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Whirlpool Corp. (WHR)

Q4 2024 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning, and welcome to Whirlpool Corporation's Fourth Quarter 2024 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 and Administrative Officer. Our remarks today track with the 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 will 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 outlined in further detail at the beginning of our earnings presentation. We believe the measures are important indicators of our operations, as they exclude items that may not be indicative of results from 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 reconciliation of non-GAAP items to the most directly comparable GAAP measures.

At this time, all participants are in 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, Scott, and good morning, everyone. As we look back at 2024, we have to acknowledge that our financial performance has not yet been at the level where we all expected to be. At the same time, we are pleased with the progress we made throughout the year in improving our operational performance and accelerating our portfolio transformation. The completion of a Europe transaction was a key milestone in our ongoing portfolio transformation, unlocking significant value creation opportunities.

Operationally, we delivered substantial cost reduction initiatives of approximately $300 million, while at the same time stabilizing and, in some cases, reversing the negative input cost trends we had experienced before. We also simplified our organization and enabled business unit autonomy, delivering structural cost savings of more than $100 million. As a result, since the first quarter, we have sequentially increased ongoing EBIT margin by 170 basis points, achieving three consecutive quarters of margin expansion. This sequential margin expansion, in combination with a favorable tax rate, allowed us to deliver over $12 of ongoing earnings per share.

We executed our capital allocation priorities and returned approximately $400 million of cash to shareholders in dividends, while paying down $500 million of debt, reinforcing our commitment to reducing our debt levels. We achieved significant working capital efficiency, resulting in $385 million in free cash flow.

As we look into 2025, we do not anticipate a sudden improvement of what has been a very challenging macro environment, in particular in the US. We are highly optimistic about mid- and long-term prospects of the US housing market; at the same time, realistic about the pace of recovery and expect only a slow and gradual improvement in 2025.

We're following the various initiatives and ideas coming from a new administration. While some of these might be favorable for our business, we have not factored them into our outlook, and instead we remain focused on what is within our control. As you will hear later in more detail, we will stay very disciplined in our cost controls. While we are not assuming significant raw material cost savings, we have already lined up cost actions amounting to $200 million and have started to develop additional opportunities to exceed this target.

In the US, we have just recently announced a further reduction in the depth of our promotion pricing program. This, in combination with a compelling lineup of new and innovative products, is expected to help drive favorable price and mix in 2025. I'm confident that our expected 2025 margin expansion and free cash flow improvement puts us firmly on our path to a higher growth, higher margin company.

Turning to slide 6, I will provide an overview of our fourth quarter results. We had a fourth quarter with 2% organic growth, which, as a reminder, excludes currency and Europe transaction, driven by strength in our SDA Global and international business. Global EBIT margins expanded both sequentially and the year-over-year, driven by previously announced promotional program and pricing actions in MDA North America and MDA Latin America. We delivered ongoing earnings per share of $4.57 and maintained our dividend of $1.75.

Turning to slide 7, I will provide an overview of our fourth quarter ongoing EBIT margin drivers. Price and mix unfavorably impacted margin by 100 basis points, slightly falling short of our initial expectation. Price and mix was negatively impacted by a retailer destocking in our MDA North American business, coupled with very strong sell-out as consumer confidence rebounded following the US Presidential election.

Aside from this one-time impact, our price and mix saw the expected benefit from pricing actions in MDA North America and MDA Latin America. Our cost takeout actions delivered 175 basis points year-over-year, led by our continued manufacturing supply chain efficiency and our organizational simplification actions.

Raw materials were essentially flat, as expected. Marketing and technology had an unfavorable 50 basis point impact as we increased investments in our new products. Currency reduced margin by 25 basis points year-over-year, as the Brazilian real weakened relative to US dollar. The European transaction positively impacted the fourth quarter by 75 basis points, as expected. Ultimately, we're pleased to have expanded margins year-over-year by 80 basis points.

Now, I will turn it over to Jim to review our Q4 and full year segment results and our perspective on 2025, including our capital allocation priorities.

James W. Peters

Executive Vice President & Chief Financial and Administrative Officer, Whirlpool Corp.

Thanks, Marc. Good morning, everyone. Turning to slide 8, I'll review fourth quarter and full year results for our MDA North America business. Net sales declined 1% in the fourth quarter, driven by negative price/mix. This was primarily driven by the impact of the structural retailer destocking previously mentioned.

In addition, following the US Presidential election, we saw consumer sentiment improve with strong sell-out. With many trade customer incentives tied to sell-out volume during the Black Friday period, we saw a negative price/mix impact within the quarter, resulting in EBIT margins of 6.7%, which was below our expectations for the quarter. Overall, the segment delivered a full year EBIT margin of approximately 6.5%, largely in line with our most recent full year guidance.

Turning to slide 9, I'll review the results for our MDA Latin America business. In the fourth quarter, the segment had strong net sales growth of 7% year-over-year, excluding currency, driven by industry growth in Brazil and Mexico, along with pricing actions implemented in the quarter, fourth quarter EBIT margin of 7.6% expanded by 240 basis points year-over-year, driven by pricing, cost actions and fixed cost leverage. Overall, we are pleased with the 140 basis points of margin expansion to deliver a 7% full year EBIT margin meeting guidance expectations.

