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Whirlpool Corp. (WHR)

Business Update Call

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MANAGEMENT DISCUSSION SECTION

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

Korey Thomas

Senior Director-Investor Relations, Whirlpool Corp.

Good morning. 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 in the Investor's 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 better in understanding Whirlpool Corporation's future expectations. Our actual results could differ materially from these statements due to many factors discussed in our latest 10-K, 10-Q and other periodic reports. We also want to remind you that today's presentation includes non-GAAP measures.

We believe these measures are important indicators of our operations as they exclude items that may not be indicative of results from our ongoing business operations. Listeners are directed to the appendix slides within today's presentation 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 opened for analyst questions. With that, I'll turn the call over to Marc.

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Marc Robert Bitzer

Chairman & Chief Executive Officer, Whirlpool Corp.

Thanks, Korey. Good morning, everyone. Turning to slide three. In April of this year, we shared with you our plans for major portfolio transformation of Whirlpool Corporation, the focus on investing in high margin, and high growth businesses. And today, we made a major step towards accelerating this portfolio transformation.

We've signed a definitive agreement to acquire InSinkErator from Emerson Electric Company for $3 billion in an all-cash transaction. As you do know, our space is the kitchen and laundry room. And this is a truly unique asset in the kitchen space. InSinkErator is the world's largest manufacturer of food waste disposers and instant hot water dispensers with more than 70% of the US industry.

With its predominantly US-based business and strong manufacturing base in the US, the acquisition of InSinkErator demonstrates our commitment to winning in the Americas and also our belief in the long-term growth potential of the US housing industry. Our strong balance sheet position has provided flexibility for this unique value creating opportunity and we expect to close this transaction fairly swiftly.

Turning to slide 4, I will share an overview of InSinkErator. InSinkErator is a structurally attractive and truly unique business and has been demonstrating strong margin delivery, a free cash flow profile that has fueled reinvestment in the business and a track record of accelerated growth. [ph] With its mass (02:49) technology offering alongside well-established relationships with trade customers, I'm really excited to add this business to our already strong portfolio of brands.

As a highly respected brand InSinkErator, has earned a reputation for quality and performance with over 80 years of experience in the industry. InSinkErator has established trusted relationship with consumers and built an installed base approximately five times larger than the rest of the industry, driving recurring and predictable sales growth of approximately 4% over the last 20 years. And approximately 75% of InSinkErator's demand is replacement-driven with an average eight year replacement cycle.

Following the close of the transaction, InSinkErator is expected to operate as a separate business as part of Whirlpool's North America region, maintaining their headquarters in Mount Pleasant, Wisconsin. I'm looking forward to working with impressive and dedicated teams behind InSinkErator product leadership who consistently demonstrate their commitment to providing high quality solutions to consumers.

Now, turning to slide 5, I will provide an overview of InSinkErator's industry-leading product portfolio. With offerings across both the residential and commercial segments, InSinkErator is an innovation leader, with portfolio of 350 active patents. Residential disposals represent approximately 80% of sales, providing a trusted option across the value chain that has a strong end user tendency for like-for-like replacement. Residential water products and disposal accessories make up approximately 15% of sales and provides an opportunity to expand the penetration rate by growing the installed base.

Commercial products represent approximately 5% of sales, supporting the restaurant, healthcare, education, government, and the hospitality sectors. And we are excited to add this industry leading product to our brand portfolio, providing our customers with the necessary products to continue improving life at home.

Now turning to slide 6, Jim will discuss our value creation expectations associated with this acquisition.

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James W. Peters

Chief Financial Officer & Executive Vice President, Whirlpool Corp.

Thanks Marc, and good morning, everyone. The addition of InSinkErator is immediately accretive to Whirlpool Corporation and our North America region. On a full-year basis, we expect incremental revenues of approximately $650 million supported by, one, a strong replacement cycle. Two, the housing market remains structurally undersupplied and we believe in the long-term US housing growth opportunity. Three, the potential for significant expansion in the Americas and globally as adoption rates significantly lagged the US. And four, the further expansion of the best brand portfolio in the industry.

Additionally, we expect our consolidated full-year EBITDA to increase by over $170 million and our consolidated EBIT margin to benefit by approximately 50 basis points as we leverage our leading scale and best cost position to drive synergies through sustained productivity, our already established procurement relationships and significant purchasing capabilities, and our continued commitment to product design and innovation. As a result, we expect incremental free cash flow of approximately $100 million. This acquisition creates value for our business, our consumers, and our shareholders. Again, we are excited about this unique opportunity to acquire an industry-leading brand and expect InSinkErator will add approximately $1.25 of EPS accretion in 2023 and $2 to $3 of EPS accretion post-debt pay down. The amount of benefit recognized in 2022 is dependent on the timing of the closing the transaction, but will be fairly limited.

