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Whirlpool Corp. (WHR)

Q3 2023 Earnings Call

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MANAGEMENT DISCUSSION SECTION

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

Korey Thomas
Head of Investor Relations, Whirlpool Corp.

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

Before we begin, I want to remind you that as we conduct this call, we'll be making forward looking statements to assist you in better understanding Whirlpool Corporation's future expectations. Our actual results could differ materially from these statements due to many factors discussed in our latest 10-K,10-Q and other periodic reports.

We also want to remind you that today's presentation includes the non-GAAP measures outlined in further detail 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 results from our ongoing business operations. We also think the adjusted measures will provide you with a better baseline for analyzing trends and our ongoing business operations.

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Listeners are directed to the supplemental information package posted on the Investor Relations section of our website for the reconciliation of non-GAAP items to the most directly comparable GAAP measures. At this time, all participants are in a listen-only mode. Following our prepared remarks, the call will be open for analyst questions. As a reminder, we ask that participants ask no more than two questions.

With that, I'll turn the call over to Marc.

Marc Robert Bitzer

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

Thanks, Korey, and good morning, everyone. Before we discuss our Q3 results in more detail, I want to acknowledge the great news that we received earlier this week. On Tuesday, the European Commission announced the unconditional approval of our European transaction with Arçelik.

With this decision and earlier clearances from Austria, Germany and China, we passed a major regulatory hurdle and are now fully focused on obtaining Phase II approval from UK's CMA. While transaction closure within this year is unlikely, we are confident that we can close by April next year.

The transaction closure will unlock significant value for us, largely coming from an improved free cash flow of $250 million per year. Later during this call, we will give you more detail about the expected regulatory process and the value creation of this transaction.

Looking more short-term at our Q3 results, we are pleased with our operational progress and our top line growth in what is still a very challenging environment. The bottom line showed solid progress over last year but is essentially flat from prior quarters.

Our operational progress during the entire year has been sustained and even accelerated during Q3. We improved our supply chain execution. We accelerated our cost takeout actions and are fully on track towards our full year cost targets. And we launched several innovative products across multiple categories. As a result, we were able to gain market share in almost all of our major businesses.

As I mentioned earlier, the market environment is still challenging. Market demand in the Americas has been solid but this is entirely driven by a very strong replacement demand related to increased appliance usage at home, a trend which we expected and which we expect to continue.

The other side of demand discretionary purchases have been even softer than anticipated as a result of increased mortgage rates and low consumer confidence. The low discretionary demand sparked the more intensive promotional environment, in particular in North America. Essentially, we're back to a pre-COVID promotional environment. Being back to pre-COVID promotional environment is not surprising. However, we expected this to occur one or two quarters later.

Looking into the fourth quarter, we do not anticipate this environment to fundamentally change and we do expect our business to perform on a similar level as Q3. As a result, we're updating our full-year guidance. We now expect full-year EBIT margins of 6.25% to 6.5% at the same time, we're able to achieve additional tax benefits. Putting both together allows us to remain at the lower end of our original guidance of approximately $16, but with a lower free cash flow of $500 million.

Turning to slide 6, I will provide an overview of our solid third quarter. We delivered 3% of top-line growth both year-over-year and sequentially. Promotions, which were normalizing sooner than expected, were more than

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offset by over point of share gains in North America, strong and growing replacement demand, our builder channel benefiting from a shortage of existing homes and the InSinkErator acquisition.

We realized $300 million of cost takeout benefits in the quarter and are fully on track to deliver over $800 million of cost takeout in 2023. Our actions drove 100 basis point margin expansion year-over-year with solid EBIT margin of 6.5% and ongoing earnings per share of $5.45.

Now turning to slide 7, I will share more details on our 100 basis points margin expansion. Sequentially, price/mix negatively impacted margins by 150 basis points and 375 basis points year-over-year, driven from a normalization of promotions, which was largely absent in recent years and reemerged in the third quarter of 2022.

The promotional environment is now reflecting return to historical levels faster than previously expected and normal seasonal patterns, which are weighted more towards the second-half of each year. In addition, mix was negatively impacted in the quarter due to over-index share gains in laundry.

As our laundry share was disproportionately impacted by supply chain disruptions during the pandemic, our strong cost actions delivered both sequential and year-over-year benefit of 100 basis points and 625 basis points, respectively. Both year-over-year and sequentially, we invested more in marketing and technology. Ultimately, we delivered ongoing EBIT margin of 6.5%.

Turning to slide 8, you will see operational priorities are fully on track. Our resilient and adaptive supply chain has delivered share gains throughout the Americas. We have addressed recent supply challenges, significantly reducing the risk of supplier-driven disruptions by expanding dual sourcing and reducing parts complexity by more than 50% since 2021.