Turning to slide 10, I'll review the results of our MDA Asia business. In the fourth quarter, the segment saw net sales growth of 9% year-over-year, excluding currency, as share gains and strong industry drove volume growth. The segment delivered a 1.2% EBIT margin in the quarter, with 170 basis points of margin expansion year-over-year from fixed cost leverage. Overall, MDA Asia delivered a 3.9% EBIT margin for the full year with 160 basis points of expansion year-over-year.

Turning to slide 11, I'll review the results of our SDA Global business. The segment had multiple exciting launches in 2024, with new products introduced in high potential growth categories for our business. These new products, along with strong direct-to-consumer sales, delivered year-over-year net sales growth of 6% for the quarter. The segment delivered an EBIT margin of 12.5% in the quarter, impacted by increased marketing investments in our new products. Overall, SDA Global delivered a strong EBIT margin of 14.3% for the full year.

Turning to slide 12, I will review our guidance for 2025. We have provided a reset baseline for 2024 results, excluding both the European major domestic appliance business from Q1 of 2024 and India's July through December 2024 consolidated results from the anticipated Whirlpool of India market sale transaction that I will review in more detail shortly. The reset baseline excludes approximately $1.2 billion in net sales and approximately $6 million of EBIT, creating a like-for-like comparison for 2025 guidance.

On a like-for-like basis, 2024 net sales were approximately $15.4 billion, with an ongoing EBIT margin of approximately 5.8%. We expect growth of approximately 3% to $15.8 billion in net sales in 2025, driven by a strong product launch pipeline expected to deliver share growth in MDA North America and continued strength in our SDA Global and international businesses.

On a like-for-like basis, we expect 100 basis point ongoing EBIT margin expansion to be approximately 6.8%. Free cash flow is expected to deliver $500 million to $600 million, a 3.5% cash conversion of net sales, driven by improved earnings while sustaining lower working capital levels. We expect full year ongoing earnings per share of approximately $10. This includes an adjusted effective tax rate of 20% to 25%, which is an increase compared to 2024 and impacts 2025 ongoing earnings per share by approximately $7.

Turning to slide 13, we show the drivers of our 2025 ongoing EBIT margin guidance. We expect a positive impact of 75 basis points from price/mix from previously announced pricing actions in the Americas and new product launches. In North America, this reflects recently announced promotional pricing actions and the carryover pricing actions from Q2 2024 as well as the carryover pricing actions implemented in Latin America from Q4 2024.

We also have a very exciting lineup of higher mix products and over 100 new products launching this year. In MDA North America, we expect to transition over 30% of our products, the largest one-year transition in over a decade. We do not expect a material catalyst for existing home sales in 2025, and as a result, we expect stable demand year-over-year. Therefore, we are not factoring in an improvement in the mix from a discretionary demand rebound.

We will drive further reductions to our fixed cost structure and expect 125 basis points of net cost margin benefit from more than $200 million of cost takeout actions. Based on previously executed supply agreements, we expect minimal to no impact on EBIT margin from raw materials this year. With a strong cadence of new product introductions this year, we plan to increase investments in marketing and technology, which will impact margin by approximately 50 basis points.

Currency is expected to negatively impact margin by approximately 50 basis points, as the Brazilian reais has weakened relative to the US dollar. Finally, we expect our portfolio transformation to provide approximately 50 basis points of margin expansion due to the closure of the Europe transaction and anticipated India market sale transaction.

Turning to slide 14, I will review our segment guidance. Starting with industry demand, we expect the global industry to be approximately flat in 2025. In the US, we expect to see similar demand trends that we saw throughout 2024. Resilient replacement demand creates a solid foundation for industry volumes, while consumer discretionary demand continues to be negatively impacted by elevated mortgage rates, resulting in weak existing home sales. Overall, we expect the MDA North America industry to be approximately flat.

2024 saw a significant industry improvement in Latin America, with the strength decelerating later in the year. We expect the MDA Latin America industry to be up slightly between 0% and 3%. India has one of the fastest growth rates globally, and we expect MDA Asia industry volumes to continue accelerating at 3% to 5% in 2025. Finally, we expect the SDA Global industry to be approximately flat with our volume growth driven by new products and continued investments in our direct-to-consumer business.

For MDA North America, we expect to deliver a full year margin of approximately 7.5%. Previously announced pricing actions are expected to positively impact the first half margin, and additional cost actions are expected to ramp up throughout the year. For MDA Latin America, we expect EBIT expansion and a strong margin of approximately 7.5% from previously announced pricing actions and continued cost takeout. For MDA Asia, we expect approximately 6% EBIT margin.

As a reminder, the Asia guidance excludes Whirlpool of India in the second half of 2025 as the minority stake would no longer be consolidated. And for SDA Global, we expect a strong EBIT margin of approximately 15%. Overall, we expect 150 basis point margin expansion year-over-year with an ongoing EBIT margin of approximately 6.8%.

On slide 15, let me review how we are well-positioned and expect to deliver growth and margin expansion in 2025. Our organic growth of approximately 3% will be fueled by our new product introductions. As mentioned, we have a very strong lineup of launches this year, with MDA North America transitioning over 30% of its products.

Our refrigeration category will see a significant impact with approximately 40% turnover of our current products across all of our brands. With the new refrigeration products, we will not only appeal to a wide range of consumers, but also reduce manufacturing complexity.

