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Whirlpool Corp. (WHR)

Q3 2020 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning and welcome to Whirlpool Corporation's Third Quarter 2020 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, Roxanne Warner.

Roxanne Warner
Senior Director-Investor Relations, Whirlpool Corp.

Thank you, and welcome to our third quarter 2020 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 on the Investors section of our website at whirlpoolcorp.com.

Before we begin, I remind you that as we conduct this call, we will be making forward-looking statements to assist you 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-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. We also think the adjusted measures will provide you a better baseline for analyzing trends in our ongoing business operations. Listeners are directed to the supplemental information package posted on the Investor Relations section of our website for the reconciliation of non-GAAP items to the most directly comparable GAAP measures.

Also, as we highlight on slide 2, there is significant uncertainty about the duration and potential impact of the COVID-19 pandemic. Therefore, our discussion of the potential impact of COVID-19 on the company's business results reflects our best estimate based on what we know today.

At this time, all participants are in a listen-only mode. Following our prepared remarks, the call will be open for analyst questions. As a reminder, we ask that participants ask no more than two questions.

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

Marc Robert Bitzer

Chairman & Chief Executive Officer, Whirlpool Corp.

Thanks, Roxanne, and good morning, everyone. Now, turning to slide 4, we discuss our third quarter 2020 highlights. We delivered organic net sales growth of 7%, driven by industry demand improvements across the globe. While pent-up demand and low inventory levels with our trade customers partially drove demand within the quarter, increasingly, we are seeing the benefit from home nesting and a recovering housing market.

Additionally, the flawless execution of our early and decisive COVID-19 response actions to protect our business and ensure our continued ability to meet the needs of our customers resulted in ongoing EPS of $6.91, a $2.94 improvement year-over-year; ongoing EBIT margin of 12%, a year-over-year improvement of 480 basis points; significant margin expansion in our North America, Latin America and EMEA region; and a positive year-to-date free cash flow of $170 million, a $1 billion improvement driven by strong net earnings and disciplined working capital management.

Due to these strong results, the confidence we have in our business and reasonable year-end visibility, we are reinstating our full-year 2020 guidance. We now expect to deliver net sales decline of 5% to 7% and organic net sales decline of 1% to flat, an improvement from our previous full-year perspective.

Ongoing EPS of $17.50 to $18, above our original guidance of $16 to $17; and finally, free cash flow of approximately $900 million at the high end of our original guidance range.

Additionally, as a reflection of our strong liquidity position, we announced an increase in our quarterly dividend, resulting in the eighth consecutive year of dividend increases. Further, we intend to repay all COVID-19 related short-term borrowings by year-end as we continue to progress towards our long-term leverage target of 2 times.

Turning to slide 5, we show the drivers of third quarter margin. Price/mix positively impacted margins by 275 basis points, primarily driven by reduced promotional investments given our supply chain constraints. Also, sequentially, we continue to see improving mix trends as consumers slowly shift from duress and [indiscernible] (00:04:50) purchases to upgrading and investing in their homes.

Our cost takeout actions delivered approximately 200 basis points of margin expansion as a result of structural actions we took in the second and third quarter, as well as ongoing cost productivity initiatives. Additionally, favorable raw material trends positively benefited margin by approximately 150 basis points.

Lastly, the impact of continued investments in marketing and technology initiatives, along with unfavorable currency negatively impacted margins by approximately 150 basis points. Overall, we believe our third quarter results highlight the strength and resiliency of our underlying business and the effectiveness of our COVID-19 response plan.

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

James W. Peters

Chief Financial Officer & Executive Vice President, Whirlpool Corp.

Thanks, Marc, and good morning, everyone. Turning to slide 7, I'll review our third quarter regional results. In North America, continued COVID-19 related supply constraints resulted in a revenue decline of 2%. Looking forward, we remain confident in the strong demand for our products as our order backlog remains very high. We delivered record EBIT and EBIT margin driven by flawless execution of our cost takeout and go-to-market actions, including the reduction of marketing investments.

From an operational standpoint, we continue to experience COVID-19 related disruptions in our supply base, at our factories and in our logistics network. However, we are seeing gradual sequential improvements in line with our expectations.

Overall, the region's outstanding results demonstrate the fundamental strength of our North America business, delivering record margins despite ongoing COVID-19 disruptions.

Turning to slide 8, I'll review our third quarter results for our Europe, Middle East and Africa region. Continued demand recovery across the region and flooring gains drove year-over-year volume growth of nearly 7%, with double-digit growth in France, Italy and the UK.

Additionally, the region delivered year-over-year improvement in EBIT of $47 million as increased demand and strong cost takeout offset unfavorable currency. Overall, we are very pleased with the strong recovery delivered in the third quarter. The region's Q3 EBIT margin of 3.4% solidly demonstrates the impact of our strategic actions to date and the progress we have made to restore profitability in the region.

Turning to slide 9, I'll review our third quarter results for our Latin America region. Net sales increased 14% with organic net sales growth of 40%, led by strong demand rebound in Brazil and share gains across Brazil and Mexico. The region delivered very strong EBIT margins, driven by increased demand and disciplined go-to-market actions, including continued growth in our direct-to-consumer business, offsetting significant currency devaluation. Overall, we are very pleased with the region's ability to deliver outstanding margin results, further reinforcing the long-term margin potential of Latin America.

