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Q1 2024 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Scott Cartwright

Head-Investor Relations, Whirlpool Corp.

Good morning, and welcome to Whirlpool Corporation's First Quarter 2024 Earnings Call. Today's call is being recorded. Joining me today are Marc Bitzer, our Chairman and Chief Executive Officer; and Jim Peters, our Chief Financial and Administrative Officer. Our remarks today track with the presentation available on the Investors section of our website at whirlpoolcorp.com.

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

We also want to remind you that today's presentation includes 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 our results from ongoing business operations. We also think the adjusted measures will provide you with a better baseline for analyzing trends in our ongoing business operations. Listener 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 listen-only mode. Following our prepared remarks, the call will be open for analyst questions. As a reminder, we ask that participants ask no more than two questions.

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

Marc Robert Bitzer

Chairman & Chief Executive Officer, Whirlpool Corp.

Thanks, Scott, and good morning, everyone. I'm pleased to report that despite the challenging macro environment, we reported a solid first quarter, in line with our expectations and we're on track to deliver on our full year guidance. This quarter marked the completion of our EMEA transaction following the UK's CMA approval. It is a major milestone in our portfolio transformation initiative to a higher growth and higher margin business, unlocking significant value creation opportunities for Whirlpool.

As expected, the North America industry volumes were soft during the first quarter as promotions remained elevated on the back of persistently high interest rates, which continue to put pressure on housing affordability and overall consumer discretionary spending. Against this backdrop, we were highly selective with how we promoted, and pulled back on promotions that were not value-creating. And we did so while maintaining our market share position.

We also remain disciplined and execute towards our operational priorities, achieving meaningful cost reductions in the quarter. Looking holistically at our business portfolio, we had a strong quarter in our small domestic appliance business where we saw a top line and margin expansion. We continued to innovate in this business and launched our automatic espresso machine product lineup.

Outside the US, our Latin America and Asia business performed very well, and we continue to see meaningful long term potential from these businesses. In the quarter, we also executed on the announced sale of our 24% stake in Whirlpool of India, retaining 51% ownership. We remain firmly committed to returning value to our shareholders and continued our nearly 70-year track record of steady or increasing dividends by recently declaring a dividend of $1.75 to be paid in the second quarter, putting us on track to deliver $400 million of dividends for the year.

We also continue to de-risk our balance sheet and are on track to achieve our long term leverage targets. We remain committed to our long term free cash flow goals and fully expect free cash flow to ramp up throughout the year from our seasonal low in the first quarter and with the closing of a European transaction.

As we look to the year ahead, we continue to view 2024 as a tale of two halves. In particular, we expect the promotional environment in the US to remain elevated in the first half of the year, a carryover impact from last year. However, we will be comping high promotions in the second half of the year. We announced a North America promotional program price increase of 5%, which is now in effect to offset inflationary pressures, which would also benefit our top line.

We do see value in our products and expect the benefits from this action to positively impact the second half of 2024. Our positive view of the US housing market remains unchanged. Given the current undersupply of 3 to 4 million houses in the market, we remain very bullish on the trajectory of the housing sector and its medium and long term prospects.

We're clearly well positioned to benefit from upcoming housing rebound, given the high correlation between existing home sales and appliance sales. We have a strong position with the builders as we work with 8 out of a top 10, holding the number one share position with builders, which we expect to continue to grow.

Importantly, we have a very strong product pipeline for 2024, and we continue to invest in new product development as we laid out at Investor Day. We're particularly excited about the new products that we're rolling out this year. More to come there.

We also remain focused on maintaining cost discipline and are taking actions to increase cost takeout in the second half of the year. While we're seeing sticky inflation, especially in our supply chain costs, these actions should put us on the path to deliver $300 million to $400 million in cost savings, excluding any raw material savings.

Overall, I'm confident that we're taking the right steps to drive long term shareholder value and are on track with both our short term goals as well as with our long term strategic plans that we outlined at our recent Investor Day.

We're exiting the first quarter on solid footing, and we continue to expect meaningful progress in the remainder of the year. The actions we have taken give us the confidence to reaffirm our full year guidance of $13 to $15 ongoing earnings per share.

