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Whirlpool Corp. (WHR)

Q4 2023 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Korey Thomas
Head-Investor Relations, Whirlpool Corp.

Good morning, and welcome to Whirlpool Corporation's Fourth Quarter 2023 Earnings Call. Today's call is being recorded. Joining me today are Marc Bitzer, our Chairman and Chief Executive Officer, and Jim Peters, our Chief Financial Officer. Our remarks today track with a presentation available on the Investors section of our website at whirlpoolcorp.com. Before we begin, I 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 non-GAAP measures allied in further detail at the beginning of our earnings presentation.

We believe these measures are important indicators of our operations as they exclude items that may not be indicative of our results from our ongoing business operations. We also think the adjusted measures will provide you with a better baseline for analyzing trends in our ongoing business operations. Listeners are directed to the supplemental information package posted on the Investor Relations section of our website for the reconciliation of non-GAAP items to the most directly comparable GAAP measures. At this time, all participants are in 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.

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Marc Robert Bitzer

Chairman, Chief Executive Officer and Executive Committee, Whirlpool Corp.

Thanks, Korey, and good morning, everyone. Today marks our first earnings call in the New Year, and I do appreciate that everyone's attention will be in our perspective for 2024. However, I want to take the opportunity to reflect and look back at last year. During this past year, there have been a number of achievements we're proud of. One, we gained more than one point of market share in North America. This is a clear testimony of the success of our great products and brands in the marketplace. Two, we were able to reduce our net cost base by $800 million, which is what we had in mind when we started the year. And three, the signing of our EMEA transaction with Ardutch marked a major milestone in our portfolio transformation and is expected to provide significant opportunities to unlock value. At the same time, there are a number of areas where we fell short of our own expectations.

The promotional environment, which reversed back earlier than anticipated to a pre-COVID intensity put pressure on our EBIT margins. And while our full year EBIT margin of 6.1% is solid, it is still more than a 1 point short of where we wanted to be. And we were not able to reduce our inventories fast enough, which negatively impacted our full year cash flow. Obviously, these results were impacted by a still unfavorable housing cycle in 2023. The rapid and steep increase of US mortgage rate led essentially to a freeze of existing home sales. Ultimately, this resulted in the lowest existing home sales in almost three decades. And given the strong historical correlation between existing home sales and appliance sales, with discretionary appliance sales, which are margin attractive slowed down significantly. This was mitigated by strong replacement demand, which tends to be less margin attractive.

These strong replacement sales confirmed our view of more intensive use patterns of appliances leading to shorter replacement cycles, a favorable trend, which we expect and continue in foreseeable future. Now the key question is, what does this all mean for 2024? Let me start on the housing macro cycle. We remain bullish on the mid- and long-term housing cycle. The market has been undersupplied for over decade by 3 million to 4 million units. The long overdue rebalancing of demand and supply will occur at one point, but not in the very short-term. While we already see a gradual and steady recovery of new home orders and starts, we all know that these trends typically need six to nine months to turn into appliance sales. Existing home sales market, on the other hand, will need a catalyst to unfreeze. That catalyst can only be a return to lower mortgage rates, which we expect to moderate as the year progresses.

So, how will we position ourselves in 2024? Essentially, it will be all around cost discipline and margin expansion. On the cost side, we have put actions in place to deliver $300 million to $400 million in cost savings. While this number may appear lower than in 2023, we're not factoring any raw material savings. So, these $300 million to $400 million are all structural cost takeout actions. But margin expansion will essentially be driven by the benefits of a refocused portfolio after the completion of EMEA transaction as well as a very disciplined approach focused only on value creating promotions and product mix. You will see later in our presentation a full year negative impact of pricing, but this is entirely related to carryover pricing effects. Last thing, as it relates to our portfolio transformation, we continue to expect to close our EMEA transaction by April. And in anticipation of this transaction closure, we are changing our reporting segments.

We will not only highlight our major domestic appliance business in North America, Latin America and Asia, but also provide visibility to our KitchenAid small domestic appliance global business. With strong margins, the KitchenAid small domestic appliance business is a critical component of our brand and product portfolio, improving life at home for our consumers. I am confident that our refocused portfolio, cost actions, and improving free cash flow generation positions us for continued shareholder value creation in 2024. Now turning to slide 6, I will provide an overview of our fourth quarter results. We delivered over 3% of revenue growth, including a 1 point

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of year-over-year share gains in North America, coupled with $350 million of reduced costs. Working capital conversion and free cash flow of $366 million was impacted by shipments occurring later in the quarter than expected.

We exited 2023 with elevated trade customer inventories, which we expect to normalize mostly in the first quarter of 2024. Ultimately, we delivered ongoing earnings per share of $3.85 supported by tax benefits related to the Europe transaction.

And now, I will turn it over to Jim to review our Q4 regional results and perspective on 2024, including our plans for the proceeds of a recently announced EMEA transaction.

James W. Peters

Executive Vice President and Chief Financial Officer, Executive Committee, Whirlpool Corp.