Turning to slide 10, I'll review our third quarter results for our Asia region. In India, we delivered net sales and EBIT growth driven by demand recovery and share gains despite the continued impact of COVID-19 across the broader economy. In China, while we delivered Whirlpool branded share growth, demand softness resulted in negative EBIT. Overall, we are pleased to see a rebound in our India business and expect regional results to gradually improve as the impact of COVID-19 lessens throughout the year.

Turning to slide 12, Marc and I will discuss our reinstated full-year 2020 guidance. I will now turn it over to Marc to begin.

Marc Robert Bitzer

Chairman & Chief Executive Officer, Whirlpool Corp.

Thanks, Jim. As mentioned before, our very strong third quarter results and our confidence in our business going forward, coupled with a reasonably good visibility for the fourth quarter has led us to a decision to reinstate our full-year 2020 guidance. As a result of increased global demand in the third quarter and positive fourth quarter expectations, net sales guidance improved from a decline of 10% to 15% to a decline of 5% to 7%. And on an organic basis, we expect it to be a decline of 1% to flat. Additionally, we expect to deliver approximately 8.5% ongoing EBIT margin, a year-over-year increase of approximately 160 basis points.

Further, we expect to deliver free cash flow of approximately $900 million or 4.7% of sales towards the high end of our original guidance range. In total, we expect to deliver full-year ongoing earnings per diluted share of $17.50 to $18, an increase even compared to our original guidance range from the beginning of this turbulent year.

Turning to slide 13, we show the drivers of our ongoing EBIT margin guidance. We expect price/mix to deliver approximately 75 basis points of margin expansion as effective go-to-market actions offset the negative mix impact of COVID-19.

Additionally, our $500 million cost takeout program remains on track, the $350 million in cost takeout year-to-date. Our cost takeout program will result in approximately 75 basis points of net cost improvement and approximately 100 basis points of raw material deflation to favorable impact margins.

Further, as we continue to invest in the future, we expect increased marketing and technology investments to drive a negative margin impact of 25 basis points while unfavorable currency, primarily in Latin America is expected to impact margins by approximately 75 basis points. In total, we expect these actions to deliver approximately 8.5% ongoing EBIT margin, 160 basis points improvement.

Now, I'll turn it over to Jim to discuss our 2020 free cash flow guidance on slide 14.

James W. Peters

Chief Financial Officer & Executive Vice President, Whirlpool Corp.

Thanks, Marc. With strong momentum and expectations of continued margin expansion, we anticipate driving incremental cash earnings of approximately $100 million. We expect capital expenditures of approximately $475 million as we continue to launch innovative products and prioritize investments in world-class manufacturing and our digital transformation journey.

Additionally, we will end the year with sustainably low working capital levels. We anticipate restructuring cash outlays of approximately $260 million, primarily due to the impact of COVID-19 related restructuring actions.

Further, we expect to continue optimizing our real estate portfolio, resulting in similar levels of sale of asset transactions as seen in recent years.

Lastly, we expect two previously discussed one-time items to negatively impact free cash flow. Overall, we expect to drive free cash flow of approximately $900 million as we focus on driving strong cash earnings and effectively prioritizing our capital investments.

Turning to slide 15, we provide an update on our capital allocation priorities for the remainder of the year. We are fully committed to funding the business and prioritizing investments, including our digital transformation journey.

Additionally, we are focused on returning cash to shareholders, highlighted by our recent dividend increase announcement. Also, our share repurchase program remains temporarily paused as we prioritize the repayment of all short-term debt by the end of the year. As a result, we anticipate our gross debt to EBITDA to be approximately 2.4 times by year-end, progressing towards our long-term goal of 2 times.

Turning to slide 16, we highlight our continued commitment to returning cash to shareholders. As previously mentioned, we announced a quarterly dividend increase in October, resulting in eight consecutive years of dividend increases. This reflects our strong liquidity position, commitment to shareholders, and is in line with our dividend target of approximately 30% of trailing 12 months ongoing net earnings.

Now, on slide 17, I'll turn it back over to Marc to summarize our key messages.

Marc Robert Bitzer

Chairman & Chief Executive Officer, Whirlpool Corp.

Thanks Jim and let me just recap what you heard over the past few minutes. Our outstanding third quarter performance demonstrates the impact of our early and decisive COVID-19 response plan, which continues to be successfully executed across the globe.

Further, the $500 million-plus cost takeout program we implemented early this year is firmly on track delivering $175 million in benefits this quarter for a year-to-date total of $350 million.

Additionally, while we did benefit from pent-up demand in key countries, we also captured the benefits of more structural demand improvement by leveraging our trusted brand portfolio and proven track record of innovation. It is because of these strong results to date and our unique ability to capitalize on these structural trends that we feel confident reinstating our full-year 2020 guidance, which is at the high end or above our original guidance for free cash flow and ongoing earnings per diluted share.

In closing, our Q3 performance serves as another proof point in our long-term value creation strategy, highlighting our ability to drive margin expansion and strong levels of cash despite the challenging macroeconomic environment.

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

QUESTION AND ANSWER SECTION

Operator: At this time, we would like to take any questions you may have for us today. [Operator Instructions] Our first question is from David MacGregor with 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, Whirlpool Corp.

A

Good morning, David.