Launching in Q1, the new Maytag top-load laundry pair improves functionality with an innovative deep fill option and adds efficiency and ease to consumers with a wrinkle-prevent drying option. Finally, we recently launched our Whirlpool spin and load dishwasher rack, a revolutionary accessory built with inclusivity in mind. With an easy-to-use 360-degree spinning rack, this product increases accessibility for a wide range of our consumers. These products are just a few examples of how Whirlpool is improving life at home for our consumers. Our new product launches and best-in-class logistics capabilities support direct-to-consumer and builder channel growth, which we expect will deliver value-creating share gains in 2025.

Turning to cost, as we look back at 2021 and 2022, we had unprecedented inflation of approximately $2.5 billion. However, we have not seen cost deflation to this magnitude yet, making our cost takeout priorities critical for our continued margin expansion. We've demonstrated our ability to deliver on our priorities by eliminating approximately $800 million of net cost over the past two years.

We will continue to deliver cost actions of over $200 million this year, driven by our ongoing portfolio transformation that enables us to take additional cost actions to simplify our organization, product design changes that optimize cost while delivering innovative solutions, and further manufacturing efficiencies through our world-class manufacturing and automation solutions.

To further highlight how we are investing in product leadership, on slide 16, I'm excited to review the new launches in our premium brands. The upcoming KitchenAid launch is the first full product redesign in a decade. Not only does this launch unlock a world of possibilities with customizable touchpoints such as knobs and handles to better integrate the appliance into consumers' homes, but it also will include new features and solutions that speak to consumer needs and creativity.

2025 also marks a very exciting launch in JennAir. The innovative induction downdraft cooktops not only enable infinite design potential, but also flexible induction cooking zones and a powerful and effective extraction that is quieter than a hood. The downdraft ventilation liberates your kitchen space from bulky updraft hoods, clearing the view for windows and open concept designs.

Turning to slide 17, I will provide the drivers of our free cash flow guidance. We expect cash earnings of $1 billion to $1.1 billion, driven by earnings improvement and the closure of the Europe transaction, which, as a reminder, consumed $275 million of cash in 2024. We expect approximately $450 million of capital expenditures as we continue to invest in our products and fund organic growth. We plan to sustain the efficient working capital levels we achieved in 2024, and do not expect a material change in 2025. We expect approximately $75 million of restructuring cash outlays related to previously executed actions and further complexity reduction, with our simplified organizational model. Overall, we expect to deliver free cash flow of $500 million to $600 million, or approximately 3.5% of net sales.

Turning to slide 18, I will review our refreshed capital allocation priorities. Funding our organic growth is critical to delivering innovative products that meet our consumer needs. We will continue to invest in new products with approximately $450 million of CapEx expected this year.

Secondly, we are strongly committed to maintaining our investment-grade credit rating and reducing debt levels. We expect to pay down $700 million of debt in 2025, taking a significant step on our path to our 2 times net debt leverage target.

Thirdly, we are committed to returning cash to shareholders, and last year marked the 69th year of steady or increasing dividends. We will continue to evaluate our dividend funding, ensure it aligns with our progress towards our long-term goals. As a reminder, dividend is approved quarterly by the board of directors. Lastly, share buybacks and M&A are not a priority for 2025.

Turning to slide 19, let me review our commitment to improving our net debt leverage since 2022, we have paid down $1 billion of the InSinkErator term loan debt and are strongly committed to further reducing our debt. We expect to pay down another $700 million in 2025 and expect to improve our net debt leverage to approximately 3.4 times. We are confident in our ability to further reduce our net debt leverage beyond 2025.

Turning to slide 20, we have clear actions to address the upcoming debt maturities. $1.85 billion of debt is maturing in 2025, of which $350 million is a senior note due in May and $1.5 billion is the remaining term loan from the InSinkErator acquisition due in October. With the meaningful debt repayment of approximately $700 million expected in 2025, we expect to refinance the remaining $1.1 billion to $1.2 billion. As we look ahead, we have ample space in our flexible debt ladder to optimize our refinancing plans. In addition to our free cash flow generation of $500 million to $600 million in 2025, we expect to generate cash from the anticipated India market sale transaction.

Turning to slide 21, let me review the benefits of this potential India transaction. We currently hold a 51% stake in Whirlpool of India and intend to reduce our ownership stake to approximately 20%. This transaction, subject to board approval, aligns with our ongoing portfolio transformation. We hold number one positions in all our business segments outside of MDA Asia, and this will allow us to focus on our leading share and brand portfolio positions. However, we continue to believe Whirlpool of India has a strong long-term trajectory for growth.

This transaction will enable Whirlpool of India to focus on growth acceleration as an independent business, along with utilizing their well-funded business to invest further in products and innovation. We believe these actions will also deliver value to Whirlpool of India shareholders. This transaction is expected to not only accelerate growth in Whirlpool of India, but also allow us to utilize the $550 million to $600 million of net cash generation towards our debt repayment. We would also have continued revenue from our Whirlpool brand license in India. This transaction is expected to close mid to late 2025.

Now, I will turn the call over to Marc.

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

Thanks, Jim. Turning to slide 22, let me review what you heard today. I'm proud of what the team has accomplished in 2024 through a very challenging macro environment. The European transaction was a major milestone, delivering value to shareholders. The anticipated transaction to reduce our stake in Whirlpool of India that we announced today also unlocks additional shareholder value and further strengthens our balance sheet.