Thanks, Marc. Good morning, everyone. Turning to slide 7, I'll review fourth quarter results for our North America business. We delivered 1% of revenue growth and 260 basis points of margin expansion. Sales growth was driven by over a point of year-over-year share gains resulting from new product introductions and improved supply chain execution. While this was partially offset by a normalized promotional environment. Additionally, resilient replacement demand lifted the US industry 2%. Fourth quarter margin expansion was driven by significantly reduced cost, partially offset by negative price mix from a normalized promotional environment and lower consumer discretionary demand due to higher mortgage rates in 2023, slowing down existing home sales. Overall, the region delivered 8.4% margins for the quarter.

Turning to slide 8, I'll review our results for our Europe, Middle East and Africa business. Revenue was down 3% year-over-year as the region continues to see demand weakness from negative consumer sentiment. Strong cost takeout actions and held-for-sale accounting benefits, drove nearly 400 basis points of margin expansion year-over-year to approximately 3%. We continue to expect the Europe transaction to close by April 2024. And later in the call, I will provide additional insights into the expected impact to our 2024 guidance and free cash flows. Turning to slide 9, I'll review the results for our Latin America business. With strong industry demand throughout the region and share gains in Brazil, net sales, excluding currency, increased to approximately 13%. Overall, the region delivered solid EBIT margins of 6%.

Flat to last year as cost actions were offset by negative price mix and losses in Argentina from currency devaluation and costs related to ramping up our new laundry factory. Turning to slide 10, I'll review the results, for our Asia business. The region saw a net sales growth of 9%, driven by share gains and improving industry. EBIT margins of 1.3% with cost takeout actions more than offset by negative price mix. As you may have seen, we recently announced our intention to sell up to 24% of Whirlpool India's outstanding shares, while retaining a majority interest. We truly believe in the long-term trajectory of India, it is one of the strongest growth opportunities for Whirlpool. Whirlpool of India's long-term outlook for growth and margins are both in the high single-digits, making India very attractive to operate in. At the same time, this financial profile has created a very strong local public market valuation.

Turning to slide 12, I will review our 2024 guidance, which includes the Europe major domestic appliance business, only for the first quarter of the year. We have provided a reset baseline for 2023 results, excluding our Europe major domestic appliance business from Q2 through Q4 of 2023. The reset baseline excludes approximately $2.6 billion net sales and approximately $33 million of EBIT, creating a like-for-like comparison for 2024. On a like-for-like basis, 2023 net sales were approximately $16.9 billion with ongoing EBIT margin of 6.8%. We expect flat 2024 net sales, including $700 million of sales from the EMEA major domestic appliance business

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in Q1, and flat the EBIT margin year-over-year on a like-for-like basis. We expect 2024 free cash flow of $550 million to $650 million, a 50% to 75% increase driven by improved earnings and working capital reduction.

We expect full year ongoing earnings per share of $13 to $15, including an adjusted effective tax rate of 0%, an increase compared to 2023 which impacts 2024 earnings per share by approximately $1. Turning to slide 13, we show the drivers of our full year 6.8% ongoing EBIT margin guidance. We expect a negative impact of 150 to 175 basis points from price/mix. This reflects the first half of 2024 carryover effect as the promotional environment normalized in the second half of 2023. We also expect continuing softer mix and discretionary demand in the first half of 2024 from historically low existing home sales partially offset by new product introductions. As we drive further reductions to our cost structure, we expect approximately 175 basis points of net cost margin benefit from $300 million to $400 million of cost takeout actions.

We expect minimal to no impact to EBIT margins from raw materials this year based on recent commodity trends and executed supply agreements. We plan to continue a strong cadence of new product introductions with investments in marketing and technology impacting margins by approximately 25 basis points. Finally, we expect our portfolio transformation to provide approximately 75 basis points of margin improvement as we contribute the margin-dilutive European major domestic appliance business to the newly formed company. On slide 14, I will provide context on our significant cost takeout opportunity. We experienced unprecedented cost inflation of approximately $2.5 billion in 2021 and 2022. In 2023, we were able to drive $800 million of cost takeout which is a significant step in resetting our cost structure. We expect to further reduce our costs by $300 million to $400 million this year.

2024 will benefit from $100 million of cost actions taken last year. We expect $100 million to $200 million of additional cost takeout with our manufacturing and supply chain operations benefiting from ongoing productivity initiatives and reduced complexity as we enter 2024. And we also expect $100 million of second half benefit as our ongoing portfolio transformation allows us to simplify our organizational operating model. Turning to slide 15, I will introduce our new segment reporting structure effective January 1, 2024. We have updated our reporting structure with the anticipated closure of the Europe transaction. Our regional operating segments historically included the results of our KitchenAid small domestic appliance business in the geographical regions they operated in. We will now only report the major domestic appliance businesses within their respective regions.