Turning to slide 5, I will provide an overview of our first quarter results. Net sales declined approximately 3% in the quarter. As we said in our January earnings call, the carryover of second half of 2023 normalized promotion environment unfavorably impacts price/mix in the first half of 2024.

In North America, we held on to the market share we gained last year. At the same time, MDA Latin America saw strong share gains along with improved industry demand throughout the region. Our prior year carryover cost actions delivered, as expected, $100 million of year-over-year cost takeout in the first quarter.

As previously noted, with sticky inflation impacting supply chain costs, we experienced a slower start to our incremental cost actions, leading us to trend towards the lower end of a $300 million to $400 million range for cost takeout at this time.

We delivered ongoing earnings per share of $1.78, with ongoing EBIT margins of 4.3%, including the margin dilutive MDA Europe business. Excluding Europe's major domestic appliance business, we delivered ongoing EBIT margins of approximately 5.5%. As you may recall, we expect this transaction will structurally improve our margins by approximately 100 basis points on a go-forward basis.

The results were largely in line with our expectations, but not fully the way we expected, due to the challenging North America macro environment. Free cash flow was negatively impacted by non-recurring cash outflows associated with the MDA Europe business of approximately $250 million to $300 million, reaffirming our expectation that the Europe transaction will strengthen our 2025 free cash flow delivery. Finally, 2024 marks the 69th consecutive year of dividends, with $1.75 per share paid in the first quarter.

Turning to slide 6, I will review the first quarter ongoing EBIT margin drivers. Price/mix impacted margin unfavorably by 375 basis points. For context, this is similar to what we saw in the second half of 2023. We expect this trend to improve as a result of a recently announced increase of our promotion price programs in North America.

Our cost takeout actions delivered 225 basis point margin expansion through strong realization of prior year carryover actions as previously mentioned. As you have all seen, raw material costs have recently trended upward. Steel remains stubbornly high, and geopolitical tensions are impacting oil prices. While not meaningfully impacting margin Q1, we continue to closely follow commodity trends which could potentially put pressure on our raw material guidance.

Finally, we saw approximately 50 basis points favorable margin impacted largely from a strengthening peso and Brazilian real. Ultimately, we delivered ongoing EBIT margin of 4.3%.

Now, I will turn it over to Jim to review our segment results and full year guidance.

James W. Peters

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

Thanks, Marc. Good morning, everyone. Turning to slide 7, I'll review first quarter results for our MDA North America business. With stable share, revenue was down 8% year-over-year as the segment continued to be impacted by the promotional environment. The US industry was down approximately 2% with elevated mortgage rates impacting existing home sales and discretionary demand.

Overall, the segment delivered 5.6% EBIT margins for the quarter. While the MDA North America business had a slower start than expected, we are confident that previously announced promotional program actions will drive sequential margin expansion of over 1 point per quarter, with pricing action benefits being fully realized in the third quarter.

Turning to slide 8, I will review the broader cost environment and how sticky inflation has led to a slower ramp up in incremental cost benefits in 2024. As you may recall, beginning in 2021 and continuing through 2022, we experienced unprecedented inflation and absorbed $2.5 billion of raw material inflation along with rising labor and freight costs.

In 2023, we delivered our cost takeout actions driving approximately $500 million of net cost takeout coupled with $300 million of raw material benefits. We took a significant step toward resetting our cost structure. However, we have seen inflation persist more than expected in 2024, and our input, logistics, and labor costs remain elevated.

Despite the macro environment, we delivered approximately $100 million of cost takeout in the first quarter, supported by strong carryover from 2023 actions. We expect to see our manufacturing and supply chain cost actions continue to ramp up throughout the year.

With the EMEA transaction finalized, this allows us to simplify the complexity of our organization operating model globally. We executed the first wave of our global actions in the first quarter and will begin to see the margin benefit in the second quarter. Additionally, the second wave of actions will be executed in Q2, and we will see the full impact of the organizational simplification efforts in Q3. Both waves combined eliminate approximately 1,000 global salaried roles. We remain confident these actions will position our business to be successful now and into the future.