We delivered approximately $300 million of cost savings and see further opportunities to deliver more than $200 million in 2025. We are excited about our very strong pipeline of new products that will launch in 2025, helping us to drive sustained growth and margin progression. Our Latin American business remains a bright spot, delivering strong top line growth and substantial margin expansion.

We expect our Global SDA business to continue to accelerate growth in high potential categories as their new products resonate with consumers. And overall, I'm confident that we have the right strategy and operational priorities in place to deliver our guidance of 3% organic net sales growth and 150 basis points of margin expansion.

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

QUESTION AND ANSWER SECTION

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

Susan Maklari Q
Analyst, Goldman Sachs & Co. LLC

Thank you. Good morning, everyone.

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

Good morning, Susan.

Susan Maklari Q
Analyst, Goldman Sachs & Co. LLC

Marc, my first question is, thinking a little bit about the shift that you saw in volumes this quarter, you mentioned that there was a significant destock at one of the retailers. Can you talk a bit about was that Whirlpool-specific? And then, with that, how should we also think of the move in industry volumes, perhaps, and your volumes relative to AHAM and perhaps relative to some of the geopolitical trade actions that could be coming through with the new administration?

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

Susan, so let me split the answer in two pieces: one, the AHAM, the letter one; and then first about the retail destocking. The retail destocking ultimately is a – I would call it a reflection of supply chain efficiency. Post – I don't know if it's a couple of years ago now, post-COVID, inventory levels at retail were high, and because supply chain was not very stable. And I think we have a stable supply chain. We jointly took out a lot of inefficiencies in supply chain, have much more efficient supply chain to secure availability. So, it is a reduction of inventory. It's a one-time reduction, because you just take it down to the levels where it is, but it's not more. Would we have wished to happen – that to occur [ph] over many quarters? No, (00:25:30) but it's now behind us. So, again, not too much to read into this one, apart from, yeah, it's an efficient supply chain and you don't need the inventory levels, as you may have needed it two or three years ago. But it was sizable and, of course, that impacts our Q4.

On AHAM, and again, this is a little bit a similar comment that we made in the earlier calls, the AHAM numbers this year had, I would say, an unusual amount of distortion and re-reporting. And as such, I'm a little bit careful reading too much into the monthly or sometimes even quarterly AHAM numbers. Overall, I think on our 2025 – or 2024 market share, it's been stable to slightly down. It improved after our promotional price changes in April, sequentially improved and we feel pretty good. And of course, even though we don't have industry data, but we have our specific sell-out data, which actually we pay more attention to. And that, particular following the election, was very strong. So, we feel very good about the momentum which built towards the end of the quarter, which didn't translate into sell-in, but the sell-out was very, very strong.

Now, to your question with regards to geopolitical, did we expect or anticipate some, call it, more Asia imports coming in November, December into US? Yes, and we continue to expect that. I mean, not all the customs data are available, but I would expect once you see all the custom data that you will see an increase of people trying to load inventory prior to potential policy changes. Again, we don't have final data, but based on if you look at container tariffs and everything else, I think it's very fair to assume that you saw a temporary increase of shipments from Asia. But again, we don't have a final data on this one.

Susan Maklari
Analyst, Goldman Sachs & Co. LLC

Q

Okay. That's very helpful color. And then turning to price, you mentioned that you have another promotional price increase that is out there. Can you give us your thoughts on the ability to realize that effort in there, given the operating backdrop and the demand environment that you outlined on the call? And how we should be thinking about the potential for mix as those new products that you talked about gain some momentum?

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

A

Yeah, Susan. Good question. So, let me maybe just split in two pieces; one is more the promotional investments or promotional depth, and the [ph] other (00:28:03) one is more of a mix element. And again, stepping back, even what we communicated in last year when we did the first kind of reduction of promotional depth, and then ultimately it's a reflection of a marketplace. And again, I'm zooming out here a little bit, but it's – last year, we saw a 30-year low of existing home sales, existing home sales that drive discretionary demand. The market right now is strongly driven by replacement demand. And in that environment, it just does not make economic sense to go very deep on promotional investments. That's what we corrected last year in April. And frankly, we found traction. We're very pleased with the progress, which we saw Q2 and Q3, and it also largely was sustained in Q4.

So, the decision which we made last year was absolutely the right one. Given that the environment around that has not structurally changed, we continue to see the same opportunity going forward. It just does not make sense to go that deep and that long on promotional periods. And that's what we communicated already throughout trade environment. And based on what we've done last year, we're very confident that we'll find traction.

Now, the other part, and this is – I think Jim alluded to this one earlier, and that is big for us, in particular North America. Again, I want to reemphasize, in the last 10 years, we've never launched as many new products in North America as in 2025. And you know and you followed our industry for a long time, our industry mix is the name of a game, and mix comes with new product introduction. So, what we showed earlier, an entire new KitchenAid line, and we haven't launched for 10 years. We have this JennAir fantastic new downdraft and we basically renew the entire refrigeration range in North America. So, that we're very confident will drive mix.

So, the combination of promotional lack or reduced promotional depth, and product mix coming from new product introduction gives us the confidence [ph] why (00:30:03) we kind of communicate now 1 point or minimum 1 point of positive pricing in 2025.

Operator: Your next question comes from the line of Michael 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, Whirlpool Corp.

A

Good morning, Michael.