We will now report our global KitchenAid small domestic appliance business, also known as SDA, as a separate segment. This business has an iconic brand and premium products with a reputation for performance and quality, perfectly fitting our vision of being the best kitchen and laundry company. We will continue to have strong brand synergies between the small domestic appliance and major domestic appliance product portfolio. The regional MDA businesses will have margin profiles 30 to 40 basis points lower than the previously reported figures due to SDA reporting as its own segment. On our Investor Relations website and yesterday's 8-K, we have provided recast quarterly results for 2021 through the third quarter of 2023, reflecting our $1 billion SDA business with its strong 15%-plus margins.

Turning to slide 16, I will review our new segment guidance. Starting with industry demand, we expect a dynamic global industry to be flat to up 2%. We expect to see similar demand trends in the US that we saw in the second half of 2023, with resilient replacement demand creating a solid footing for industry volumes and consumer discretionary demand continuing to be impacted by elevated mortgage rates driving down existing home sales. Overall, we expect MDA North America to be flat to slightly positive as well as we expect the MDA Latin America industry to also be flat to slightly positive. India has one of the fastest growth rates globally and we expect MDA Asia industry volumes to accelerate by 4% to 6%. While we expect the SDA global industry to be up 2% to 4%,

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we want to preface this guidance with the fact that KitchenAid is largely present in the premium segment and also not in all SDA categories.

Finally, we expect demand contraction of negative 8% to 6% in the first quarter for MDA Europe from continued negative consumer sentiment. For MDA North America, we expect to deliver full year margins of approximately 9% with promotional carryover negatively impacting first half margins and elevated channel inventories impacting first quarter demand. We expect approximately 50 to 75 basis points of sequential margin expansion every quarter and to exit 2024 with EBIT margins of approximately 10%. For MDA Latin America, we expect EBIT expansion and strong margins of 6.5%, with cost takeout actions and improved consumer sentiment. For MDA Asia, we expect margin expansion to approximately 3% EBIT margins. For SDA global, we expect very attractive EBIT margins of approximately 15.5%.

Lastly, we expect MDA Europe to deliver approximately 1.5% margins in the first quarter and overall expect an ongoing total EBIT margin of 6.8%. Turning to slide 17. Let me provide you with additional detail on our US industry expectations. Replacement demand drove industry growth in 2023, and we expect this trend to continue into 2024. The last four years of elevated usage is shrinking the historical average life of appliances, coupled with an installed base from 2015 through 2017 that grew 4% to 5% and is nearing replacement. This is driving replacement demand to approximately 60% of industry volumes. We expect to continue to drive value creating share gain in 2024. With housing starts trending higher in the second half of 2023, Whirlpool is disproportionately positioned to benefit from new construction demand.

Forecasts for 2024 are calling for low to mid single-digit growth in housing starts, most likely benefiting Whirlpool in the second half of 2024 or early 2025. For every 5% increase in new construction, we could see approximately $100 million impact with our leading builder share. Finally, discretionary demand, which accounts for approximately 25% of total industry volumes is driven by existing home sales which are coming off their worst year since 1995 and are expected to improve in the back half of 2024 as interest rates moderate. Turning to slide 18. I will share further perspective on 2024. We expect soft discretionary demand and higher retail inventory levels to weigh on total industry expectations in the first half of 2024, with a more pronounced impact on Q1. We expect 2024 promotional activity to be at similar levels as the second half of 2023, creating a margin headwind to the first half of the year.

We expect cost actions from 2023 to benefit the first half of 2024, while additional cost actions ramp up. Additionally, the demand and earnings seasonality of our SDA global business varies from our major domestic appliance business. It delivers approximately 75% of its demand and profitability in the second half of every year with consumers favoring small domestic appliances as gifts and increased baking activities in the fall and holiday season. Overall, we expect to deliver approximately 35% to 40% of our earnings in the first half of the year. Turning to slide 19. I will provide the drivers of our free cash flow guidance. We expect improved cash earnings of approximately $1.1 billion to $1.2 billion. We expect approximately $600 million of capital expenditures as we continue to invest in our products and fund organic growth, including our plans to launch over 100 new products in 2024.

We plan to improve our working capital conversion by approximately $100 million, largely through inventory reductions. We expect approximately $50 million of restructuring cash outlays related to previously executed actions and complexity reduction with our simplified organizational model after the Europe transaction. Overall, we expect to deliver free cash flow of $550 million to $650 million or approximately 3.5% of net sales, including approximately $200 million to $300 million of cash consumption for MDA Europe business operations prior to the closure and onetime charges. Turning to slide 20, I will review how we are well positioned to deliver our 2024 capital allocation priorities. We have a solid balance sheet with $1.6 billion of cash on hand coupled with $550

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million to $650 million of 2024 expected free cash flows plus anticipated $400 million to $500 million of proceeds from asset sales.

As we previously announced our intention to sell a portion of our interest in Whirlpool of India and recently signed an agreement to divest of our Brastemp branded water filtration business in Brazil. As you can see, we are well positioned to deliver our clear capital allocation priorities for 2024. Last year marked the 68th consecutive year of steady or increasing dividends from Whirlpool. Subject to board approval, we expect a dividend of approximately $400 million. We are committed to maintaining our strong investment grade credit rating and reducing our debt by at least an additional $500 million. We expect limited share buybacks to offset share dilution. Finally, we are committed to funding innovation and growth with capital expenditures plus research and development of approximately 6% of net sales.