David S. MacGregor
Analyst, Longbow Research LLC

Q

Congratulations on [indiscernible] (00:15:01). Great quarter. I guess, just looking at North American margins and just trying to understand that there's obviously benefits you're associated with implementation on the cost takeouts, but also, you've got go-to-market expense reduction. And if we think about kind of going forward and as volume comes back in the marketplace and maybe the backlogs ease a little bit, the go-to-market expenses start to come back, how should we think about kind of the new normal North American margin level? I mean you reported 19%, you've been at kind of a 13% – you're tapping on the door of 13%, should we be thinking somewhere in the 14% to 15% level, or just could you help us think through the new normal there?

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

A

So, David, it's Marc. So, let me maybe just a couple of comments on the North America margin. First of all, coming back to the big picture, in Q3, North America had a 47% increase of EBIT. That came on top of last year's Q3, where we had 12.8% EBIT margin. So I would say, over an exceptionally strong margin improvement, which, to your point, came essentially from two sources. One, the progress on the cost reduction, where the cost reduction program delivered. And two is related to price margin progress.

Price margin itself falls into two buckets. One is, yes, we have significantly reduced promotion expenses. That is a decision which we took essentially in Q2 to kind of curtail pretty much most promotions. But the second point in the price margin is also related to mix. As we alluded to in our prepared remarks is, as we are going through with COVID crisis, we see sequentially positive mix trends. And what I mean with that is kind of initial demand was freezers, microwaves et cetera, which is still present, but we see more and more demand to higher ticket items. So that sequentially also helped us on the PMR. So these were the fundamental drivers behind our outstanding Q3 margin in North America.

Now to your question about what is normalized, I didn't know we're using the word normal in this year. But having said that, I would say, I would more point to Q2, actually, David. Q2, which by any definition, was the worst quarter ever from a demand perspective.

And North America delivered over 12% margin, which just tells you even [ph] with our volumes (00:17:28) our North America business and our global business is in a completely different structural position. And I think we've certainly demonstrated the trough margin [indiscernible] (00:17:38) Q2 in a very impressive way, so. And I think now we're just seeing the benefits of this structurally different business model.

David S. MacGregor
Analyst, Longbow Research LLC

Q

Okay. Second question, just on Europe, a lot of progress here, obviously. Can you just talk about the flooring experience? You mentioned Jim, passing that flooring have been a contributing factor. But can you just talk about progress on winning new listings and regaining retail support?

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

A

Yeah, so David, again, it's Marc. On Europe, as opposed to going to individual trade partners, where we had some good progress. I think for us, the most important thing is, as you know, very certain Europe is not one market, it's the market of many different countries. And there are certain countries where we absolutely have a strategic position, which are critical to our future. France, Italy, UK among of them. In all 3 countries, we had actually very good market share progress in August and September. So we feel really, really good. And again, that's not just market share, but it is also floor expansion pretty much across the board.

So we feel very good about the progress in particular in these strategic countries. There's been [ph] awesome (00:18:43) progress in other markets. So we see, I would say, markets after markets where we're kind of regaining the share, which we lost over the last 2 or 3 years.

Operator: Our next question is from Sam Darkatsh with Raymond James. Your line is open.

Sam Darkatsh
Analyst, Raymond James & Associates, Inc.

Q

Good morning, Marc. Good morning, Jim. I hope you both are well and terrific results, obviously.

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

A

Thank you, Sam.

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

A

Sam, good morning.

Sam Darkatsh
Analyst, Raymond James & Associates, Inc.

Q

Two questions, if I might. First off, with respect to the capacity constraints, both for you and for the industry, based on the current trajectory, ballpark, in what quarter do you think that the industry returns to normal lead times? So what's the primary bottleneck right now?

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

A

Sam, it's Marc and I appreciate the question. I guess the question is pretty much on everybody's mind. So let me spend a little bit more time, and then probably Jim will also add some comments on the supply chain constraints.

First of all, stepping back where the supply chain constraints are coming from and they are ultimately COVID-19 related, which is obvious.

Geographically, we're particularly focused on North America, Europe, to a lesser extent South America and India, and there's almost no supply chain constraint coming out of China, Vietnam, Thailand. So it is geographically different. It is ultimately coming from, in particularly, North America and Europe.

It comes from labor constraints, which you have in the factories, social distancing measures which you have in the factories, which is just to reduce the line pacing which you have in the factories and thus the output. It comes from supply and component shortages, who have to deal with the similar issues in the factories.

And it is increasing coming off from logistic constraints. In particular, in the US, where it's just – you have a couple of bottlenecks. So these are the fundamental constraints, which frankly are getting better every week. But ultimately, as long as COVID is around us, we have to be prepared for supply chain disruptions. And that's just the nature of it.

Having said that, we are getting more and more yields despite these constraints out of our factories week-after-week. Now the other part, which is probably going through everybody's mind is when we refer to back orders or backlog. Let me also give you a little bit more color on this one because, again, it's a relevant factor in the current environment.

As you know, typically, we don't refer to our order book. Our order book typically as a company is one or two weeks. It's so little that we typically don't refer to that in the earnings calls, because typically, we have a lot of build to order, real customer orders. So it's a very short order book.

Right now across the globe, our order book is about seven to eight weeks. So it's significantly bigger than any time before, which you can read as good news, because you know we have strong demand in our sales, in particular [indiscernible] (00:21:40) as we go into Q4. But at the same time, it's frustrating, because we're letting consumers down. Many of these orders are back orders. And all I can do is apologize for the delay of certain customer orders.

So yes, it's good that we have an exceptionally strong order book, but we are, of course, trying to minimize any customer frustration which we have out there. So the short answer Sam is, as long as COVID will be around us, we have to be prepared for supply chain constraints across the entire industry. This is not Whirlpool unique. However, we are getting better week-by-week and getting more yields despite all these constraints.