Michael Rehaut
Analyst, JPMorgan Securities LLC

Q

First, I wanted to hit on the new product launches that you've described, and it seems pretty extensive. Just if you could kind of give us a sense of how those product launches are expected to impact the financials throughout the year, perhaps on a quarterly basis or first half/second half in terms of impact on revenues, price/mix, perhaps even margin. I'm particularly interested in what you anticipate the impact we'll have on mix for the year. And also, if there's any sort of above-average, let's say, I don't want to say, one-time cost. I know new products are always kind of a constant part of your efforts every year, but if it's an outsized level, if that's kind of, let's say, a particular headwind this year relative to perhaps next year.

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

A

So, Michael, again, overall, we communicate 1 point of positive pricing. Now, that is a combination of what I mentioned earlier, but promotional and the mix. To your point then and where also – mix has multiple components. One, of course, there's just a positive mix from getting the new products at an attractive price or margin point, but yes, we also invest in product transitions. That is fully factored in. You could call these transitions, [ph] there are also, to (00:31:56) some extent, one-time expenses, but they're factored in. So, it's a kind of a combination of all these elements.

In terms of a timing, these launches are spread throughout the year. So, there's a number of refrigeration products which we introduced in March. We will display and show kind of a JennAir product at the [ph] CABIS that will be largely (00:32:18) in Q2, and the KitchenAid is launched is later in Q3. So, it's pretty much spread throughout the year. So, there's not one quarter where everything comes through, but it's pretty much spread throughout the year.

The reason why we're actually very bullish on the positive impact on mix is also, keep in mind, KitchenAid and JennAir are premium brands, and to have new attractive products, in particular on premium brands, typically gives you a good lift in the margin. And the other side of the equation, refrigeration tends to be below our average margin, to have now new products with, frankly, better cost base will also help on that side. So, that's why these products matter a lot. And based just on our margin profile, I think, we will get a good lift.

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

And Michael, just to add to what Marc said, as you think about the KitchenAid transition throughout the year, and it'll help our mix, help our margins, increase our share in that space. But also remember, we anticipate this year the discretionary segment will still be under pressure. So, this gets amplified as a benefit as you go forward, and that segment begins to improve. So, that's why we're really excited about this launch kind of ahead of improvement in the discretionary segment, because I think then you'll just see even more significant benefits as that starts to come back.

Michael Rehaut
Analyst, JPMorgan Securities LLC
Q

Great. No, thanks for that. Secondly, I wanted to hit on a couple areas that – one, just a clarification on the inventory reduction that hit you in the fourth quarter. Curious if you could kind of quantify perhaps what you estimate the impact was that – on both sales and the lost incremental leverage of that, if you sold that – your sell-through rate, if you have any estimate on how that impacted 4Q North American sales? Secondly, any comments on if you've been able to kind of quantify tariff exposure, if we have 25% tariffs, let's say, on China, Mexico and Canada.

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

So, Michael, obviously, [ph] it made an (00:34:32) impact to retail, we're not exactly – we cannot give you the size of that impact of the destocking, but we refer to sizable, and we don't use that term easily. Directionally, you can say the delta between Q4 North America run rate and versus what we had in mind is largely almost entirely driven by this one-time, but it's a one-time, it's behind us. So that's why – but that's directionally to size. So, it was meaningful, but again, it's behind us and, ultimately, yeah, it comes with a much better supply chain efficiency.

The second part on tariffs, and we alluded to this one in the earlier remarks, any impact of additional tariffs are not included in our guidance, because as you all know, we wouldn't know at this point what to plan for. As we all know, there's a lot of speculation. The important thing is – and again, remind everybody, more than 80% of the products which we sell in the US are produced in the US. That is very different for our competitors. We are US producer and we're highly dependent on the US, and we're proud to be in the US. So, most people read that you should be beneficiary from tariffs, as you also know tariff has – have positive consequences and sometimes they have also unintended negative consequences. So, once we know what might be communicated, when we can give you a proper dimension of this one, but right now it's not factored in, But ultimately, we're US producers.

Operator: Your next question comes from the line of Laura Champine from Loop Capital. Your line is open.

Laura Allyson Champine
Analyst, Loop Capital Markets LLC
Q

Thanks for taking my question. The small appliances business was a little bit light of what we were looking for in sales, but especially margins. So, I know you're making marketing investments in new products there. How do you get comfort that your marketing investments are targeted correctly in that the product is strong enough to support those investments?

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

A

Yeah. So, Laura, again, put in context. The overall SDA markets, similar to the major markets, is moving sideways. So, you hadn't seen a lot of growth in the SDA market. Actually, most sub-segments are actually negative from the SDA market. So, we achieved a solid single-digit growth in Q4, but yes, we would like to see this business at double-digit sales growth and that's our clear expectation. The marketing investments, you saw we broke it down for the company overall, but not for business segment. But we showed in the presentation that the marketing investments in Q4 were up almost 0.5 point of overall company margin.

A big portion of that was for the SDA business. We launched coffee maker. We launched a KitchenAid Go, the evergreen. So, there's a lot of investments and they're investments in our future, particularly when you enter largely a new category, like for us, fully automatic coffee maker, you have to – I mean, you have a wonderful product. And by the way, it gets very high remarks from consumers and trade, but of course you need to tell the market that you have a new product. And we're very pleased with the momentum which we see on these [ph] sub (00:37:49) segments, but it will take some time to build these segments and to build the awareness in this segment, but that's – margin in Q4 was entirely impacted by, yes, we invested a lot in this new product launches and talking about these new product launches.