Turning to slide 21. You can see our commitment to deleveraging our balance sheet. As a reminder, in 2022, with the acquisition of the value creating InSinkErator business, we increased our debt by $2.5 billion in term loans. Compared to 2022, we expect at least $1 billion of debt reduction by the end of this year. With the combination of strong free cash flows expected in 2025, in the first full year following the close of the Europe transaction and our product innovations delivering earnings expansion and beginning to realize the free cash flow benefits of our adjusted effective tax rate. We are confident in our ability to further reduce our net debt leverage to approximately two times by 2026.

Now I will turn the call back over to Marc.

Marc Robert Bitzer

Chairman, Chief Executive Officer and Executive Committee, Whirlpool Corp.

Thanks, Jim. Turning to slide 23. Let me provide an update on our Europe transaction. As I mentioned in our third quarter earnings call, we passed major regulatory milestones with the approvals from the European Commission, Germany, Austria and China. The UK's competition and market authority is in the process of conducting a phase 2 review of the transaction. We are continuing a constructive dialogue with the CMA about the newly formed company that will benefit consumers. And we continue to expect the transaction will close by April. Turning to slide 24. Let me recap what you heard today. We will further improve our cost structure and are confident in our ability to deliver $300 million to $400 million of cost takeout. Our portfolio transformation to a higher growth, higher margin business continues to progress.

The Europe transaction will meaningfully accelerate our structural free cash flows by approximately $200 million to $300 million in 2025. We have clear capital allocation priorities, including strong dividends and reducing debt leverage, supported by a flexible balance sheet with $1.6 billion of cash on hand, along with strong 2024 cash generation. We're confident in the trajectory of our business and our portfolio transformation to deliver sustained shareholder returns. Finally, I will close on slide 25 with an invitation to join us at our 2024 Investor Day on February 27th at the New York Stock Exchange. We look forward to hosting our first Investor Day since 2019. We plan to review how our portfolio transformation is creating a very different Whirlpool, positioning us towards higher growth and higher margin business.

We're excited to review our growth and margin expansion opportunities for our MDA North America business. We will highlight the rich history of our premium KitchenAid SDA business in addition to introducing the remainder of our 2026 value creation goals. We hope to see you there.

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

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QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Your first 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 and Executive Committee, Whirlpool Corp.
A

Good morning, Sam.

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

Good morning, Sam.

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

Two questions. The first around the raw material assumption and the second question will be around North America major appliance margins. So first, around raw materials, the – as you're saying it's going to be neutral on a year-on-year basis. Obviously, we can see that cold rolled steel is up meaningfully of late and on a year-on-year basis. So, how much of your steel spend is on contract this year? And is there an assumption that steel prices fall from here baked into your guidance? Or what sort of offsets are there to steel? Just help reconcile, what we're seeing in the markets versus what you're seeing on your RMI?

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

So, Sam, it's Marc. Let me first maybe take the raw material question, then we can come to the NA margin question. First of all, I know you're well aware, but more for our broader audience, our number one raw material buy is steel, number two is resins in all forms and then it kind of splits up in smaller elements. As you know, in 2023, we got a tailwind from raw materials. And right now we're guiding pretty much for almost no effect of this one. Raw material, again, as I mentioned, steel is the number one driver. And there is no – you don't have formal hedging contracts with steel, you basically have contract with individual steel suppliers, which are regional and they typically are on an annual basis, certainly for US, less so in Latin America, but also in Europe, you have the much annual contract.

These annual contracts, and that's why we have a very high degree of confidence in raw material assumption, they are largely locked in now. So typically, these negotiations happen November, December, in that timeline, and they're not done of a kind of on the spot CRU spot price, they're kind of done more on rolling averages and certain assumptions about flow and color. So, with all these contracts, the majority of these contracts fully in place, again, with the exception of Latin America, the variation, which we expect from a steel price is very, very little. So that's why on the number one component, we have a very high degree of certainty. The number two component resins were more on a quarterly base. And obviously, there is an element about oil price assumptions in there which you have a little bit more variation. But again, relative to steel, it's much smaller.

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So again, on these two components, Sam, we feel we're [indiscernible] (00:28:44) contractually protected or right now, we have certainly in plastics, I think we have a reasonable assumption for full year.

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

Got it. And then the North American margin question, so what was the fourth quarter 2023 North America margin excluding small appliances? And what is your assumed 2024 exit rate for North America major appliances versus the 9% annual guide? Thanks.

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

So, Sam, the North America margin in Q4 where we posted the 8.4%, roughly, and we referred to a full year base KitchenAid, typically has an impact of about 40 basis points on our margin business in North America. Now that's a little bit – there's a little bit of seasonality in KitchenAid with a heavy skew towards Q3 and Q4, so you take that out of the equation you're pretty much exiting – in 2023 we're exiting around 8% roughly North America margin which, as we talked, that's about a good point below where we wanted to be in all transparency. We guide the full year excluding KitchenAid on 9%, and I think also in our prepared remarks we were referring to – we expect to exit 2024 with around 10% North America margin.