We're fully on track to deliver over $800 million of cost reductions in 2023, even with some raw material cost benefits coming slightly later than originally expected. And while we're not providing guidance for 2024, we're increasingly confident about sustained cost progress well into 2024 due to a number of factors.

A significant cost takeout during the second half of 2023 will obviously create sizable carryover benefits. The recent trends in raw materials, in particular, of steel and freight rates, which have been favorable throughout the year are likely to continue to create tailwinds.

Now, I will turn it over to Jim to review our regional results.

James W. Peters

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

Thanks, Marc. Good morning, everyone. Turning to slide 10. I'll review results for our North America business. The region saw mid-single-digit revenue growth, both sequentially and year-over-year, with improved supply chain execution and new product introductions, delivering over one point of year-over-year share gains, coupled with resilient replacement and builder demand, the addition of InSinkErator and strong cost actions, partially offset by normalized promotions negatively impacting price/mix. Overall, the region delivered double-digit margins of 10%.

Turning to slide 11. I will discuss how North America is well positioned to grow and expand margins. We continue to invest in product innovation with a 25% increase in new product introductions this year compared to 2022, leading to premium product share gains. Our strong portfolio of brands targets over 90% of consumers with three of those brands delivering well-over $1 billion of North America sales annually. We are the number one choice for

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US national homebuilders. And our strong direct-to-consumer business has been growing at 20% annual compounded growth rate in the US since 2018.

Additionally, we have a relentless focus on delivering the best cost position and reducing complexity with an industry demand of over 56 million annual units between the United States and Canada and approximately 75,000 to 100,000 replacement units are purchased every day and an undersupply of houses continues to exist in the US. Our brand and product leadership, coupled with our operational priorities as North America business well-positioned to deliver margin expansion in 2024 and beyond.

Turning to slide 12. You can see a few recent examples of our product leadership. From our top-load laundry innovation for pet lovers and the industry's only 2-in-1 agitator washing machine to our latest premium KitchenAid French Door refrigerator with superior craftsmanship, and purposeful innovation like the industry's largest third rack dishwasher, or the first in the industry flush mount microwave hood combo. These innovative new products demonstrate our commitment to being the best kitchen and laundry company, improving life at home for our consumers and strengthen our leading position in North America.

As we look forward to 2024, we have an even stronger lineup of new product introductions that we expect will positively impact price/mix and market share.

Turning to slide 13. I'll review results for our Europe, Middle East and Africa region. The region saw continued demand weakness as the inflationary environment and geopolitical tensions continue to weigh on consumer sentiment. Revenue was down 2% year-over-year, excluding the Russia business, which was divested in Q3 of last year. The region delivered margin expansion year-over-year from cost takeout actions and held-for-sale accounting benefits due to reduced depreciation. Later in the call, Marc will provide additional insights on the Europe transaction as it continues to progress through the regulatory process.

Turning to slide 14. I'll review the results for our Latin America region. The region saw strong share gains and industry recovery in both Mexico and Brazil with a double-digit net sales increase year-over-year of 14% and sequential growth of 5%. Strong cost takeout actions and higher volumes drove 100 basis point expansion in EBIT margins year-over-year.

Turning to slide 15. I'll review results for our Asia region. Excluding the impact of currency, revenue declined approximately 8%, driven by continued consumer demand weakness. The region delivered EBIT margins of 2.2%, with our cost takeout actions more than offset by negative price/mix.

Turning to slide 16. I will discuss our full-year 2023 guidance. Our net sales guidance of $19.4 billion is unchanged. We are revising our full year ongoing earnings per share to approximately $16 and free cash flow guidance to approximately $500 million.

As previously discussed, we continue to expect to deliver over $800 million of cost takeout. However, as promotions have normalized to historical levels sooner than expected and the macro environment weighs on discretionary demand, which continues to be depressed, we now expect to deliver EBIT margins of 6.25% to 6.5% with fourth quarter operational results expected to be in line with our Q3 performance. Our guidance also includes updated expectations for our adjusted effective tax rate. Now between 0% to negative 5% for 2023, reflecting European legal entity restructuring benefits.

I would like to remind you as the European transaction progresses, the close timing may have a material impact on our guidance. We also expect our 2024 adjusted effective tax rate and cash tax rate to be impacted by the

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closing of the Europe transactions and to be below historical norms. We currently estimate that it will be at or below 15%. We also continue to expect to repay approximately $500 million of debt associated with the InSinkErator acquisition during the fourth quarter, in line with our commitment to maintaining our investment-grade credit rating.

Turning to slide 17. I will review our regional expectations for 2023. Globally, we now expect a flat industry with industry demand up 1% to 2% in North America due to stronger-than-expected replacement volumes, trade customer inventory replenishment, and resilient builder demand. We expect these demand trends to continue and to see low single-digit industry growth in 2024. Industry expectations in EMEA of down 6% to 8% reflect an increasingly challenging macroeconomic and geopolitical environment. Latin America has seen significant demand recovery, and we now expect the industry to be flat to up to 2%.

