Chief Financial Officer & Executive Vice President, Whirlpool Corp.

Good. Sam, good morning.

Sam Darkatsh

Analyst, Raymond James & Associates, Inc.

A couple of questions. First off, getting back to North America margins specific second half versus first half, it looks like you're guiding, I don't know, somewhere around 13% or so in the back half versus the 10% in the first half. I think we can back into the sequential benefits of RMI and cost takeout, and we can guess at pricing. The one thing we really can't see externally is your volume production plans sequentially. There's a lot of moving pieces, obviously, with market share and moving expectations around volumes. But can you be specific as to what you're expecting for volume production, specifically in the second half versus the first half?

Marc Robert Bitzer

Chairman & Chief Executive Officer, Whirlpool Corp.

Sam, it's Marc. First of all, yeah, first half in our margins, we're now 10.15% [ph] over (00:35:25) 10.2% in the back half, and we said earlier, we expect to exit with 12% to 13%, which, again, essentially is spot on to prepandemic level in North America margin. First of all, structurally, as you know, there is a little bit of a seasonal element in the back half of our first half. One is volume-related, because you tend to ship more in the second half than first half. And the second part is our more seasonal business, particularly KitchenAid mix of which, as you know, is margin accretive, tends to be a little bit higher in the back half. So these are the structural element.

Now specifically to the question about production level of inventory, I think you're rightfully pointing out to last year, we had to take down production significantly in Q3 and Q4. The trend is a fairly costly manner to do it. I would say right now coming into Q3, I think we're much better balanced. And we feel very good about right now our inventory levels. Our supply chain is basically, except for some very small residual items, is running very smoothly. So, I don't see this kind of the need for these draconian actions, which we had to undertake in Q3 and Q4. So as such, we expect a pretty level production volume similar to Q1 and Q2.

Sam Darkatsh

Analyst, Raymond James & Associates, Inc.

And then my second question, the corporate overhead line bounces around a lot, and it's hard for us to model. And it looks like it was considerably below, at least, where we were thinking. I was imagining it was going to be maybe a \$70 million quarterly run rate, excluding items and it came in around, call it, around \$20 million or so. What was that due to? I'm guessing it was a confluence of items. But what were the primary drivers of that? And how should we model that corporate overhead number going forward, Jim?

James W. Peters

Chief Financial Officer & Executive Vice President, Whirlpool Corp.

Yeah, Sam. And here's what I think you should do is if you kind of look back historically over the last, let's just say, three years or even longer than that, typically, on an average, we run between \$50 million and \$60 million per quarter in that line. And if you actually take where we are year-to-date, I think we're at like \$47 million, \$48 million. So I think you should continue to model at that type of number, especially maybe a little bit closer to the lower end of that range, because some of our cost takeout actions we're doing are obviously falling into there, so you'd be slightly lower than historical averages.

Now specific items that drive changes within there, I'm not going to get into a lot of them, but obviously, you have certain accruals that can be related to employee-related expenses or certain accruals that can be related to some of the legal cases that we're resolving in EMEA as we close that out. And so those just caused some fluctuations between quarters, but we – for a full year, we do not expect to be outside of our normal range of \$50 million to \$60 million average per quarter.

Marc Robert Bitzer

Chairman & Chief Executive Officer, Whirlpool Corp.

So, Sam, maybe just adding to what Jim was alluding to, again, and the corporate expense base has two structural items. One is the ongoing corporate, call it, infrastructure costs. And the other one are kind of all these one-timers, [ph] either legal (00:38:25) costs or other actions. So of course, the latter one is always a little bit difficult to model, because that's the nature of the ins and outs. But it's important to look also the underlying corporate infrastructure.

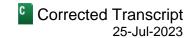
As we alluded to in our remarks, our prepared remarks, our overall salaried workforce is down 7% year-over-year. That is a very, very significant number. And that is also visible in our corporate expenses. Keep in mind, we are starting to reposition our corporate headquarter [ph] basically to (00:38:57) a potential post-Europe environment. So we took proactive measures. And as such, our ongoing corporate expenses were lower than they were several years ago. So there is also this element, which is just structurally and structurally lower than it was a couple of years before.

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

Eric Bosshard Analyst, Cleveland Research Co. LLC	C
Thank you. Good morning.	
Marc Robert Bitzer Chairman & Chief Executive Officer, Whirlpool Corp.	A
Good morning, Eric.	
James W. Peters Chief Financial Officer & Executive Vice President, Whirlpool Corp.	Δ
Good morning.	
Eric Bosshard	

Analyst, Cleveland Research Co. LLC

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Two questions, if I could. I guess, first for Jim. Just a housekeeping question. The comment was made that mix was stable. I'm curious, can you just help us understand the North American organic revenue, ex-InSinkErator, looks like it's down then 7%, 8%, 9%. And it sounds like your units are up better than the industry. What – is that all price? Can you just help us understand the mechanics between the gap between your dollar decline and your apparent unit volume growth?