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

Michael Rehaut
Analyst, JPMorgan Securities LLC
Q

Thanks. Good morning, everyone. Thanks for taking my questions.

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

Good morning, Michael.

Michael Rehaut
Analyst, JPMorgan Securities LLC
Q

First, I would love to get a sense just of the – how you're thinking about the promotional backdrop and cadence in North America MDA as 2024 progresses. I know that you kind of highlighted that on a consolidated basis and you expect price/mix to be negative in the first half and flat in the back half. But I was hoping or trying to get a sense of the interplay between how you expect 2024 to play out in terms of managing share gains which you kind of highlighted another point of share in the fourth quarter, and how do you expect to manage the promotional backdrop as it progresses. And I guess part of the question here is to the extent that promotions continue to, let's say, increase in the near-term, how you'd manage that versus your desire to continue to regain share?

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

Michael, it's Marc. So, let me try to address it. And let me first take a little bit the Q4 in the rear mirror on North America because I think that highlights a lot of challenges and opportunities which we have, and then as much as we can talk I can give you a broader direction on 2024. So, if you look back at Q4 2023, in particular North America, ultimately it comes down to the amount of – the absolute amount of marketing and promotion dollars we

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put in the market are not unusual compared to pre-COVID. The big difference was that the lift we had on discretionary demand was very limited. So ultimately, in hindsight, the ROI on some of the promotions did not work out the way we expected. So, as you know, we repeatedly talked about we focus on value creation promotions. And in hindsight, some of these promotions did not meet that benchmark.

It's just because the discretionary demand [ph] or the pull (00:32:28) of discretionary demand in the market was limited, so the whole equation got unbalanced and that led to some margin erosion in Q4. As I also said, as we look into 2024, and as you know, we don't give any forward-looking comments on pricing, et cetera, but I said our focus is on margin expansion. I mentioned [indiscernible] (00:32:50) exit margins are below where we want it to be. Right now, our focus is on margin expansion, obviously deploying all levers which are at our disposal; that's cost take-out, that's pricing, how we manage the mix, how we manage new product introduction. But the focus is on margin expansion and that is in the context of we feel good about our share gains. And right now, the level of share where we come from gives us a solid base and we will – at least for foreseeable future, our focus is on margin expansion.

Michael Rehaut
Analyst, JPMorgan Securities LLC

Q

Great. Appreciate that. I guess – and I apologize if this is something that I missed in maybe the supplemental or some of the other comments, but just love to get a little more detail on SDA for 2024 in terms of the overall size. I know you talked about the margin or the profit cadence, a quarter of profits the first half, three-quarters in the back half. But just how you're thinking about that segment and where the margins were in 2023 just to get a comparable there?

Marc Robert Bitzer
Chairman, Chief Executive Officer and Executive Committee, Whirlpool Corp.

A

Yeah. Michael, I can take this. And first of all, apart from the supplement, that we will spend a lot time – a lot more time on February 27 at our Investor Day to show you a little bit the history of KitchenAid, the margin run rate, seasonality. So, there will be a lot more color to your question. So, on a high level, right now, it's – the seasonality is similar to what you described, so [indiscernible] (00:34:23) more skewed towards back half around the holidays. But even in first half, there are some important holidays which always matter for KitchenAid like – and we manage accordingly. The broader margins, and again, we will show that in the supplement which you will see soon are the 15.5% which we guide to 2024 is slightly higher than the 2023 one. But even if I look at a multi-year KitchenAid SDA margin, it typically hovers around 16% EBIT.

So it's a very solid and margin-accretive business for us which, of course, we want to grow significantly more going forward.

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

A

Yes. Michael, I think the other thing to highlight you'll see in all the supplemental materials we provided is really, if you look at the historical run rate of the business, it has been around $1 billion plus and 15.5%. And so, some of the information that we did provide obviously showed a time period when that benefit or that business benefited from some of the trends that were going on during COVID. But I'd say today, what Marc highlighted in there in the size and all that is really more representative of what the trend that business has been on and why that we're excited about the growth in the margins we have within there.

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

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Susan Maklari
Analyst, Goldman Sachs & Co. LLC

Q

Thank you. Good morning, everyone.

Marc Robert Bitzer
Chairman, Chief Executive Officer and Executive Committee, Whirlpool Corp.

A

Hi, Susan.

Susan Maklari
Analyst, Goldman Sachs & Co. LLC

Q

Good morning. My first question is you mentioned the $300 million to $400 million of cost actions that you expect to take this year. As you think about the ability to continue to reduce the cost structure, how are you balancing that relative to the growth initiatives that you have and the targets to get the business closer to those long-term goals?