Finally, Asia demand continues to be impacted by softer consumer sentiment and we now expect industry to be down 2% to 3%. We have adjusted EBIT margins to reflect the normalized promotional environment negatively impacting price/mix. We expect solid full year North America margins of approximately 10%. With industry demand weakness in EMEA continuing, we now expect EBIT margins to be approximately 1%. And we now expect Latin America and Asia to deliver EBIT margins of approximately 6% and approximately 3%, respectively.

Now, I will turn the call over to Marc.

Marc Robert Bitzer

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

Thanks, Jim. Turning to slide 19. Let me provide an update on our portfolio transformation. We have and are continuing to take the right actions to transform Whirlpool into a higher-growth, higher-margin business. In the last five years, we have significantly streamlined our business. The divestitures of Embraco and Whirlpool China, along with other transactions to transform the company based on three strong pillars, small appliances, major appliances and commercial appliances. We also acquired Elica India and InSinkErator as part of our portfolio transformation.

In 2022, we announced a strategic review of our Europe business, which we concluded in January. We agreed to contribute our European major domestic appliance business into a newly-formed entity with Arçelik. Our portfolio transformation efforts in addition to delivering on our operating priorities [indiscernible] (00:17:50) track to being a higher-growth, higher-margin business.

Turning to slide 20. I will provide an update on the Europe transaction. As I mentioned before, we passed major regulatory milestones with the European Commission, unconditionally clearing the transaction in addition to approvals from Germany, Austria and China.

The UK's Competition and Market Authority is conducting a Phase II review of the transaction. We look forward to continuing the dialogue with the CMA about the newly-formed entity that will benefit consumers with broad product and service offerings, bringing together the best of the best in innovation, brand and sustainable manufacturing.

We believe the European Commission's decision along with the other approval supports the view that consumers will benefit from this transaction. We will continue to work diligently with all parties to close on transaction. And as mentioned before, we are confident that the transaction will close by April 2024, until then, we will continue to focus on Europe delivering the best product and consumer-preferred brands. And we continue to be excited about the significant value creation this transaction will deliver.

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Turning to slide 21. Let me remind you of the benefits of the transaction. We will own approximately 25% of a newly-formed European appliance company. As part of this agreement, we have a potential to unlock long-term value creation for ability to monetize our minority interest.

Coupled with a 40-year Whirlpool brand licensing agreement, we expect approximately $750 million of net present value of future cash flows. Additionally, post-closing, we expect the transaction to improve our value creation metrics annually by $150 million of incremental free cash flows and a 150 basis points improvement in ongoing EBIT margin.

In the anticipation of the closing of the Europe transaction, we expect to have a new financial reporting segment structure starting January 2024, including segmenting our attractive small domestic appliance business. You can expect to receive more details on our new financial segments in our Q4 earnings release in January.

Turning to slide 22. Let me close with few remarks. We delivered a solid third quarter performance in a challenging macro environment. Our operational priorities delivered 100 basis points improvement of margin expansion, for an improved supply chain execution, share gains in North America and $300 million of cost takeout actions.

We are on track to deliver over $800 million of cost takeout actions in 2023. As we look to next year, we are confident that Whirlpool is well-positioned to deliver growth and margin expansion. We expect positive cost takeout to continue into 2024 from both our net cost actions and recent favorable commodity trends.

Combined with resilient replacement and builder demand, our leading position as a US builders' number one choice of over $2 billion in annual sales in this channel. And our continued product innovation, we are well-positioned to deliver long-term shareholder value.

Additionally, our portfolio transformation will continue to unlock significant value creation. The Europe transaction alone is expected to deliver approximately 150 basis points of margin expansion and approximately $250 million of annual incremental free cash flow. We're confident in the trajectory of our business and our portfolio transformation, driving us towards a higher growth, higher margin business.

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

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QUESTION AND ANSWER SECTION

[audio gap] (00:21:27 – 00:22:13)

Q

...should we think about the mix component in there and perhaps how that's also fitting into that price/mix headwind that you're facing?

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

A

[ph] Susan (00:22:22), good morning. It's Marc. By the way, first of all, some of you may have heard some acoustic interference on the earlier part of the call. I apologize for that. Believe me, it's not a new form of entertainment, which we're trying to add to the earnings call. It just is a technical glitch, so I apologize for that.

So let me, [ph] Susan (00:22:40) come back to your question around demand, share gains and mix and promotion and I guess, given that it's probably – it's a question, which was on the mind of most analysts on the call. Let me just give you a little bit more expansive answer.

So let's first talk about the demand. The demand on – and I'm particularly referring to North America and the other regions obviously follow different dynamics. North America showed solid volume growth in Q3 and on full year, we now guide to 1% to 2%. As you know, the demand, if you simplify if falls into two components. One is the replacement side of the business and the other one is the discretionary side.