Laura Allyson Champine
Analyst, Loop Capital Markets LLC

Q

Okay. Thank you.

Operator: Your next question comes from a 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, Whirlpool Corp.

A

Good morning, David.

David S. MacGregor
Analyst, Longbow Research LLC

Q

Good morning, Marc. When we think back to the third quarter call and you had talked about fourth quarter margin expansion, you talked about pricing, cost actions, the recovery in production rates, and then reduced EMEA joint venture drag. I just wanted to focus in on that recovery in production rates for a moment and just talk about the extent to which you were able to achieve that, or how it factored into the numbers. And then should we be thinking about that as a potential benefit in 2025? Is there an opportunity to realize some productivity off of absorption there, [ph] really just talking about (00:38:51) market?

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

Yeah. So, David, your observation is correct. In short, basically, what we – when we realized the destocking of a trade in Q4, we of course adjusted our production volumes and we did not produce as much as we originally anticipated in Q4, as evidenced by the inventory levels. Our inventory levels are pretty low, because we didn't want to keep the factories just running and building inventory. So, we entered the year with actually fairly low inventories. [ph] By a way of side note, that's why we also (00:39:24) cash flow don't factor in, but we can get additional working capital efficiencies, because if at all, we probably slightly have to expand inventory.

So, we're starting the year not with, hey, we got to reduce inventory. We actually – versus what we think is sell-out, I think we will have healthy and steady production volumes. To what extent that drives some leverage or volume leverage, it could, but let's see how the quarter and the year progresses. But you're absolutely right, we certainly did not get a volume leverage in Q4. Quite the opposite.

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

Yeah, David, I mean, just to reiterate, as Marc said, I mean, we really came out of the year with what we would say are lower, but more appropriate inventories. And I think, throughout this year, depending where the market goes and all that, we'll continue to try and obviously keep our production and our inventory levels matched to our sales. And so, while there could be some upside because of some of the – a little bit of upside in the production, we're still going to keep that matched throughout this year. So, it's not a significant amount of upside in production.

David S. MacGregor
Analyst, Longbow Research LLC
Q

And then, I just want to go back to the price/mix and the new product introductions. It seems with so comprehensive a rollout of new products, a reinvention of – basically of the refrigeration line, all the defined – design for manufacturing opportunities that come with an initiative like that, it strikes me that there should be a little more in the way of pricing benefit in there than what you've got in the mix. I'm just wondering if there's offsets or – I mean, you've talked already about some of the promotional effort that needs to support that initiative, but it struck me as a bit of a light number. I'm just wondering if you could open that up and talk a little more about that.

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

David, on the new product introduction, there's two factors. First of all, there's just timing. I mean, as I said, it takes for us pretty much an entire year to launch all these products. And in particular, the KitchenAid line comes in Q3. So, there's a timing element and the offsetting element. And I think, Michael Rehaut was referring to this one earlier. All the new product launches come with transition expenses. So, they're fully factored in. And I think Jim alluded to this one earlier. Of course, that will not then be a factor in 2026, but we factored that in 2025. You launch new products, you get a good mix. You have to pay for product transitions in the markets. And that's the element in there. But inherently, I mean, I'm with you, these new products, in particular on the premium side, they will drive upside for us.

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

Samuel John Darkatsh
Analyst, Raymond James & Associates, Inc.

Q

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

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

A

Good morning, Sam.

Samuel John Darkatsh
Analyst, Raymond James & Associates, Inc.

Q

Two quick questions. First, these are pretty straightforward, but what's the expected North American margin progression that you're expecting this year?

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

A

So, Sam, overall, as you know, we guide for 7.5%. We don't break it down quarterly. I would expect you would see more balanced seasonality throughout the year. So if you – so we're not planning for hockey sticks. So, we continue to work on all the dimensions and we know we have some carryover benefits. So, I think it will be more balanced from a seasonal perspective.

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

A

Yeah. I mean, Sam, think about a lot of the cost actions we put in place in 2024 will continue and strengthen throughout 2025 and early 2025. And then with the promotional pricing that we announced in December, obviously, you start to get the benefits earlier in the year for that. So, I mean, that's why Marc said it will probably be less of a progression throughout the year and more steady.

Samuel John Darkatsh
Analyst, Raymond James & Associates, Inc.

Q

Got you. And then – and I apologize if you've mentioned this before, I missed it, but could you quantify what the sell-through was, your own and perhaps the industry as well, in the fourth quarter, and then what you're seeing thus far in January?

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

A

So, Sam, again, sell-through, I can refer to our numbers because, of course, we don't know the broader industry numbers. We have some indication. First of all, in general, just for clarification, I'm referring to the North America market, or the US market particularly, the sell-through in the industry and with us was pretty soft coming into the election, very soft. I mean, we're used to election cycles, but it was softer than before and picked up strongly post-election. So, again, it's not completely different from previous election cycles, but just the magnitude of [ph] swings (00:44:01) were more pronounced. And so, we saw very strong sell-out kind of in December. I mean, it was very strong.