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

A

Yeah, Susan. So, this is Jim. And I think the thing you've got to look at there as we talk about the cost takeout is you saw this year to begin with. We significantly invested in technology and engineering and in our products, and you saw that in our overall walk. And so, if you really look at how that $300 million to $400 million breaks down, the first $100 million of that is just cost savings we already implemented this year. That are in areas that don't affect our ability to grow and drive innovation. Then we talk about maybe the next $100 million to $200 million within there, and that's really driving efficiency both within our supply chain, our factories and that comes from ongoing initiatives that we have that are just to become much more efficient in terms of how we manufacture or much more efficient in how we get product to our consumers in the end.

And so, again, those are not areas, those don't affect the investments that we make. And then if you think about the third bucket there that we've talked about is really SG&A reductions from a simplified organizational model. That also is just us looking at how we operate as a company and how we operated in the past with a much larger business, including EMEA, how do we simplify it, how do we make it more effective? Our investments within our products, whether it'd be engineering or capital will actually be relatively consistent to even up this year. So, the areas where we're cutting costs are not the areas that affect our ability to deliver growth and innovation. We're actually invested – what we are is we're reducing cost in other areas so we can invest more in those areas.

Marc Robert Bitzer
Chairman, Chief Executive Officer and Executive Committee, Whirlpool Corp.

A

So Susan, just to echo what Jim is saying and to be really crystal clear. We will, we have, and we will continue to invest heavily in new products and brand investments. Last year, despite all the pressure, we invested 75 basis points more into new product marketing and technology. We will continue to do so in 2024. And as you've seen also capital plans, we are prepared to invest in new products. That's ultimately the lifeblood of our company and creates future growth. At the same time, we're also very mindful [ph] we get great funds with that (00:38:13). And these funds, to Jim's point, they come from carryover actions, they come from manufacturing efficiency.

And frankly, after the Europe transaction is closed, we have a simple business, and we will take advantage of relooking at our SG&A base in terms of how can we take advantage of now what is globally a much simpler and is a business where we don't need to have all the complexity in its current structure.

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Susan Maklari
Analyst, Goldman Sachs & Co. LLC

Q

Okay. That's very helpful color. And then my second question is thinking about the cash flows. You mentioned that you came into the year with inventories a bit higher than what you had anticipated. Any thoughts on timing of the working that back down and what that might mean for the cadence of the cash generation this year?

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

A

Yeah. Susan, so this is Jim. And listen, here's what I would say is we talked about within our numbers, the overall cash flow guidance for the year that will reduce working capital by about $100 million at a minimum. I think what you'll see, as you'll see some of that come more probably within the second and third quarter as we just look at where things are because we did already talk about that retailer inventory levels at the beginning of the year were higher than we anticipated. And so obviously, we believe that will put some pressure on shipments in the first half of the year and our goal is to make sure we keep our inventories in line with the shipments, but then begin to reduce those inventories as we have the opportunity, but also then as we expect to see sales ramp up a little bit later in the year.

So, I would say not necessarily in the first quarter, but more in the middle half of the year is when you should expect to see us reducing inventories.

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. Thanks for taking the questions.

Marc Robert Bitzer
Chairman, Chief Executive Officer and Executive Committee, Whirlpool Corp.

A

Good morning, David.

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

A

Good morning, David.

David S. MacGregor
Analyst, Longbow Research LLC

Q

Marc – hey, good morning, guys. Can you talk a little bit about the market share gains and at what price points? And was this really just a recovery of some of the share that you lost during the pandemic or do you think it might have been incremental with the different consumer or the different price point? And how does all this kind of mesh with what the consumer is doing right now in terms of mixing up or mixing down?

Marc Robert Bitzer
Chairman, Chief Executive Officer and Executive Committee, Whirlpool Corp.

A

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Yeah. So, David, I mean, first of all, the 1 point or 1.1 point, to be precise, full year gains in North America [indiscernible] (00:40:28) – and the good thing is they are spread across multiple product categories. So, it's basically not a single product category where we would point to share weakness. We grew across the board. Obviously, a number of new product introductions helped and supported that share growth. The other element, which partially helped, but it's not yet fully visible. We had significant share growth in the National Builder business. But obviously, because the broader market is still soft, that it's not yet fully shown, but that's a big source of share gains. So, it's pretty much across the board. I wouldn't point to specific price point. Now against the context of a broader market and this is coming back to what I think we mentioned also in the last earnings call.

The nature of a market, which is now so heavily impacted by the replacement markets, and again, with 60% of our sales right now of the total market, which is much more than past, replacement market inherently comes with a slightly lower margin profile than discretionary demand. It's just what it is, because consumers now will look for specific dimensions [indiscernible] (00:41:32), they only have one or two days to make decisions. So that typically comes with a lower margin profile. So, I wouldn't point to specific price points where we gain market share at the broader market being so heavily replacement-driven, that doesn't necessarily help you from a price mix compared to previous periods.

David S. MacGregor
Analyst, Longbow Research LLC
Q

Got it. Thanks for that. And then just as a follow-up, I want to go back to the $300 million to $400 million cost reductions. I guess my question is really a clarification. This is a net number, right? It's net of any inflation in your non-raw material variable costs and fixed costs. In other words, your gross number...