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

Yeah. I think, Marc hit the key points there that, one, we are improving; and two, as we look out further with that order book, as we go into the end of the year and then into Q1, we intend to begin to work some of that down, obviously but will give us momentum going into next year.

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

My next question, if I could, I'm trying to get a sense of how much of the demand that we're seeing right now in the States is really pull forward based on heavy break, replace activity because of increased usage. And I'm using Procter & Gamble saying that their Tide detergent sales were up 14% in the quarter, which is obviously extraordinarily elevated. Any sense of how much demand right now is maybe like onesie-twosie type of units versus full suite sales, which would indicate more of a large-scale kitchen remodel?

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

A

Sam, I appreciate the question, which again, it's good question, it's probably on everybody's mind. First of all, when I hear comments about pull forward, I smile because pull forward and back orders are a little bit of contradiction in terms. I would be happy to pull forward orders or deliver orders, but we have right now back orders. We have the opposite situation.

From a structural demand perspective, and this is your question, yes, we saw at the beginning of Q3, there was pent-up demand. And frankly there's even right now trade inventories are super low. So there is a little bit of element coming from this one. But what – and that's very important also as we look into the future, we are encouraged by structural, healthy home and house trends.

And what I mean with that, and let me spend a little bit more time on this one. We all know people are spending a lot more time at home. People are investing in the home and house. They're investing in nesting. And initially, you saw at the beginning of the crisis, a lot of investing in, what I would call, more small pocket ticket items.

Obviously, you first change the light bulb before you change the lamp. And we see that now across the entire home, that people are starting to invest in home upgrades. People are rethinking the purpose of the home and because they know we spend more time over an extended time period. So we do start seeing structurally positive trends for the home.

Or to put it even in another way. You have structural positive demand trends, coupled with high disposable income and low mortgage rates. You put these two factors together; you have a very, very healthy mix, which kind of, again, gives us confidence beyond this quarter.

And there's a reason why some people start referring to the golden age of housing, because there is a lot of positive trends coming together. And we do not see the structural demand trends and refocus on home and nesting going away short term. COVID, hopefully, at one point will be behind us, these trends will stay.

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

A

And, Sam, maybe even to your question on replacement, I'd say, the thing we have to think about here is, remember, we're coming out of the trough of when you look back 10 years where the replacement industry was starting. So this could be, to your point, with the usage that consumers are experiencing now, accelerating some of that, but it's just accelerating us into what will be a positive replacement curve from a demand perspective. So that could be another positive trend as we look forward.

Operator: Our next question is from Seldon Clarke with Deutsche Bank. Your line is open.

Seldon Clarke
Analyst, Deutsche Bank Securities, Inc.

Q

Hey. Good morning. Thanks. When you take a step back and think about the margin performance in your international segments, particularly Europe and Latin America, I realize there's some seasonality, but your third quarter margin was meaningfully better than some of your longer-term guidance for regional margins or at least your margins coming into the year. So can you just help us parse out maybe what's more transitory there and how you're thinking about maybe the longer-term margins for those segments, now that you've seen some of the traction with your cost takeout items?

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

A

Yeah, Seldon, and this is Jim, and maybe I'll start and then Marc can add some commentary. And I'll kind of take the two regions you talked about there. First with EMEA, we had said that EMEA would return to profitability this year. And, obviously, the start of the year with the COVID disruptions made that very difficult.

But the positive thing coming out of that now as we see the demand picking up and we talked about it a little bit earlier in terms of gaining share back in certain markets, as we believe that we've been able to put that business back on track to where we thought it would be at this point in time, exiting the year, which is a positive thing.

Now that – what that does is, that reinforces our longer-term thoughts that this is a high-single digit type of margin business in the midterm and that we can get it to. So, again, the cost takeout has been a very positive trend there, but that will continue because the actions take a little bit longer to implement there. So they're coming on the tail end, and that will help them.

Also, as we said, demand is positive there, and we're seeing positive market share gain within there. So I think this is a good sign that we're on track, and we're still confident in the longer-term margins. If I take Latin America, we've always talked about that Latin America, and historically it has had periods of time where it's been above 10%.

And I believe right now, what you're seeing is the effect of positive demand, especially in Brazil. Also with cost takeouts and our ability to drive pricing within those countries there as we've experienced currency impacts and cost fluctuation. So I think both of those are on a positive trend. I still think our longer-term margin guidance that we've given for them applies. But that's what – where we stand right now.

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

A

Seldon, let me maybe also zoom out a little bit on your question, which I think is a very good one. Remember, several years ago, we established long-term value-creation targets. We talked about the long-term value-creation target of 10% EBIT. And probably rightfully, we were challenged over a couple of years about how do you get there, and show me, demonstrate me. We had many discussions about how do you even get to 10%.

Well, the back half of 2020, we will be about 11% EBIT or higher. That's pretty much embedded in our guidance. So I would read Q3 and Q4 as a proof point of our long-term value creation that it's not [ph] only doable (00:28:59) that we demonstrate it. We all do recognize Q3 and Q4. There are some operational but still exceptional elements in there. Having said that, they fall on a structurally different business model, as we demonstrated in Q2. There's a lot of structural changes in our business, which makes certain elements not comparable to 5 or 10 years ago. And then we're in a very healthy position from that perspective.

Seldon Clarke
Analyst, Deutsche Bank Securities, Inc.