Now, turning to slide 7, I will discuss the acquisition details. The purchase price of $3 billion represents a 14 times EBITDA multiple net of synergies, and $300 million of future tax benefits. The purchase will be initially funded from available liquidity through existing credit facilities. We will put new debt into place at a later date and expect to maintain a strong investment grade rating.

After buybacks of approximately $900 million year-to-date, we are pausing share repurchases for the remainder of the year. The strength of our balance sheet and strong free cash flow delivery has allowed us to return over $5 billion in cash to shareholders in the last five years through share repurchases and dividends. Our history of shareholder returns is a clear demonstration of the confidence we have in our ability to generate free cash flows and maintain financial flexibility to continue to deliver on our capital allocation priorities, including this value-creating acquisition. We expect this deal will close in the fourth quarter of 2022, subject to regulatory approvals.

In closing, we are extremely excited about this unique value-creating acquisition and look forward to capitalizing on the significant growth opportunities ahead. Now, we will end our formal remarks and open it up for questions.

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QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] And 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. Can you hear me okay?

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

A

Yes.

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

A

We can. Good morning, Sam.

Sam Darkatsh
Analyst, Raymond James & Associates, Inc.

Q

Good morning and congratulations. Terrific business, obviously, that you're acquiring. I've got a couple of questions, if I might. The first, it looks like, at least based on what Emerson's saying for trailing 12 months and what you're saying for the year that the growth profile of the InSinkErator business is fairly substantial this year, can you help in terms of what you're expecting for their sales and EBITDA next year in 2023 to get to your $1.25 accretion? And then also on top of that, the $20 million to $25 million in synergies, what's the timing that you're assuming that you'll be able to achieve that?

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

A

Sam, good morning. It's Marc. Maybe I'll start and then Jim can add to this one. First of all, in the Emerson announcement, keep in mind they referred to their published numbers as of end of March. Our numbers take already into account what we saw pretty much until June or even July, and their overall revenue trend is actually a very solid one. And I would expect that momentum to carry well also into 2023.

Now, obviously, we all know there's a – what we consider a temporary slowdown in the US housing. But as we also indicated earlier, that business is highly replacement driven also, more so in the new housing. So, I would expect a continued, sustained, healthy revenue growth trends. Jim, do you want to comment on the EPS?

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

A

Yeah. And then, Sam, from a overall EPS perspective, and as I pointed out, as we expect the $1.25 this year and then, once we pay down the debt, which we expect to do in a relatively short period of time, it'll expand to $2 to $3. I think, on the cost synergy timing, obviously that will take a short period of time, but we don't see a significant period of time that will take to begin to earn that because, as we mentioned, a lot of that is driven more on the purchasing side and also our ability to just reduce a minimal amount of SG&A.

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Sam Darkatsh
Analyst, Raymond James & Associates, Inc.

Q

And then, my follow-up question to that, thank you, would be – I'm not sure how to phrase this one – but with the $3 billion price tag is obviously considerable, are the – is what you're seeing in the EMEA sale process emboldening you that this type of transaction is something that is easily digestible?

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

A

Sam, first of all, just broad acquisition, I would, again, refer to what we said earlier, this is a unique asset and this kind of opportunity don't come across every day. I mean, you – again, keep in mind our space is the kitchen and this is a wonderful business in the kitchen sink where we're kind of "next door neighbors of a dishwasher". So we see plenty of opportunities also when it comes to product innovation revenue growth over time.

So – and again, these kind of unique opportunities don't come across every day. It was a competitive bidding process. I still believe the valuation is fair given precedents in the space. And certainly, you can probably argue a couple of months ago you probably would have had to pay more. But anyhow, it's – we do feel it is a truly unique asset, and as such will create significant value. It's obviously too early to speculate about the outcome of your strategic review. But even absent of this one, as you all know, our balance sheet metrics are very, very strong one from a debt leverage, from our overall cash position, and therefore the financing of this one does not create any headache or is not, certainly not contingent on the outcome of European review.

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

A

Yeah. And Sam, just to add to what Marc said, on top of the balance sheet being strong, if you look at our free cash flow generation over the last few years, it puts us in a very good position, as I mentioned, to be able to pay down any debt related to this within a medium-term period of time. So....

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

Susan Maklari
Analyst, Goldman Sachs & Co. LLC

Q

Thank you. Good morning, everyone.

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

A

Good morning, Susan.