James W. Peters

Chief Financial Officer & Executive Vice President, Whirlpool Corp.

A

Yeah. So as you said that, year-over-year, we did pick up share, and so that would obviously be a positive. Still within the quarter, as we said, the industry was down slightly, so that would be a negative. And then, as Marc talked about earlier with the promotional environment, that's your incremental piece that you just have to take off of the top there to say – and again, when you're looking year-over-year, as he highlighted earlier last year and the first half of the year, it was – there were not many promotions at that point in time.

So that's having a significant impact year-over-year. But then as we get to the back half of the year, it will have much less of an impact and that's why you see the full year average for price/mix being below where this quarter is when you walk it year-over-year.

Marc Robert Bitzer

Chairman & Chief Executive Officer, Whirlpool Corp.

A

Eric, it's Marc. The additional comment I want to make is that you – keep in mind when we show the North America business, there is the US core business and then you have other elements like InSinkErator, KitchenAid, small domestic appliance, and you have Canada in there. The pure US core business was better than the number which we showed for North America. What hurt us in Q2 was Canada was fairly weak. And Canada had the last couple of years very strong years, and this year is kind of a way softer than the prior year from an industry perspective. And the small domestic appliance business was also softer than prior year. So these were two offsetting items, but the US core business was slightly better than the number you see here.

Eric Bosshard

Analyst, Cleveland Research Co. LLC



Okay. And then, secondly, a strategic question, I guess, for you, Marc, which is from a promotional standpoint, I'm curious how – what your thoughts are. I guess, first of all, is the promotional environment now stable or more intense in the back half than the first half? And then, within this, are you [indiscernible] (00:41:45) to focus on participating and maintaining or improving market share? Or is your focus more on margin and less on promotion and sharing? Just curious how we should think about that relative to your guidance?

Marc Robert Bitzer

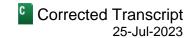


Chairman & Chief Executive Officer, Whirlpool Corp.

Yeah, Eric. So first of all, I would describe the promotional environment, it's back to normal, okay? I know that sounds boring, but that's pretty much it. And we know how to operate in that environment fairly effectively and efficiently, which also means we've always said we will participate in promotions as long as they're value creating.

Also from an overall margin and margin expansion, of course, we are kind of – there will always be an element where some of the cost savings you have to reinvest in the marketplace. We've done that in Q2 and the [ph] math (00:42:29) overall worked for us very well, but we expanded market share and expanded margin.

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And that is also going to be our – the balancing act going forward. We want to continue to win market share, but we certainly will expand also our margins. So that's the balancing act. So, again, overall, the promotional environment, it just came a little bit earlier, but it's right now not to levels which kind of – which we wouldn't know how to operate in. We know and feel very confident about the cost takeout and some of that will be reinvested in the marketplace, but not all of it.

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

Mike Dahl

Analyst, RBC Capital Markets LLC

Good morning. And thanks for taking my questions. Marc, just a follow-up on that. Presumably, some of your competitors have some cost tailwinds as well, maybe not to the same extent as you do, given some of your company-specific items and not just the RMI tailwinds. But in an environment where gross prices have still risen substantially over the past few years, sellout is a little soft, and costs are down across the industry, what – how do you handicap the risk of just the other competitors leaning more into promotion and reinvesting more of some of the overall cost tailwinds into promotion here in the back half?

Marc Robert Bitzer

Chairman & Chief Executive Officer, Whirlpool Corp.

Yeah. Mike, I can only repeat what I said before. First of all, the raw materials, yes, it's probably fair to assume that, more or less, most people kind of benefit from the same tailwinds. Now with different color, keep in mind that North American raw materials were particularly bad the last couple of years, worse than some of the Asian raw materials. So I would say, right now, you come to a period where the North America production slightly gets more raw material benefit than an Asian production. So that is already one differentiating element.

I would say, on the company-specific cost takeout actions, and you've seen that before, I mean, our own numbers, more than half of our cost takeout is discrete to us. That's what we are doing, okay? I would pride ourselves, we took actions early and fairly decisive. So I would see – we see some of these cost elements reductions probably earlier and more than most other competitors. Now, I mean, obviously, we've got to see so. As such, we feel confident about our cost takeout. We know how to operate in a promotional environment, as we've evidenced and demonstrated in Q2. From that perspective, I don't expect a change in the back half relative to what we've seen right now around July 4.