Q

Okay. And that's helpful. And then just switching gears for a second, as it relates to your free cash flow bridge, if you go back and look at your original guidance to start the year, you're just under $1.7 billion of cash earnings, versus today, you're about $40 million lower in cash earnings, but your EPS guidance is obviously a bit higher than what you were talking to, to start the year. I know your overall free cash flow guidance is towards the higher end. But I'm just talking about this cash earnings piece.

So could you just help us think through some of the moving parts there and maybe what's driving that delta? And then if we look at some of these other buckets, how should we think about the progression for, call it, net CapEx? So capital investments plus real estate sales and either the onetime or is there a restructuring cost as you move into 2021?

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

A

Yes. And Seldon, this is Jim. And I think you've kind of hit where some of the things are. As we look at the cash flow coming out of this year, we are on the higher end of the original guidance we gave and a lot of that is driven by more positive earnings. At this point in time, the working capital seasonality has been different than we expected throughout the year. And obviously, we've had a benefit from inventory coming out earlier.

But as we look at that going into the fourth quarter, we'd say right now that some of that we won't see as big of a lift within the fourth quarter, as we normally do, due to that working capital seasonality. Now I think you hit the kind of the important point there is what we are seeing is increased restructuring cash payouts to the many of cost actions that we took. And that's the biggest driver of the difference from where we would have started the year and what we thought we'd generate in free cash flow to now when you take into account the additional earnings is that we did have some costs, some cash costs that will come out this year. And then obviously, next year, restructuring cash costs will be significantly lower.

Operator: Our next question is from Susan Maklari with Goldman Sachs. Your line is open.

Susan Maklari
Analyst, Goldman Sachs & Co. LLC

Q

Thank you. Good morning and congratulations on a great quarter.

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

A

Thanks Susan.

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

A

Thank you.

Susan Maklari
Analyst, Goldman Sachs & Co. LLC

Q

My first question is around the margins and maybe thinking about it a little bit more near term, if we consider the 8.5% guide or so that you gave us, it implies that there is some sequential deceleration that you're looking for in the fourth quarter there. Can you just give us a little color on that? Is it just a level of conservatism that you're baking in? Is there anything you're assuming around mix or costs or anything within some of those factors that's kind of coming through there?

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

A

Yes. Susan, maybe I'll start off here and then Marc can add if he wants to. I'd say Marc kind of made a good point earlier, as we look at the back half of the year, we kind of look at it and say we're going to be about 11% total EBIT margin for the back half of the year. And obviously, there is a lot of variability. And here, there are still unknowns as we head into the year, end of the year, but we feel very confident in the guidance that we've given.

I think the one thing you have to take into account here, especially in the third quarter and we talked about this when we talked about the cost takeout program is that there were some non-structural temporary things and then structural things. And so we had more benefits probably within the third quarter from some of those non-structural temporary type of things.

Then you see within the fourth quarter, we more normalize to the effect of what the structural cost takeout. And we've said for next year, we expect that to continue to benefit us with tailwinds of $50 million to $100 million. So, I think those are probably the biggest things. But as I said, you've really got to look at the back half of the year kind of in total rather than on a quarterly split type basis.

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

A

Susan, it's Marc. This is more for your entertainment purpose. If you would have seen us on your question, we smiled, frankly because I don't think we imagined half a year ago, where we would ever be asked a question about a deceleration down to 10% EBIT margin because that's basically pretty much it.

I think to Jim's point all joking aside, I think you should look at the back half margin total, because there's still a couple of moving items left and right. And the back half margin is around 11% EBIT, which is very, very strong.

Susan Maklari
Analyst, Goldman Sachs & Co. LLC

Q

Yeah, I know it kind of does really speak to the year, right, that we've seen and the strength there. My follow-up is just thinking about the cost takeout rate, obviously, you've done an exceptional job this year. We've seen that those costs have come through.

Can you talk about maybe – were there any inefficiencies given the accelerated rate of production that's coming through? As that normalizes, will we lose some of those? And can those possibly be offsets to some of these non-structural benefits that we've gotten in the third quarter as we think about kind of the forward outlook maybe to 2021?

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

A

Yeah, Susan I'll take a shot at it and then maybe, Jim, you can add. Susan, as we already indicated in Q2 when we laid out the $500 million program, we said there are certain elements like raw materials, where you just don't know exactly how that will materialize next year. But then the remaining piece, there's a fairly significant amount of structural costs, and we fully expect these structural cost takeouts to carry over into next year. So, if you do the math, it's roughly $50 million to $100 million costs carryover into next year.

Particularly to your question around the production, our production productivity was, of course, is very, very challenging Q2 because, first, you don't have volume, you have under occupation, and now you're working six shifts or six days a week with three shifts, which is not the most efficient way to produce.

So actually, from a pure factory productivity, this has been an incredible tough year. So, in a certain way, that actually should improve next year once we get to more normalized production volumes throughout the year.

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

A

Yeah. And maybe to add to that, as Marc talked about, we started to see the production volumes match up to what our shipments are and start to even slightly exceed that, but get on more normalized levels. As we head into next year, we realize we're going to start off the year with a lower level of inventory than we have on any other year. And so you're not – if anything, the production could be slightly higher next year, even as we normalize some of those inventory levels go forward. So I see that as a continuing positive for us, production levels.

Operator: Our next question is from Adam Baumgarten with Credit Suisse. Your line is open.