Susan Maklari
Analyst, Goldman Sachs & Co. LLC

Q

My first question is, can you talk a little bit more about the synergies in terms of procurement inputs to the product relative to your core appliance business? And then also in terms of the distribution side, can you talk about the go-to-market strategy here? And is that the same or different from the current business?

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

A

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Susan it's Marc. So, I mean again, there's two fundamentally different type of synergies. One is, the cost side, the other one is [indiscernible] (12:52) revenue go-to-market side. On the cost side, we do see opportunities on procurements. There's components in the product which we know very well, but I think we have a good procurement scale globally. [ph] And in this business also because of the growth from the past (13:08) it runs into capacity constraints. And I think we have opportunities on the manufacturing side in terms of cost efficiency going forward also.

On the go-to-market side. First of all, there been a long term growth potential that again comes back to product innovation. It's not just the InSink and the garbage disposal, it's the entire system under the thing where we see a lot of opportunity to do. You may remember we have been working on like composting solutions and other solutions. There's a lot of product innovation ideas which we can think about in that space. Two, there's a brand leverage. We do believe that we have a very strong brand in our company. We can add and expand the offering of InSink which gives consumer more choice and create more choices.

On the go-to-market side, yes, these are relations with the trade that we know very well. Having said that and that comes back to the script earlier, we would initially treat that as an independent business, so you should expect a different sales force going to well-known trade customers out there than from a Whirlpool Appliance business.

Susan Maklari
Analyst, Goldman Sachs & Co. LLC

Q

Okay. That's helpful. Follow-up is can you talk a little bit more about the financing side of the business, on how you expect to proceed with the debt offering? And then you mentioned that you're going to pause buyback for the balance of this year, but can you give us any more color in terms of the pay down schedule you're anticipating, and how to think about the return of those buybacks looking to 2023 or further out?

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

A

Yeah. So, this is Jim and I think first off [ph] let's just start with is (14:44) our existing liquidity, cash on our balance sheet, and credit facilities, give us the capabilities to do this as an all-cash transaction. Once we get a little bit further down the road and obviously by the end of the third quarter, we'll talk more about the specific financing that we have put in place which we're already beginning to work on now.

And then as you look forward, what I would say is that, for the remainder of the year as we said we'll stop share buybacks. As we look forward to future years, we've always talked about, we buy back our dilution. But I would say until we make a significant, pay down on this which we do expect in the next two to three years, you should expect us to at least moderate our share repurchases, in light of this.

And additionally, as we've said before, what we plan to do is continue to look at other areas we want to invest in from a capital allocation perspective. I think the other thing just to remind everybody is that over the last five years, we've returned $5 billion to shareholders, and over the last two years, it's going to be pretty close to $2.5 billion. So, we have made significant returns, and now, we're kind of focusing on another area of our capital allocation priorities.

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

Michael Rehaut
Analyst, JPMorgan Securities LLC

Q

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Thanks. Appreciate it. First question, I just wanted to delve into some of the assumptions on the $1.25, if it's possible. What type of interest rate you're assuming on, what type of incremental debt for next year? And also, I think, Jim, just kind of said before perhaps you think about a debt pay down over a two- to three-year period. Just want to make sure that I've heard that right.

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

A

Yeah, Mike. I mean, I would say if you look at our free cash flow that we've been generating recently, that's why I'd say you would see a significant amount of pay down in net debt medium-type term.

In terms of, interest rates that we've assumed, again, we're in the middle of the process right now. But I would say, they're close to what the market is today. And, we did a recent bond offering, but, we haven't given any guidance on that yet. We've just made very high level assumptions based on what the market is currently. And then as we said, if you really want to understand what the business contributes post that, that's why we gave the $2 to $3 range, which is very dependent on, again, factors of us generating the synergies and continuing to grow the business. But we do believe that's a good point to start.

Michael Rehaut
Analyst, JPMorgan Securities LLC

Q

Still appreciate that. I mean, at the same time, you did give the $1.25, so just making sure we understand what's going into that. It sounds like a 5%-or-so interest rate on, is it the entire $3 billion? And also, the synergies that you're talking about here, again, I just want to make sure we understand that right. That is in the $20 million to $25 million range and if you can kind of break down how that is achieved like in terms of different buckets.

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

A

Hey, Michael, it's Marc. First of all, and as you well know and then I'm glad you asked the question. On the $1.25, again, there is the pure earnings lift which comes with the EBITDA from InSinkErator which on a steady run rate is well above $2, actually more closer to $2.50 or even more. But then of course, the assumption is how much do you finance with cash and how much do you finance with additional debt.