So, that's to some extent has slowed down a little bit in January, but of course, we're not releasing January numbers, and you can say is that weather related, whatever else, but we certainly saw very good momentum in the market towards the back half of Q4. And we feel very good about how we did in that market, based on [ph] plenty of positive (00:44:30) feedbacks which we get from our trade customers in terms of [ph] balance (00:44:35) of sale which we either maintained or in some cases even strengthened. I would – certainly for our numbers, you should strongly assume that our sell-out in Q4 was quite a bit of ahead of a sell-in which we had in the quarter. I mean, that's consistent with the prior comments. So, we know pretty much where the sell-out is very precisely and it was well ahead of what we shipped into the industry.

Operator: Your next question comes from the line of Rafe Jadrosich from Bank of America. Your line is open.

Rafe Jadrosich
Analyst, BofA Securities, Inc.

Q

Hi. Good morning. Thanks for taking my questions.

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

A

Good morning, Rafe.

Rafe Jadrosich
Analyst, BofA Securities, Inc.

Q

On the first one, just the 75 basis points of price/mix that you're assuming in the 2025 guidance, can you give us a [ph] breakup (00:45:23), help us understand how much of that is carryover from 2024 versus mix versus the price related to the product launches? And maybe what's sort of the realization that you're seeing on the 2025 price so far?

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

A

Yeah. So, overall, on my price/mix overall, so it's – there is a small portion of carryover, but that comes from last year's April. So, you basically have essentially only one quarter of carryover. The bigger portion on the promotional changes come from what we just announced, which we start seeing pretty much as of our March numbers internally. So, that's the larger portion, and yes, then the element of a new product launches. We're not splitting down – splitting out in terms of how much the two different elements is, but that starts, in particular, building throughout the year.

Rafe Jadrosich
Analyst, BofA Securities, Inc.

Q

Okay. That's very helpful. And then just on the fourth quarter North America margin, were there any additional – outside of the price mix impact from that shift that you had on inventory, was there an additional production headwind in the fourth quarter? When we look at the 2025 guide, it does look like it's below what the prior expected fourth quarter run rate was for North America. But this does feel like a one-time inventory shift. So, we're just trying to understand if there are any other changes as you go into 2025.

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

A

And so, Rafe, there was – in Q4, above – beyond what we talked about, there's not a lot of other moving parts. I mean, there's always moving parts in business, but not sizable or material. And yes, you had – and we saw what David MacGregor was earlier commenting to, yes, we adjusted our production to not get out of hand with our inventory, and that, of course, negatively impacted that one. So as you refer to the 2025 guidance of 7.5% EBIT, in all transparency, the last one or two years, we did not fully delivered to what we expected. And of course, going into this year, we want to be safeguarding what we commit to, and make sure that all the pricing actions, all the cost actions really will deliver these numbers. So, whatever you want to read the 7.5%, but it's kind of – we fully recognize the 7.5% does not reflect what is potential of that business, because we all know where the business has been and where it can be. But at the same time, we want to be very realistic and be assured that we absolutely can deliver that 7.5%.

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

A

Yeah. And I want to remind everybody that the 7.5% is a 100 basis point improvement on a full year type of basis. And so, you got to look at not just the exit rate and the quarterly run rates, but on a full year basis, that's 100 basis points. Additionally, as we point out, we will have some incremental marketing and technology investments within the year. And while probably KitchenAid had a disproportionate amount this year, as we put more marketing behind the new product launches in North America, it's probably a little bit more disproportionate to the North America market that we are going to invest behind the product launches we're doing this year. So, I think that's a couple of things to keep in mind.

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

Mike Dahl
Analyst, RBC Capital Markets LLC

Q

Hi. Thanks for taking my questions. Just back on a couple of the tariff dynamics, understood that you're not in a position to necessarily quantify potential impacts at this point, but the two things that might be helpful. One, can you remind us what percentage of your cost of goods are in Mexico right now and how that compares to your sense of the industry? And then you did mention, Marc, the dynamic around maybe some load-in on imports ahead of potential tariffs. How have you accounted for that and whether or not there's puts and takes around that flowing into the market in your guide.

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

A

So, Michael, first of all, again, to recalibrate everyone on production volumes, what I said before is more than 80% of what we sell in the US is produced in the US. The remaining 20% typically don't split up, but directionally put it half and half between China and Mexico, that's directionally with some pluses and minus. But again, that's pretty much the profile. That is very different from our competitors. Our competitors are largely not US producers. Despite all the communication verbiage, we put it differently. In total, we produce more appliance than probably the entire rest of the industry combined. So, we are a US producer. Most other players are largely import players.

Again, we know all the talk out there, but they're largely import players. But profile is a very different one. And of course, there's multiple source – country where we source from, it could be China, it could be Vietnam, Thailand, Mexico. It's spread on a number of places. So, yes, our profile is very different than competitive set. But as I mentioned before, at this point, we just don't know what might come with the tariffs. And once we know – we very well know how to factor it in, but we just don't know what to factor in today.

Now, on the second part of your question, on the presumed loading in of some Asian imports, again, we don't have all the customer data. That's probably going to come in next couple of weeks. But I would expect that you will see some load-in, which – by the way, first of all, there's also [ph] particularly from Asia versus (00:51:19) seasonality coming from Chinese New Year. So, there's always a little bit an element of loading in. I think this year, in anticipation of potential tariffs, I think you saw an acceleration of that load-in. But again, at this point, I don't have all the final facts. We concur that from the rumors of noise which we have in marketplace. And ultimately if you look at container costs, it's always a good indicator.