Adam Baumgarten
Analyst, Credit Suisse

Q

Hey guys, thanks for taking my questions. Just given the strong margin profile you guys are seeing in North America and perhaps maybe some of your competitors as well, do you expect any change in industry competitive behavior even when things maybe normalize? Just given everyone is benefiting from the lower promotions?

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

A

Here's – Adam, this is Jim, and maybe here's where I'd start with that. I'd say that as we said, right now, the industry is constrained and the level of promotions has been less significant. And as COVID continues on, we continue to see that as a possibility that obviously as we operate at a constrained level, the promotional environment will stay at the levels it is.

Once things begin to improve, right now, I can't necessarily say how much the dynamics will change and when that will start to change. But what I would say is if you look at us in our history and especially within North America, no matter what the environment has been, we've been able to create value, and we've been able to keep our margins over recent years at 12% plus, and Marc talked about the potential of where they could go to.

So I think there's a lot of dynamics you've got to take into consideration there. Additionally, as we just talked about, as things begin to improve and you head forward, there are some incremental costs we're incurring today that, that may not be there go forward also. So there's a lot of variables that play in as this begins to normalize.

Adam Baumgarten
Analyst, Credit Suisse

A

Okay. Got it. Thanks. And then just one quick one on EMEA, you guys cited 6.5% volume growth. That would imply some pretty hefty pricing. Can you maybe walk through what drove that?

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

A

Adam, it's Marc. Keep in mind, we report in dollars and [ph] yet a euro versus dollar move also (00:37:29). So when you do your pricing calculation, you have to factor in the currency element in there. Having said that, in Europe, we had a good volume growth, as you pointed out. And we also – because we had similar, like North America, we have a reduced promotional investments in the markets, maybe not all the way reduced to where we have it in North America. So that is a positive impact on the price margin.

And also in Europe, we start seeing every month a slightly better mix. So you have some of the fundamentals, which I explained for North America, also in Europe. But again, you have to add also the pricing – the currency equation to your price calculation.

Operator: Our next question is from Tom Mahoney with Cleveland Research. Your line is open.

Tom Mahoney
Analyst, Cleveland Research Co. LLC

Q

Good morning.

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

A

Good morning, Tom.

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

A

Good morning.

Tom Mahoney
Analyst, Cleveland Research Co. LLC

Q

I was wondering if you could size this North American structural takeouts inside of the $175 million in the third quarter. And I guess, just talk again through the moving pieces of why taking those costs out at the end of the second quarter makes sense. And as production increases into 2021, is there any limit on the incremental margin potential, having taken those costs out and as volume returns?

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

A

Yes, Tom, and this is Jim, and maybe I'll start with that. And we don't get into the specifics by region, but what we typically say is when you look at the overall cost program, it applies ratably across the globe if you look at our businesses and the sizes of them. And probably in the third quarter, North America had slightly higher benefits of it just because of our ability to implement those things quicker now. As we've talked about within there, there were some temporary things that we did earlier in the year, such as furloughs, travel reductions, not having large meetings and stuff that benefit us. But then once we got into the third quarter, the structural actions in terms of head count reduction that came both from a voluntary retirement program that we initiated as well as then some involuntary reductions that we did after that.

So again, those are the nature and the types of things you see within that costs. Now to say, did we cut too deep? I would say no. I think we made very – the right decisive actions at the time. As we said, there's still a lot of unknown around the globe.

The second thing is our margins reflect the benefits of those decisions that we made. I'd say if you look at especially the question in terms of as production comes back, most of those reductions were made within the white-collar and the office environment.

So, in terms of the blue-collar environment, we continue to add workers along with the volumes that we have and we don't see that as a limit on our ability to a reduction of capacity that would affect our ability to service the industry.

Tom Mahoney
Analyst, Cleveland Research Co. LLC

Q

Understood. And then just to go back to a point, I thought I heard you guys say, you're at a point now where backlog is no longer building or in recent weeks, is that a function of any slowdown in POS or demand? Or is that purely a function of improvements in the speed of your supply chain?

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

A

So, Tom, of course, the order backlog is a little bit different region by region. Having said that, yes, you're correct, it's stable now over the last couple of weeks, and that is a result of increased production yields and better supply chain management. It's not a slowdown of a demand.

Operator: Our next question is from Michael Rehaut with JPMorgan. Your line is open.

Michael Rehaut
Analyst, JPMorgan Securities LLC

Q

Thanks. Good morning, everyone, and also congrats on the results.

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

A

Thanks Mike.

Michael Rehaut
Analyst, JPMorgan Securities LLC

Q

First, I just wanted to delve in a little bit more on the industry picture for the third quarter. Obviously, you've kind of talked through your supply chain challenges. But with positive price mix, I would presume you're looking at volumes down maybe in the mid-single digits in North America, which compares not, obviously, 100% 1:1 with Canada, but compares to [indiscernible] (00:41:49) shipments up 8%.

So, I was just trying to get a sense for if you can – if you're "losing share", and I recognize that, obviously, you're maintaining floor space and believe it's temporary, and we hold that view as well, just trying to get a sense, who's on the other side of that coin? And maybe if there are certain other factors we should consider or be aware of in terms of that – your volume growth versus the industry?

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

A

Yeah. Michael, it's Marc. So, yes, we had in Q3, a small market share loss on the unit base. I wouldn't argue on a value base, but on a unit base. It doesn't make me overly nervous because we know it's not related to brands or the products, and we didn't lose floor space. We did not lose floor space.