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

Yes, David. Yes, this is a net number, like we always put on the net cost line. And so again, yeah, it takes more in gross actions to get to this number as we have to offset inflation in certain areas and especially in some of our higher growth emerging markets outside the US, but this is a net $300 million to $400 million.

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
Q

Good morning. Thanks for taking my questions.

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

Good morning, Michael.

Mike Dahl
Analyst, RBC Capital Markets LLC
Q

Just a – good morning. So, a follow-up on the inventory comments. When you look at where retail inventory ended up, I guess, two-part question. Is there any specific category that saw outsized inventory growth that you need to now work down? And then do you think Whirlpool was effectively in line with the industry as far as the inventory build, i.e. is that kind of a Whirlpool specific comment that an industry comment? How do you think you shake out versus the market in terms of where inventory position ended the year?

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

Yeah. So Michael, I'll start here, and I'll let Marc kind of add a little bit of color to it. But I would say, to begin with, across categories, I can't say that I could call out and differentiate any one category where it's significantly different. Again, as we kind of got through the year-end, sell-through – where sell-through was from a holiday perspective, and then you look across the broader environment, I'd say it's in – we see it in many of the categories. So, I don't think that there's a big differentiation for us there. And then as you said, is it a Whirlpool only issue? I think now as you look across the entire industry and you look across the retailers right now, this is not a Whirlpool only issue. And again, as you've seen, many of our competitors have already started talking about things, you're hearing a similar story out there that everyone is seeing a retail environment that seems to have higher levels of inventory in than expected.

So, just based on at least information out in the public, I don't believe that it's a problem that disproportionately affects us.

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

And Michael, maybe just give you a little bit more color and coming back to what I mentioned before is essentially, when you look back at Q4 North America, the industry sell-through was softer than most people expected, okay. And that – it comes back to yeah, the amount of discretionary demand out there was not as high as people expected. That led to both the return on investment and market promotions was just not attractive. And two, it also led to higher inventories of retailers relative to what we had in mind in industry sell-through. And yeah, as Jim mentioned earlier, I think that will impact somewhat shipments, the industry shipments in Q1 and maybe to a lesser extent Q2, from everything. And of course, we don't have precise sellout data from competitors, but from everything which we see from a broader industry, it certainly was not a Whirlpool specific issue.

This was across the board. And right now, it just means a little bit in inventory overhang as we enter the industry in Q1, but again, that we will work through.

Mike Dahl
Analyst, RBC Capital Markets LLC
Q

Yeah. That makes sense. Helpful. Thanks. My second question, either Marc or Jim, is around the free cash flow guide. And specifically, if I look at cash earnings and operating items, the expectation is $1.1 billion to $1.2 billion in fiscal 2024. You did – you're expecting EBIT to be about flat at $1.15 billion. On that number, you did $910 million of cash earnings in 2023. It seems like your interest expense is unchanged year-on-year. Your cash tax is unchanged year-on-year. And so, if your EBIT is unchanged year-on-year, what is the actual bridge in terms of which items are getting you to a higher cash earnings number in 2024, higher cash earnings conversion relative to EBIT.

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

Yeah. So Michael, this is Jim. And really, there's two components that go into that line. It's your actual earnings, which, as you pointed out, are relatively flat, and that does make sense. And then the other one that's always hard from the outside to really kind of look at is that we have a lot of other operating accounts that are on our balance sheet, such as accruals for promotional spend such as accruals for employee compensation in other areas. And actually, when we look at the end of this year versus the end of 2023 versus the end of 2022, what we saw is that because 2022 was a really strong year, you had a lot higher payouts on some of those areas within the beginning

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of 2023 that negatively affects cash. And when you come through a negative year that you don't have as high payouts in some of those areas, it gives you a positive in the next year from an operating cash flow perspective.

So, it's a good question in that it doesn't really become apparent, but that's the biggest driver within that bucket that you will see. Then, also throughout the year, there are just some non-cash items that affect that differently here and there. But that's the biggest drivers, the changes in those other types of accruals that don't necessarily sit in working capital.

Operator: Your next question comes from the line of Jason Haas from Bank of America. Your line is open.

Jason Haas
Analyst, BofA Securities, Inc.
Q

Hey, good morning and thanks for taking my questions. I'm curious if you could talk about what impacts, if any, you've seen from the disruptions in the Red Sea and just global container costs starting to increase here?

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

Jason, it's Marc. So, obviously, in particular with our heavy footprint on the Americas, the impact for Americas is less. Yes, there's some – it impacts a little bit some of the East Coast shipments, not so much in cost, more in time, so one or two-week later time. It could and will start impacting the European business. Right now, we're still in pretty good shape for Europe. But obviously, that brings uncertainty more in the European supply chain; much, much less extent on the North America supply chain. Container costs have been, so far, pretty stable for us. Again, also to put that in context, it came from excessively high rates in the COVID and post-COVID environment and now to more normalized rates. And the broader impact of the mix is limited. Keep also in mind, compared to any of our competitors, we are much more North America and Americas production base.