Mike Dahl
Analyst, RBC Capital Markets LLC

Q

Got it. Okay. That's so helpful. Thanks. My second question, I guess, just around India. In terms of the net cash proceeds of $550 million to $600 million, Jim, I think as of last quarter, you had close to $300 million in cash consolidated on your balance sheet related to Whirlpool India. Right? I guess I just want to clarify, that $550 million to $600 million, is that the actual cash proceeds? But then when thinking about the balance sheet impact, do we have to offset that? And so, the net is closer to kind of $300 million in terms of what ends up being reflected on your balance sheet. Or how should we think about that dynamic?

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

A

Yeah. No – yeah, Michael, I mean, I think you're thinking about that right. Again, within the year, on a gross debt perspective, we intend to pay down $700 million, of which 500-plus-million comes from India and then $200 million comes from free cash flow. If you want to look at that on a net debt impact, because we will deconsolidate India at that time, you will reduce the cash balances that we have of $300 million.

Now, to point out on that $300 million of cash that sits within India, it's always been with the significant minority shareholder base there. Our ability to use that to pay down debt of Whirlpool Corporation was very limited and very short term in nature. And so, that's again where I think while it comes out of the calculation, we never really had the ability to use that cash for those purposes. What we used that cash for historically was to help that business grow and to invest in that business there. And we did acquisitions of like Elica there with that cash. So, that is the correct math. But the real situation is that's not cash we could have used anyway.

Operator: Our next question comes from the line of Eric Bosshard from Cleveland Research. And this will be our final question. Eric, your line is open.

Eric Bosshard
Analyst, Cleveland Research Co. LLC

Q

Thanks. Two things. First of all, Jim, I appreciate your comments on the 100 basis point North American margin progress. It is still below what previously was expected. And so, I guess I'm curious what's different. You indicated that the 4Q North America margin was a one-time event. You've got an incremental price increase. Like, what is on the other side of that that limits the 2025 margin relative to what was previously expected or potential?

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

A

Yeah. I mean, Eric, I think part of what the expectations that people had started to build into that was that a recovery in the discretionary segment would probably at least be coming in, in the late 2024, early 2025. And what, as Marc said, we've really built into here right now, as we've said, listen, we're not going to put in an anticipated recovery in the marketplace. We don't know what's going to happen with the tariff situations yet. So, let's make sure that the guidance that we put out really reflects what we know, what we see in front of us, and it's something that we believe we can achieve. And then if some of these other dynamics occur, we will throughout the period adjust accordingly. I think the other thing to highlight is, yes, we are taking pricing right now. And again, we expect that to drive some benefits throughout the year. And we've talked about incremental cost we're going to look for as we go throughout the year. So, I think the opportunities are there to strengthen the margins, but right now what we see in front of us would say that 7.5% is the right starting point for the year.

Eric Bosshard
Analyst, Cleveland Research Co. LLC

Q

Okay. And then, secondly, on the pricing, the December price increase, the four or five month benefit from last year, the big new product contribution to price/mix, and then the 4Q negative impact you indicated came from price/mix. Why does it not add up to more than 75 basis points for 2025? It seems like there would be a pathway to better than that. Is there something on the other side of this?

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

A

Here's what I'd say. Again, as I mentioned kind of in the last answer that we have, yes we do – if you take the benefit that you get of a carryover, and that is only about four months of a benefit, that makes up a small portion of it. The new pricing that we're taking will be offset partially by some of these transition costs that we have talked about, because that does flow through the same line of the P&L. So, again, we do feel good about the pricing we're taking, but we know that we will have some just cost to transition product throughout the year. So, I think that's probably the biggest driver on it.

The other thing on the mix, as Marc talked about earlier, it comes ratably throughout the year as you ramp up these new products. And the KitchenAid launches being later in the year, that's your biggest driver – one of your biggest drivers of mix. So, we do anticipate a continued benefit into 2026 with that. But also, as I mentioned, as the discretionary segment recovers at some point, I think that'll be amplified and it'll be something that we'll see even more of on a go-forward basis.

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

So, I think this was the last question. So, let me maybe just close and also recognize we're almost running over time. So, first of all, thanks for joining us today. I mean, obviously, as you saw, when we talked about 2025, we gave you guidance, first of all, which I want to emphasize, has a more normalized tax rate in there. So underlying operational EBIT, we're planning for quite of an expansion. You also noted that we didn't bake in a lot of tailwinds, either on raw material, on tariffs, or an immediate recovery in the housing. So, we assume it remains a kind of a not overly helpful market environment and we focus on what we can control.

The reason why we – and we talked about these building blocks, why we're very confident about it is it starts with product launches. We invested – these product launches, we invested in the engineering for these launches already the last two years. So, we know they're coming and we feel good about it. But pricing, which we announced in North America and we also – we announced something in Latin America, and we already announced. We know how to execute. It will require discipline and we know how to do it. And I would say, based on last year success, we will be successful.

And on the cost side, the $200 million which we talked about, they don't build on raw material, but build on actions which are now controlled. And as Jim alluded to earlier in the remarks, we're aiming actually for more and we will give you more update end of Q1. So, we think we have all the right building blocks in place to absolutely deliver on the guidance. And if, for whatever reason, the environment around us becomes more favorable, then we can talk about it, but it's not baked in at this point.

So, again, thank you for joining me. Sorry. And I wish you all a wonderful day. Thanks a lot.

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