What it relates to is what I referred to earlier, anybody with Asia production right now had pretty much unconstrained supply chain. And that's just the simple realty of how right now COVID impact with different regions.

Part of the reason why I'm also less concerned is because already exiting Q3 and now as we enter Q4, we see every week our market share coming back up again. So that's – I considered that temporary, entirely related to the COVID-driven supply chain constraints, which impacted, particularly North American producers. And it will work its way out of the system. And we – again, I can only reemphasize, we did not lose floor share.

Michael Rehaut
Analyst, JPMorgan Securities LLC

Q

Right, right. And then, I guess, just kind of looking forward and obviously very encouraging around the week-to-week improvement and the stabilization in the order book. Between that and recovering some of the share, is it fair to assume positive volume growth in the fourth quarter as you're also talking about demand trends remaining pretty solid? And, again, I'm talking particularly here in North America.

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

A

So, Michael, as you know, in our Q4 guidance, or the implied Q4 guidance, because we gave a full-year guidance, we don't break it down by region. However, if you do the math, we pretty much implied a roughly 5% to 6% organic revenue growth for Q4, which again, we don't go into details, which should imply or some modest growth in North America. However, that's dependent on terms of how quickly we get out of the supply chain constraints. Right now, the demand is there. However, I would also expect that some of the demand backlog will carry over into Q1.

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

A

Yeah. And I think maybe to add to that, as we talked about earlier, what we do see as a positive in the third quarter and in the fourth quarter and continuing, it's been the mix that we see, especially within the US as the consumer is focused on their kitchen and their laundry space, but whether it's the upgrading or home remodeling and things like that, we do believe the trend on mix is improving.

Operator: Our next question is from Curtis Nagle with Bank of America. Your line is open.

Curtis Nagle
Analyst, Bank of America Merrill Lynch

Q

Good morning. Thanks very much for taking the questions. So, yeah, I'm understanding that capacity is constrained across the board in North America and other regions, but just looking at the US and I guess, underlying demand trends, where do you – I guess, what's the difference between retail and builders? Are they even, one's stronger than other? How should we think about that?

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

A

Curtis, I mean, again, it comes a little bit back to my earlier fundamental point about the crisis and the rest demand has been now more and more replaced by structural demand trends. Not in one-on-one, but we see more and more healthy underlying structural demand, which is both home improvements and new housing.

Now, by that description already, you can also infer that in particular, early sign of a demand largely came through the big home improvement stores. And we now see more and more of a demand, still being very strong in the home improvements, but we see it also coming through on the builder side, on the high-end retailer side.

Now, on the builder side, you all follow the builders also, between demand trends and finishing home, there is a couple of months in between. So we don't yet fully see the appliance impact of the increased homebuilding side in our business. That is more something which will play out Q1, Q2, next year.

Curtis Nagle
Analyst, Bank of America Merrill Lynch

Q

Got it. Okay. That makes sense. And then, maybe just a quick one on capital allocation. So cash position is quite strong. We see plenty of free cash flow in 4Q, you're paying down some debt and you increased the dividend. But it doesn't look like you're doing anything with the buyback, again, despite what should still be a pretty strong cash position at the end of the year. When might or how should we think about that being turned back on at some point?

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

A

Yeah, Curt, this is Jim. What I would say is, in the first quarter of this year before the crisis hit, we did buy back 121 million in shares. So we had – and then we suspended the program effectively in April as all the uncertainty occurred around us. Our short-term focus, as we've mentioned, is that we will pay down all of our temporary short-term debt by the end of the year. And then as Marc and both myself have talked about, is there's still a lot of uncertainty around us around the globe in terms of the effects of COVID and what could occur. And so we'll stay in a rather conservative position at least for a period of time now and then at some point in the future we'll begin to talk about what we might do from a share buyback perspective. But we're going to focus right now, as I mentioned, on paying down that short-term debt and then continuing to invest in our business as we come out of this crisis here.

Operator: Our next question is from Mike Dahl with RBC Capital Markets. Your line is open.

Mike Dahl
Analyst, RBC Capital Markets LLC

Q

Good morning, thanks for taking my questions. Marc, I think fascinating results in terms of kind of the outcome of the go-to-market strategy. And clearly, in some ways, this has been imposed on you by the supply constraints, but you've reacted in a way that's optimized profitability.

I'm wondering just aside from promotional activity, which may or may not change going forward, have you guys learned anything over the course of these past few months about your supply chain or your SKUs that make you think differently about additional potential for something structural, whether it's SKU rationalization or something else that would allow you to kind of keep some of these benefits for longer even as the supply chain normalizes?

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

A

Yeah, so Michael, it's Marc. Of course, there's a lot of reflection, which is happening about the crisis, and by the way not just in supply chain, on everything. And honestly, I don't think the reflection is yet completed and done. Now what is already becoming apparent is it's not so much the SKU rationalization. I mean, first of all, to give you a little bit of sense, and I know we're getting the operational details. Essentially, our supply chain is a pull system.

And given the constraints which you had to face with components and everything else, you had to overnight shift a pull system into a push system. That is, I can't express how difficult of a process that is, but our team has [ph] managed that (00:49:28) really, really exceptionally well given the constraint. So I hope that's not going to happen any time in the near future, but you have to push or change from pull to a push system.

Having said that, also, of course, we're rethinking certain decisions which we do about single sourcing with suppliers, do we go to dual sourcing, we are rethinking, [ph] but definitely (00:49:48) help us short-term about where do we debottleneck and add additional capacity. So these are the kind of things which we're reflecting right now. However, they don't have an impact in Q4. They're more structural to your point, stepping back in terms of what did we learn and what we will readjust.