So, relatively speaking, the container cost impact us a whole lot less than most of our competitors.

Jason Haas
Analyst, BofA Securities, Inc.
Q

Got it. Thank you. And then as a follow-up question, I'm curious if you could remind us what your sourcing exposure is to China. And if you had any thoughts on if we were to see higher tariffs placed on China, what would be the impact to your business and the industry overall?

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

Yeah. So, Jason, I mean, first of all, we split it into two pieces. There's finished products and there's components. On finished products, our exposure is relatively small. We import microwave food combination and some refrigerators into the Americas and into Europe and some dishwashers also into Europe. So, on finished products, it's actually, frankly, in particular, for Americas not a very big number. Components in particular in electronics, you have exposure like everybody else to China or broader Asia, I would say, because not just China, it's also Vietnam, Thailand, et cetera. Again, back to my earlier comments, in the competitive landscape we're, by a long shot, the least exposed to China, and it's just because of our historic strong footprint in the Americas, our focus on producing in the Americas and sourcing in the Americas, except for electronics where you just have a limited supply base in the Americas.

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

Eric Bosshard
Analyst, Cleveland Research Co. LLC

Q

Thanks. Two questions. I'll give the both to you. The first is the other half of the free cash flow question, I understand the bridge within the cash earnings. Can you just give us a little bit of context of the $200 million to $300 million Europe cash usage that is alluded to in that slide? I just don't exactly know where that fits within the moving pieces. And then the second question relates, Marc, you talked a lot about the focus on margin progress, the flat margin in 6.8%, related to that, I guess the core of it is that you still have this 11% to 12% long-term margin guide and just wanted to see if that is the number that you're still aspiring to and aiming to? Thank you.

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

A

Yeah. So, Eric, this is Jim, and I'll start with your first question there on EMEA. And typically, if you look within a full year, EMEA over some of the past years has consumed around $200 million of cash and whether it's due to restructuring, it's due to some legacy liabilities and matters [ph] due to (00:51:27) the operations of the business. Now, as we look to close the transaction in the first quarter of the year, typically, that negative cash flow actually did occur much earlier in the year and then they would gain cash throughout the year. So, to begin with, they start the year with a negative cash flow as they begin to build some working capital.

The second piece of that, though, that comes along with it is that also within there, we have some various working capital financing-type of programs that are related to accounts receivable and other things that we will unwind as we do this transaction, and then as we contribute this business to the new company there will be other things that might exist within there, but there are just some things we need to unwind as we go through the process. So right now, we look at it as possibly having an impact at least on our cash flow for the year of a negative $200 million to $300 million, but once we get closer to the close we'll update that number.

Marc Robert Bitzer
Chairman, Chief Executive Officer and Executive Committee, Whirlpool Corp.

A

And, Eric, just maybe adding a comment to Jim's point. To put it simply, the $550 million to $650 million cash flow excluding Europe on a normalized basically will translate to $800 million-plus. That's essentially what it means because we have to unwind these working capital financing activities and some other elements, so that's what it really means. Now to your second point about the margin progress, again, I want to also highlight our upcoming Investor Day where we give an update with the segments about our mid and long-term value creation goals. But in short – and, Eric, that's consistent to what we said before, we absolutely don't see any reason why the margins which we have pre-COVID are not in sight. So i.e., particularly for North America, we – for years, we have been operating on 12% or 12-plus-percent operating margin in North America, and that's certainly what we see absolutely possible.

Right now, we're working through – I mean, as you call can see is a very negative macro cycle. I mean, our industry is heavily impacted by existing home sales and existing home sales in the course of 20 months went from 6-plus-million units to 3.7 million. So that's impacting us. But we know how to work through the cycles, and that's why we're very confident that we, over time, can reestablish these margins as we were experiencing them before, but again, much more perspective on this one at our Investor Day.

Marc Robert Bitzer
Chairman, Chief Executive Officer and Executive Committee, Whirlpool Corp.

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I guess with that, we've come pretty much to the end of our session. First of all, I want to thank you all for joining us today. And I think – I mean really, hopefully, what you heard is we feel good about where we are from our market share perspective. We also feel good about our ability to take out costs as we demonstrate in 2023 and as we are confident for 2024, and we frankly feel good about how we, step-by-step, re-strengthen our balance sheet and where we are from a broader funding and balance sheet perspective. I think all these elements set us up very well for working through a macro cycle, which we all see that, that's certainly going to impact the industry negatively in Q1 and probably also some extent in Q2. But again, we come from a very strong platform. We know how to work through the cycles, and we have, I think, the right actions in place to particularly, also once you look at the back of 2024 have a very attractive business.

So with that in mind, again, I want to remind everybody, February 27th. That's where you will see a lot more perspective, particularly about our North America business, in particular about our KitchenAid SDA business, which we historically didn't put a lot of light on or didn't show you a lot, and we will also talk quite a bit about balance sheet and cash flow development. So again, February 27th, and we're looking forward to see you all. Thank you.

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

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