The replacement side of business has been the one which has been very strong. And to put that in perspective, historically, when we look at the North America split between replacement and discretionary, you would see replacement demand being kind of 53%, 54%. That part hovers now around 60%. So it is very high.

On absolute terms, what it means it has been growing. That part actually is not surprising. It's actually something, which we talked about repeatedly that post COVID; we see significantly increased appliance usage at home, which in turn drives fast replacement cycle. So replacement side has been strong.

The downside of a replacement type being strong, replacement business typically comes with a slightly lower mix than discretionary demand. Somebody who replaces a broken down refrigerator in a kitchen [indiscernible] (00:24:18) go for same mix as a home remodel and an entire new kitchen. So it's good volume, slightly lower mix. But that has been basically the growth driver in the industry.

The other side is the discretionary demand side, which, as you know, typically is driven or is highly correlated with consumer confidence and existing home sales. As you all know, existing home sales pretty much dropped to slightly below $4 million, which is now all way back to 2010 post financial crisis and consumer sentiment is very soft.

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So the discretionary side of the demand has been very soft throughout Q3, but it could almost stay throughout the entire year that side to become this higher mix. So because of that shift towards replacement, the entire business comes with a slightly lower mix and the other side, the lower discretionary demand, that's why are now being chased by a lot of players in the industry, and that probably drove the promotional environment.

And just to be clear of the promotional environment, and there were very mindful of including work it has normalized. It is not normalizing. What we mean by that, it has basically gotten back to pre-COVID level, but we also mean we expect a stabilization going forward. It is not higher than pre-COVID. It's just earlier back to than we originally expected, which is entirely driven by the drop of discretionary demand and in turn, kind of a more intense promotional environment. So that is right now that has been kind of our change versus original expectations as it just happened earlier than expected.

Now, we know how to operate in that environment, as we demonstrated for many years, is kind of – it is a normal promotional environment. We participate in [ph] promotion spend is (00:26:04) value creating. And I think we have a pretty good knowledge base and algorithms in terms of how to drive maximum promotion effectiveness. So [ph] Susan (00:26:12), that was the long answer to your question, and I hope I clarified a little bit.

Q

Yeah. No, that was very helpful color. Thank you for all of that. And maybe turning to the margins a bit, I know that you mentioned, expecting some of those continued raw material tailwinds into 2024. But I guess, as we think about that $300 million to $400 million range that you've talked about, any sense of where we're falling today within that? And any additional color you can provide as you're thinking about the cost environment for next year?

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

A

Yeah. [ph] Susan (00:26:46), let me take first and then maybe Jim may also add something on the cost environment. Again, stepping back and beginning of the year, we guided towards an $800 million cost takeout and we're right now looking at $800 million plus something for the full year. So we're pretty much fully on track.

Also in terms of the split of the average is coming from it's pretty close to where we had in mind. So roughly less than half of that is raw materials, and the other ones are really true cost take out, be it in logistic costs or in product and reengineering, et cetera. So we feel pretty good about where we are.

As you can also see from our numbers, the momentum in taking of this cost has picked up as the year has been progressing. So as you saw on the chart, I think it's on page 8 or so. You see we had very little cost takeout in Q1, a little bit more on Q2. Q3, we had some $300 million, in Q4 we see already even more.

So we certainly do like the momentum, which we see on the cost takeout. And what that means also because I know you're all curious about 2024. First of all you will because of just about how it's skewed in the year, you will have carryover of this cost takeout into next year. But frankly, we also like some of the underlying dynamics and what we see by number of cost takeout. We also do expect some additional tailwinds on the raw material side, in particular, on steel as we head into next year.

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

A

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I mean, I just emphasize what Marc said is I think the trends are very positive. We do believe there'll be a good amount of carryover in the range of 25% as we head into next year. And the momentum we have right now is in line with what we expected and a very positive trend from a cost perspective heading into next year.

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

Sam Darkatsh
Analyst, Raymond James & Associates, Inc.

Q

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

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

A

Good morning.

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 has to do with – you're citing an expectations next year for margin expansion. I was hoping you could help quantify or at least give us a sense of a reasonable ballpark for 2024 North American margins. Obviously, price/cost is coming in more profound headwind than you thought, I think your North American margin guide for the fourth quarter alone is like down 300 basis points, 400 basis points versus where it was before.

But then you're also citing the expectations for unit growth next year and the raw of tailwinds and the cost takeout rollover. So if you could help bracket what margin expansion expectations should be right now for North American segment margins next year that would be really helpful?