Mike Dahl

Analyst, RBC Capital Markets LLC

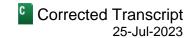
Got it. Okay. And then just as a follow-up, with respect to inventory in the channel, I mean, inventory was running fairly lean. You called out some restock. How would you characterize inventory at retail now? Is it back to normal? Is it still climbing back toward normal off of levels that are still you characterized to lean? Or are there any pockets where you think there's now relative to the sellout environment potentially a little too much?

Marc Robert Bitzer

Chairman & Chief Executive Officer, Whirlpool Corp.

Yeah. [ph] Michael, (00:45:42) first of all, we got to recognize and remind ourselves, the last three years, we've seen extreme swings on manufacturer and retail inventory levels. I mean, this was bullwhip effect up and down. And that's what we've seen in the last couple of years. I think we're now back to a normal environment on many fronts, including trade inventories, which I would consider back-to-normal trade inventory levels. And basically, the

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retailers over the last half year took – basically took a dual advantage of restocking to required levels. And that's how we would look at this one.

But right now from what we've seen, we don't see excessive inventories out there. You also know there's one trade customer who doesn't carry inventory. So it's not – they're not excessive inventories out there. Again, I would just describe them as normal retail inventory levels, which we see out there and which are [ph] basically all pointing (00:46:39) to this post-pandemic environment normalcy.

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

Elizabeth L. Suzuki

Analyst, BofA Securities, Inc.

Great. Thank you. So just on – as we think about the ongoing tax rate in 2024 and beyond, I mean, what do you think is kind of a normalized level? It's obviously quite suppressed this year. But just as we think going forward, and I mean, I know you're not giving 2024 guidance. But in just any normal year, what do you think a tax rate should be that we incorporate into our models?

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

Yeah. So, Liz, this is Jim. And historically, we have said that we thought the tax rate on an ongoing basis and on a cash basis would be closer to the 20%, 25% rate over an extended period of time. Now what I would say is, as we go through our divestiture of EMEA, we have a significant amount of tax assets there that have resulted from losses that we've incurred over the years and funded and paid for already. And as we go through this process, we're really looking at our ability to utilize many of those, because like I said, these are losses that we did incur. And what we're finding is that we're finding more and more opportunity to continue to utilize those. And so that's

why this year, we think similar to last year, we're going to be in the 10% to 15% range.

I think over a mid-term, we could see a rate that's below that historical thing that I was quoting of 20% to 25% and maybe even closer to the 15% to 20%, at least, for a period of time or closer to the 15%. But until we get to the end of this year, we get through all of this transaction, we look at the global footprint that we have and the remainder and then we look at the assets that we have, it's hard for us to give a longer-term guidance. But I do believe it will be better than we've set historically. And in addition to that, I do believe we'll be able to realize significant amount of just cash benefits over the period of years as we utilize some of those losses that we've already incurred.

Elizabeth L. Suzuki

Analyst, BofA Securities, Inc.

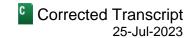
Got it. That makes sense. And just a follow-up on the price/mix guidance, which for the year is estimated to be below what the first half was tracking at. I mean, is most of that improvement in the back half of the year easier comparisons? Or do you think it's – is it more going to be concentrated in the homebuilder side of the business versus retail? I'm just curious how you think about pricing by channel as we get into the back half?

Marc Robert Bitzer

Chairman & Chief Executive Officer, Whirlpool Corp.

This is Marc. I can take it. I basically fully come back to the earlier comments. By definition, you have baseline effects of last year. Keep in mind, first half last year basically had no promotions and they were building in the

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second half. So that's the element of where the comparisons getting a lot easier in the back half, because, again, every quarter, the promotions have been building.

So as such, I mean, this [ph] 2.5 on a full year basis – (00:49:29) just a quarter difference versus what we had in mind. But just a reflection is, yeah, we saw the normal promotional environment kind of one quarter earlier when we originally expected, but not fundamentally different from baseline and where we expected the year-end to be.

Marc Robert Bitzer

Chairman & Chief Executive Officer, Whirlpool Corp.

So I think, with that, we – that was pretty much the last question, which we had, and I want to take the opportunity to thank you all for joining us today. Hopefully, as you heard before, and we feel very good about the Q2. I mean, this was a quarter with 200 basis point of margin expansion, which is a significant step-up. It's a step-up fully back to pre-pandemic margin run rates. You also see or heard that we kind of – we start seeing positive signals on the market demand environment more towards the end of the year, but they're undeniable, and they will, at one point, provide tailwinds for us for our industry, and we feel good about it.

So with that, we feel good about where we are in Q2, puts us on track towards reaffirming our full year guidance, and I'm looking forward to talk to you again at the Q3 earnings call. Thanks a lot for joining us.

Operator: Ladies and gentlemen, that concludes today's conference call. You may now disconnect.

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