Depending on the timing of closing, we will take a certain portion of cash, probably ballpark of about $500 million of cash and the rest will be a debt offering. [ph] Different percentages but (18:35) you're directionally correct. But we also intend to pay down the debt fairly quickly. So, this is not meant to be a 5 or 10 year debt. So, we soon plan to pay that down in a fairly short time horizon. Now, on your question with synergies the $20 million to $25 million is purely the cost synergies which are factored in. We have not factored in any revenue synergies or any EBITDA growth which comes of additional revenue synergies. So, this is a pure cost synergies. But given that it's largely procurement driven, I think it's very fair to assume you get that within the first 12 to 18 months.

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

Eric Bosshard
Analyst, Cleveland Research Co. LLC

Q

Thank you. Good morning. Two things. First of all, I just wanted to follow-up, Marc, you commented that linking this to the EMEA [indiscernible] (19:26) that you're too early in the strategic review of that. Remind us on the timing of the conclusion of the strategic review that you propose for the EMEA assets.

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

A

Yeah. So, Eric nothing has fundamentally changed from what we announced in April. We plan to have kind of a directional outcome of strategic Europe review end of Q3. So I would communicate in the October earnings call kind of direction of the decision which we're taking. So nothing has changed from that perspective and we're in middle of that process. But again, this acquisition is explicitly not linked to the outcome of the European strategic review. It's all part of a broader portfolio transformation, which we talked about in April. But the financing of this acquisition is certainly not contingent on any European outcome.

And then secondly, in terms of the growth rate going forward for this business, what is the [ph] assumption within that focus, (20:25) the portfolio transformation strategy, profitability and growth were the two areas of focus. You talked about profitability of the business, but the go-forward growth targets or expectations, what should we expect from this business?

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

A

Yeah. So, Eric, [ph] I won't (20:40) point to what we had also in the presentation. So multiyear growth rate is about 4%. Now, obviously, as everybody experienced in the last two years, it's been – first, you had a COVID hit, and then now a significant acceleration of the growth. I would right now, still assume the long-term growth rate of this one to be mid-single-digit growth rates. That's what we've seen over an extended time period. Now, obviously, the next 12 to 15 months, it could be a little bit slower, but not a whole lot because you still have the benefits of the price increase. But then, I think it will follow the long-term US housing trends.

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

Mike Dahl
Analyst, RBC Capital Markets LLC

Q

Hi, thanks for squeezing me in. Marc, Jim, I just wanted to follow, sorry, one more time on the math around the $1.25 next year. If I look at the EBITDA, $170 million, [indiscernible] (21:43) D&A assumptions, maybe that means, like, ballpark $150 million in EBIT?

And if you finance $2.5 billion, 5%, that's $125 million of interest expense annually. So, I guess I'm still struggling to get the math on the $1.25. Maybe if there's a little more detail you could give us on breaking that down.

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

A

Yeah. So, Mike, to get to the $1.25, part of that is what Marc alluded to earlier on the numbers that we gave as our expectation for 2022. Again, if you add some growth in for 2023 on top of this, add in the synergies that we expect to generate, and then you also have a benefit, a tax benefit that comes that we talked about this part of what we included in the purchase price, but additional amortization from a tax perspective, all of that added together gets us to the $1.25. And so, there's a lot of moving parts there, but those are the components.

Mike Dahl
Analyst, RBC Capital Markets LLC

Q

Okay. And then my follow-up, Jim, is on the tax benefit side. So, I guess, [ph] what (22:52) your comment there, so are some of the tax benefits then included in the accretion number? And maybe you could just help us

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understand kind of the timing of those tax benefits, and is it all just the amortization effect or was there something that's [indiscernible] (23:07)

James W. Peters

Chief Financial Officer & Executive Vice President, Whirlpool Corp.

A

Yes. It's an amortization effect in approximately over, let's just say, give or take 15 years, that you have incremental amortization that you deduct from, and it comes from your step up in basis due to the acquisition. And so, overall, over a long term period of time, it effectively helps your tax rate by, let's just say, during this period of time for the total company, 1% or so. But that benefit does add obviously to the bottom line to EPS and does generate cash for us, over that period of time.

Marc Robert Bitzer

Chairman & Chief Executive Officer, Whirlpool Corp.

Thanks, Jim. With that, I think that was pretty much the last question so thanks again for joining us at such short notice. Obviously as you hopefully could tell, we're very excited about this acquisition. It is a truly unique asset. It will strengthen our kitchen business, it will strengthen our North America business, and it will further accelerate our long-term portfolio transformation. So, we're very excited and thanks for joining us today.

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

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