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

A

Hey, Sam, it's Marc. So as you know, we'll give a precise guidance, the detailed guidance in January 2024. But let me – to use your words, give us some brackets around the margin expectation is. First of all, looking into 2023, then I can talk about 2024. As you know, if you go back further, the back half of 2022, we had disappointing margins as a company and in North America, kind of, like single-digit margins. And our job number one was to quickly reestablish double-digit margins. As you've seen, we've done that, and we've done it more because we expanded to double-digit margins and picked up share. So we achieved both margin expansion and share.

But right now, we're kind of you call it, we have sustained margins in Q2, Q3, Q4, pretty much around 10%. In all transparency, and that's what Jim alluded to earlier, we expect it to be 11% or 11% plus. But – so we're pleased with double-digit 10%. But frankly, because of all of the reasons which I mentioned before because of the promotional environment, we're not yet 11%. So as we look in 2024, the key question, obviously, on everybody's mind is, when do you expect North American margins in the tune of 12% plus, okay, which I think is a realistic target corridor.

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The key question is what are the drivers in order to get there? And again, starting from a baseline of 10% roughly of margin. But the two biggest drivers or three actually is, one is we have to sustain the cost takeout. Again, as I heard – as I mentioned earlier, I feel good about the momentum that we have. But that on its own will not be sufficient in 2024, and we got to find additional cost opportunity for 2024, and we're working on a lot of things. And I think once we come up with guidance, you will see, I would say, another sizable element of cost target, which we have for 2024.

Second one is we have to continue to re-leverage the business from a volume perspective. Our business and the size of the business like North America has fixed costs and if you know look at our volume right now, it is still fairly quite a bit below pre-COVID. So re-leveraging that business will have a significant impact also, of course, on the EBIT margin.

So where is the volume growth coming from that ultimately comes back to, yes, we expect a low single-digit growth in the market, but we are very confident in our sustained momentum on market share gains and product innovation, which will broaden the business and in particular, at one point, maybe not in Q1, Q2, the builder business will pick up. And that, of course, as you know, disproportionately benefits us.

The reason why I'm saying it's not Q1 and Q2, we all see these great order intake from builders. But Sam as you know very well, it takes 8 months to 10 months until an order on the build side turns into appliance shipment. So we know we have volume momentum coming into next year, driven by products and channel mix, and that will continue to help us kind of re-leverage our business. These are the two fundamental drivers to get back North America to what I would call a healthy 12% plus margins. Now the exact timing, again, that is something which we will talk about in the guidance.

Sam Darkatsh
Analyst, Raymond James & Associates, Inc.

Q

Thank you. My second question, you mentioned retailer refill as a dynamic that was occurring also in the quarter. Can you help quantify what sell-through versus sell-in was in North America and what the retailer inventory weeks on hand look like versus pre-pandemic at this point?

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

A

Yes, Sam I think if you zooming out beyond Q3, the entire COVID and post-COVID has been, as you all know, almost a roller coaster of up and down of retail demand. I mean I know technical people will refer to the bullwhip effect, but believe we felt it. So we have been destocking, restocking and these swings have been more amplified than the actual consumer demand was over the last two or three years.

I think now, particularly end of Q3, things look reasonably balanced. What I mean with that, I think in Q3, we still saw some restocking of retailers. So the, technically, industry growth you saw in Q3 was ahead of the actual consumer sell-out in our view. And right now, the consumer sell-out, which we experienced, is pretty much in line with what we guided on a full year industry growth. So, call it, it's low single-digit 1% to 2% with some ups and downs during the promotion period.

As you know, unfortunately, we know our numbers, but we don't know entire industry sell-out numbers. But the Q3 shipments were slightly ahead of the consumer demand and again as a result of rebalancing inventories. At this point, we do believe the retailers appropriately stocked from an inventory perspective going to a promotion period.

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

David S. MacGregor
Analyst, Longbow Research LLC
Q

Yes. Good morning, everyone.

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

Good morning, David.

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

Hey, David.

David S. MacGregor
Analyst, Longbow Research LLC
Q

Marc, I wanted to ask you about promotional programs. Hey, good morning, guys. I wanted to ask you about promotional programs. You've noted, as recently as this call, that you're prepared to participate in promotions only if they're value added. So can you help us understand how you define a value added promotion and what exactly is the metric you use to determine what is value added? And how would you characterize what you're doing now promotionally within the context of that discipline?

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

Yeah. So David, let me – we could probably spend the two hours on promotion effectiveness. I would say our teams and for years of our experience without being too arrogant or priding ourselves too much, I think we know one or two things about merchandising. So we have a very, very good understanding about price elasticity and sensitivity by product category, by price segments, by time of the year, in between promotions and during promotions. So we have – it all starts with – we believe we have a good knowledge base of really understanding how consumer demand is actually lifts versus a non-promotional environment. We also have a very good understanding in our view in terms of what is pure pull forward or cannibalization versus true incremental growth.