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

A

Yeah. And I'd say maybe just to add to that is complexity reduction within our business has been one of our longer-term strategic things we've talked about and is ongoing. And we'll continue to see benefit. In fact, we've talked about that that's what's going to drive some of the longer-term cost takeout benefits for us that we're not even realizing yet, is our ability to reduce our number of architectures and platforms across the globe.

Mike Dahl
Analyst, RBC Capital Markets LLC

Q

Got it. Okay, thanks. And second question, you did highlight that you're potentially starting to see some logistics constraints in the US clearly, trucking and things like that, it seems to be tightening up. I think people remember 2018 when this happened less, and there are some worries about how that plays out next year. Can you just go into a little more detail around when you say logistic challenges, clearly, you've had other cost tailwinds that are more than offsetting, but what are we – what should we be thinking about in terms of, A, what the issues are, and B, any kind of sizing of magnitude?

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

A

I would say, Michael, this is Jim, what I would say is that it's one of the many things we talked about and we're probably more on the – that's probably of all the things we listed, maybe the third thing that's really impacting us right now, and we do see that as more of a temporary impact as demand has fluctuated as there's been uncertainty around the impacts of COVID and all that. And so we've been able to really work our way through it, but it is just one of the challenges right now.

And from a cost perspective, we are seeing very positive cost takeout. But we've had to be able to absorb some of those additional incremental logistics cost that we've had and we've still been able to offset them and still been able to get products delivered. So, while it is an issue, I think that's probably something that we don't see as more long-term and structural.

Operator: Our final question comes from Ken Zener with KeyBanc. Your line is open.

Kenneth Zener
Analyst, KeyBanc Capital Markets, Inc.

Q

Good morning.

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

A

Good morning.

Kenneth Zener
Analyst, KeyBanc Capital Markets, Inc.

Q

Pretty amazing. Look, the huge beat you had in North America was, obviously, promotion going away and mix shift up, along with the cost action. So, can you give like a 60/40 split on the promo versus mix? Because I think this nesting might have longer tailwind as homeowners' equity goes up with price appreciation, whereas the promo, it seems to be a simple economic concept that suggests it's not going to be a permanent tailwind. Can you kind of split that out so we can understand how much of the benefit it was just directionally?

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

A

Ken, it's Marc. I mean, I think you – the fundamental theme, you got right, okay? We have – in the pricing, there's a less promotional element, and there's an increasing positive mix element in there. And they probably will have different longevity. The less promotion is ultimately a reflection of a decision we took in Q2 when we foresaw that the supply chain constraints are real and we pulled back a lot of promotion because in our industry, you don't decide a promotion for next week. You have to decide pretty much four, five months down the road.

So, we made this decision early in anticipation – against the supply constraints. The supply constraints at one point will normalize, but they will not quickly normalize. Now, obviously, I can't give you a forward-looking statement about our promotion plan for all the obvious reasons. But judge us on our behaviors from the past in terms of how we managed supply, promotion, and value creation in the industry.

The encouraging thing is – and this is where we do have confidence is the structural mix coming from the home nesting and investing in new nesting is good. And I do not believe this is going to go any time away.

Kenneth Zener
Analyst, KeyBanc Capital Markets, Inc.

Q

Right. And then I guess in terms of could you just address given your high share of new construction, given your contractor channel, I've heard some builders are just taking out appliances because they can't get it. But is that – how is that impacting the trade, your delivery? Because I think construction times are elongated for a variety of reasons, and given that the appliance comes in at the last week, before closing, could you kind of address how you're handling that in the new construction market please? Thank you.

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

A

So, Ken, there's two elements. The first, in the short term, the only channel which we absolutely still try to prioritize is the construction channel, because no consumer wants or no customer of a finished home wants to wait for appliances. I mean, so we're trying to prioritize as much as we can.

Having said that, I think the real momentum which I think starts building in the homebuilder market is not yet visible in our Q3 and Q4 numbers, because just from backlog, as you mentioned, of between housing starts, housing completion and the appliance coming in, so that is not yet a factor in 2020. However, it gives us confidence for 2021, because I do believe the new home construction will be fairly healthy as we look into next year, fairly healthy to very healthy.

It's ultimately driven similar to our industry by manpower and constraints which we have. I think that will be of a limiting factor. Demand will not be of a limiting factor on the housing markets.

Marc Robert Bitzer

Chairman & Chief Executive Officer, Whirlpool Corp.

Well, I think that was our last question. So let me maybe just, first of all, thank you all for joining us on our call today. I'm not going to reiterate all the messages which you heard before. However, I mean obviously we're very pleased with an outstanding Q3. We also guide towards an outstanding Q4.

So we feel very, very good about where we are as a company, which is ultimately a reflection of the decisive actions we took in Q2 and preceding structural actions which we've done over the last couple of years. So we feel very good about where we are as a company.

You see our balance sheet, our cash flow is in a position which nobody could have expected at the very outset of this crisis, so we feel very good and very confident about it.

I will be remiss to not take the opportunity of thanking our employees, because frankly as Jim and myself, we were talking, our people do work, and I can't thank them enough for their very, very hard work in this entire Q3, which made all this one possible. So thank you all for joining us, and talk to you next time. Thanks a lot.

Operator: This concludes today's conference call. You may now disconnect.