Now of course, we all recognize that it's all driven by competitive forces, et cetera, but we have a pretty good knowledge base. Against this knowledge base, we assess technically what we call investment, that's just the cost of promotion relative to normalized prices, against what kind of margin pickup and what we call is contribution margin pickup we get. If that is a positive, that's typically when we – in our expectation, make a decision about do we participate or not. I know that sounds overall technically, but it's not a one single formula. It is entirely driven by detail, by price, by segment, by category, by channel in terms of where we make the decision to participate or not.

David S. MacGregor
Analyst, Longbow Research LLC
Q

Maybe I could follow up with you offline on that. My second question is around the free cash flow guidance revision, the $300 million reduction. Could you just talk through, I'm guessing that's the reduced income and maybe some working capital impact there as well. But I guess I'm along the lines of Sam's question, if there's any

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way you could kind of bracket out how we should think about free cash flow in 2024 at this point, I think that would be very helpful as well? Thanks.

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

Yeah. David, and this is Jim. And first thing I'd say, your assessment is correct on free cash flow. The change in it was purely about two-thirds of that is due to lower earnings, and the other third is due to that we think will come out of the year with slightly higher working capital. So obviously we're not giving guidance for next year, but I think you should think about it. If you even look at where this year is, working capital, despite the fact it's 100 million difference, it's not a big build. And I think going into next year, you shouldn't expect us to be building working capital nor taking it down significantly. We're probably going to be around that that same point.

Now, as we talked about earlier, we haven't given guidance on earnings and margins yet. But with increased margins, we would expect our cash flow from earnings to improve. The biggest probably variable in the free cash flow for 2024, but will be fully reflected in 2025 is once we close the EMEA transaction here, we've talked about that we believe we will, on a full year basis on an ongoing full year basis, deliver about $250 million additional free cash flow every year. We still would confirm that number.

Now the timing of the transaction could close in early next year. So we will have an impact from having EMEA in, but when you get beyond that, we are still very, very confident in that $250 million of positive free cash flow that will come additionally on top of where we are today. And on top of what I talked about that I think earnings will be in a better place and working capital should be a relatively nonevent in terms of how it impacts free cash flow next year.

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

David maybe just one additional comment on the working capital side. Obviously, the two big components, inventory, we feel reasonably good. We're down from Q2 of probably $50 million may be higher than we originally had in mind. But we feel good about how we enter from an inventory position entering Q4.

But the big difference right now is actually receivables because, frankly, that comes with growth, you grow the business, you carry a slightly higher receivables. And that will be, to some extent, the same thing in Q4. We feel good about our growth momentum. But it means not all of the sales you collect as cash in the year. So there's also a time element about when we actually can collect the cash from receivables and then falls into next year.

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

Thanks. First of all, one clarification and then a question. From a clarification standpoint, Jim you talked about the cost benefit accelerating through this year and then carrying into next year, does this make next year a little bit more front-end loaded than normal because of the progress you've made on costs, I guess, is the first point of clarification.

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

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I would say, listen, from a cost perspective, I think we will start the year and we will show positive year-over-year cost just because of that carryover going into next year and the trends that we're seeing. Now the other thing that you've got to take into account is just the natural seasonality of our business.

And I think we've seen the business getting back to what is probably through pre-COVID type of seasonality, where from a volume perspective, Q1 still tends to be the lightest. And you see the pickup throughout the year. So I do believe costs will be a positive going into next year. But when you're looking at on a year-over-year basis, I think we've normalized into an environment where Q1 will still be one of our lower quarters from a volume perspective.

Eric Bosshard
Analyst, Cleveland Research Co. LLC
Q

Okay. And then the other point of clarification that the strategic payback from Europe, I understand and is certainly compelling. The EPS impact in 2024, can you just help us clarify how we should be thinking about this? Is this also accretive to EPS next year as well? Or how does that work?

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

It will not be so much accretive to EPS, because if you think about it, right now, EMEA is close to a breakeven business. So it will improve our overall margins. It does have negative cash flows that will improve that. But from an absolute earnings perspective, it starts to become a net neutral there.

Now as I said, the bigger lift comes is that it's a 150 basis point improvement in EBIT margins. It's an improvement in free cash flow and then it's a reduction in the volatility and the seasonality of our business also. And I think the thing I need to point out on the cash flow is within the year, the seasonality of EMEA's cash flow is much greater than the single benefit of $250 million that we're getting. So the biggest benefit that really comes on the free cash flow side.

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

Hi. Thanks for taking my questions. The first one, just to stick with margins and specifically North America. I think the part that I'm struggling with is your cost tailwinds have accelerated through the year, your margin guide for the fourth quarter is kind of at or below 10%. If we think full year impact, 2023 versus 2024, understand that tailwinds have ramped through the year, but full year, full year, your cost out actions probably are kind of equal between the two years, if not still slightly weighted versus 2023.

So, the promotional cadence has normalized and is expected to remain steady. The cost takeouts for now have probably reached their peak run rate. The bridge to margin improvement in 2024 in North America it is – again, it's cost and volume, but doesn't that mean it's really just volume next year in terms of driving the levers. What's the – I'm struggling to see that magnitude of uplift to get from kind of $9 million to $10 million in 4Q up to $11 million, $12 million next year?

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

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Yeah. And Mike let me start, and then I'll let Marc kind of add on to this. I think as you even alluded to in your question there is right now, we do see actually cost continuing to drive further benefits, and we will see additional cost benefits coming into next year. And then also, you did highlight that, as we've said, we believe the promotional environment has normalized. So that should not be a factor in terms of margin impact year-over-year as we go into next year. Cost should be a positive impact.

And then picking up additional share and volume will also have a positive impact both on our margins, just from the incremental margin that comes from that, in addition to the leverage and benefit we get within our factories, and other things, our logistics network from the leverage that we get on that. And you've got to remember today that today, if we look at our environment, we still have, we don't need to add capacity or anything. So each unit that we add actually adds an incremental amount of margin that's above and beyond our margin that we have today. So those are the levers and the drivers. And Marc if you want to?

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

A

Yeah, Mike [indiscernible] (00:44:34) Just first of all, to clarify, because you mentioned now margins are at or below. We just guided to 10%, and we delivered 10%. So we are on a sustained double-digit margin level and has that Q2, Q3 and Q4. So we feel very good about regaining with double digits in particular compared to 2022.

Now on the cost side, there is also another element. Keep in mind what we showed you, we see significant progress on the cost side but as I think most of you know, given how standard costing works, you basically sell in Q4 of the cost that you had in Q3 because you have 60 days of inventory. And the same is true for when going to Q1. So the cost progress which we see in Q4 technically will only be fully P&L visible in the first two months of next year. So that's just timing that's normal standard cost accounting. So don't forget that part of the equation.

Now to your point about it's only volume. No, we need cost, volume and product introductions, all three of that. Cost, we feel very good. We have our momentum. We know how to get cost out, but it's a highly competitive environment where you just need to remain resilient on the cost takeout. Two, volumes to Jim's point about re-leveraging and just because it comes at capacity which you already paid for, so you get the full levered. And three, ultimately, you can only get the volume if you have strong product in the market.

And I mean, as Jim showed earlier in the presentation, we feel very good about what we launched this year, and there's a lot of good new product launches in the pipeline. So again, I absolutely would not reduce it into volume. We need all three components.

Mike Dahl
Analyst, RBC Capital Markets LLC

Q

Yeah, that's helpful. I appreciate the additional color there. My second question, just shifting gears, and I know this is probably some accounting technicalities around tax, but it's such a meaningful number to figure out, I'll ask it. I mean it's unusual to see a net tax benefit being considered part of ongoing EPS. And in this case, it's kind of like a north of $3 a share impact versus your prior guide, this shift in tax expectations. Can you just maybe give us a little more detail on what's actually driving this and maybe more importantly, as we look out to the 2024 and beyond, has your view changed on what a more normalized tax rate would be especially post the disposal EMEA?

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

A

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Yeah. And here's what I'd say, Michael. And whenever we've looked at a lot of these tax things because they flow through very unevenly from a GAAP perspective, so we normalize them typically from an ongoing perspective. The first thing is the cash benefits of what we realized within this quarter, and what we realize this year and then what I'm about to talk about next year will come over a multiyear period of time. And so we will see ongoing cash benefits just from some of these tax benefits that we talked about.

I'd say the second thing with that is, as you look at next year, listen, we expect our rate to be below 15%. And once we close the EMEA transaction and we're able to realize the benefits of some of the losses we'll have from investments we've made in there, we will see also in 2024, a significantly lower tax rate than we historically have.

Then as I alluded to over the period of multiple years, we'll continue to realize cash benefits from that. And so right now, we're not going to give a full guide on next year's tax rate because it's very dependent upon when we close the EMEA transaction. But then additionally, as we look forward beyond that, right now, I'd say, absent of any changes in the tax environment out there at some point in time in the much more distant out future, we could see the rate going closer to 20%. But over the next couple of years, we will continue to see benefits from this transaction.

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

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

Great. Thank you. Just had a question about the cash flow and just the lowered outlook implying that the majority of your free cash flow this year is being paid back out to shareholders in the form of the dividend. So at this point, how are you thinking about addressing the debt and reducing your ongoing interest expense burden?

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

Yeah. So this is Jim. And I think the first thing, we still intend to pay down $500 million of debt in the back half of – or in the last fourth quarter here. That will come from cash on our balance sheet. And as you pointed out, our free cash flow is funding our dividend, which will be around $400 million that will return to shareholders here.

Obviously, the incremental $100 million goes towards debt pay down. But we also have cash available on our balance sheet that we will use to pay that down. And then as we head into next year, we expect to continue to focus on paying down debt and reducing our level of leverage.

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

Liz, maybe just adding to this one, because, again, also going back more in time. As you know, we held quite a bit of cash balance on our balance sheet now for couple of years. And some of you may have asked why do you take on the debt? We actually – our decision a couple of years ago was while the interest rates are very low, we want to lock in some long-term debt at favorable interest rates. And that's why we kept a fairly significant cash balance.

Now we use the cash balance of some of that to pay down some of the floating interest rates, which was the temporary loans, which also partly came from InSinkErator. So we basically now use that cash balance to pay down the more expensive part of the debt.

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Elizabeth L. Suzuki
Analyst, BofA Securities, Inc.

Q

That makes sense. Just kind of thinking about long term, I mean, you did mention that your cash balance has been high for the last couple of years, but historically, it's been somewhere over $1 billion. So I guess, how comfortable are you at a cash level below that threshold? Or what is your minimum level of cash that you'd like to have on the balance sheet?

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

A

Yes. Liz and this is Jim again. And part of that is driven by remember us as a geographically diverse company, we have cash in multiple jurisdictions. And to a certain extent, because some of those businesses are also separate publicly traded entities. There's restrictions on some of the usage of cash that we can use outside of those areas. And so I think, as you've alluded to, typically, we've always had a cash balance of around $1 billion or maybe slightly above that and that deals more with our geographic dispersion.

Now as we exit EMEA, obviously, that will not be an area that will be retaining cash. So I would still, on an ongoing basis, expect us to be in the neighborhood of $1 billion, but it could be a little higher, a little lower at times depending on what our funding needs are, as well as where we're generating cash and our ability to repatriate that into the US and use for other things. So that's really more the driver is just that we have such a diverse geographic footprint.

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

A

So Liz, maybe just adding to this one, and Jim alluded to this one little bit earlier. Basic question is why do you have to have cash on hand at all? So the simple reason is within the quarter, we have cash volatility, that's just the nature of our business, when you collect it and when you build inventory, et cetera, and that was historically around this $1 billion, a very significant portion of that intra-quarter, but also intra-year volatility was driven by our European business.

Once you close the European transaction, you don't have that same kind of volatility in our cash flow streams, both intra-quarter and then also within the year. So what it all means is in a post Europe transaction environment, we do not expect that we will hold $1 billion of cash because it's just not needed. We can – we will quantify it coming to next year, how much it will be, but it will not be of that level of $1 billion.

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

Douglas Wardlaw
Analyst, JPMorgan Securities LLC

Q

Hi, guys, good morning. Doug Wardlaw on from Mike. I just wanted to kind of clarify and see if there's any type of trade-off between share and margins? And is it somewhat of a zero-sum game? And if you continue to gain market share, could we see similar margins in North America to what we see now moving forward?

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

A

Yes. So it's Marc I mean, obviously – I mean, the simple answer is no. As we've demonstrated in Q3, we picked up share and margins year-over-year. So it doesn't need to be a trade-off in the case of what we just

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demonstrated in Q3, we delivered both share and margin expansion. And that is also our objective going forward. The key to have both share and margin expansion ultimately still comes back to having a strong product pipeline.

With the products which we launched and which Jim showed earlier, we were able to expand both share and margin. If you wouldn't have these products, yes, then you're right, then it probably will turn at one point into a zero-sum game. And that's why we'll continue to invest. That's why you may have seen also in Q3 with both year-over-year, but also sequentially continue to invest in more in products and brands. And that's really the key to avoiding this trade-off.

Douglas Wardlaw
Analyst, JPMorgan Securities LLC

Q

Great. Thanks. And then secondly, and this is just another clarification question because I know you guys have done it throughout the call. In terms of the raw material cost savings carry over into 2024. You guys have any sense on the size of dollars of what that might look like?

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

A

No. At this time, we're not really giving any precise guidance on that because, as we mentioned before, the trends do seem very positive. We go through during our fourth quarter typically a negotiation process with many of our suppliers to help us bring more clarity of that number. And then typically, we don't give that number until we get to January. So right now, we would just say we expect it to be positive. And once we get to January, then we'll give a much more specific number.

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

Okay. So with that, let me just close the call. First of all, I appreciate all of your attendance today and good questions. I mean, obviously, as you've seen before, we feel actually good about Q3. We had revenue growth, we expand our share. I think we're delivering on our operational priorities.

Did we come all the way on the EBIT percentage? No, and we openly talked about it. But we feel good about the fundamentals of our business, both in Q3 and also as we look into Q4 next year. And we look forward to kind of give you a more detailed picture on Q4, but then more importantly, about 2024 in January of next year. Thank you all for joining us.

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

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