Turning to slide 9, I will share more about our actions to expand margins in North America. In the first quarter, we saw a promotional environment in the US similar to what we saw in the second half of 2023, without the incremental volume lifts we would expect. It is clear the current level of promotional investments is not achieving our value creation expectations. We remain committed to creating value with our promotional participation, and we are acting to address both the sticky inflation and promotional intensity.

As Marc mentioned earlier, we announced a weighted average 5% promotional program price increase. We believe these promotional program actions are in line with our strategy of participating in promotions that create value and reflect the value of our products and brands. By adjusting our promotional programming prices, we are able to quickly and efficiently increase net prices with relatively little lead time.

To provide a little context, we communicated and implemented these program changes in the month of April, as opposed to our previously executed list price increases, which typically take 60 to 90 days to implement. These promotional program changes, coupled with our company-wide organization actions, are expected to deliver sequential margin expansion for North America throughout 2024.

Starting on slide 10, I'll review the results for our MDA Europe business. Revenue was down 5% year-over-year as the segment continued to see demand weakness from negative consumer sentiment. EBIT margins decreased 50 basis points year-over-year, impacted by negative price/mix. As a reminder, MDA Europe will no longer be a reportable business segment moving forward.

Turning to slide 11, our MDA Latin America business reported very strong results in the quarter. The segment saw 8% net sales growth, excluding currency driven by share gains throughout the region and an improving industry in both Brazil and Mexico, more than offsetting unfavorable price/mix. EBIT margins expanded to nearly 8% from incremental volumes, cost actions, and approximately 200 basis points from an operating tax-related item.

Turning to slide 12, I'll review the solid results for our MDA Asia business. Revenue was down 2%, excluding currency, with increased volumes from share gains. Negative price/mix impacted both sales and margins, with cost takeout actions driving margin expansion to 4.6% for the quarter.

Turning to slide 13, I'll review the very strong results for our SDA Global business. The segment delivered approximately 7 points of net sales growth, excluding currency, driven by key countries and our direct-to-consumer business. We expect continued net sales momentum from our expanded product offering throughout the year. As a reminder of the seasonality for the SDA segment, the first quarter typically represents less than 20% of full year revenues.

Finally, we achieved 18% EBIT margins through our cost actions, new product introductions, and volume growth. We expect our first half margins to be in line with or slightly better than what was communicated at Investor Day, as we will have incremental marketing investments in Q2 related to new product launches.

Turning to slide 14, I will review a few of our exciting new product launches across our business segments. During Q1, we launched many new products across our regional major domestic appliance businesses and global small domestic appliance business. Earlier this month, we launched and floored our new semi- and fully-automatic KitchenAid espresso machines at premium retailers, providing a product lineup offering in one of the categories with the highest growth potential based on current market trends.

You no longer have to be a barista to make a high-quality espresso at home. Our new lineup of espresso machines offers quality performance, versatility, unique features, and a beautiful design, all coming from a brand that has been trusted in the kitchen for over 100 years.

We also introduced our KitchenAid Grain and Rice Cooker with an integrated scale and water tank that automatically senses the amount of grains, rice, or beans and dispenses the ideal amount of water. I am extremely pleased to share that these products won multiple awards recognizing their design from Red Dot and IF.

SDA Global continues to expect strong growth and margins from new product introductions. Within North America, for homes with pets, we launched our first Maytag Pets dishwasher. Using the Pet Pro sanitation cycle, you can now conquer pet grime in your pet's bowls like a pro.

Finally, as an example of one of the many regional product launches, in Latin America, we launched a freestanding range with the most powerful burner in the value segment, redefining what is accessible to consumers. These are just a few examples of how we are investing in our future growth and innovation to improve life at home.

Turning to slide 15, let me remind you of the benefits expected following the closure of the Europe transaction. Whirlpool now owns 25% of a newly formed appliance company, Beko Europe B.V. From a governance perspective, we have two of the six board seats. We expect to participate in the significant efficiencies that Beko will generate, including sustained productivity, building upon already established purchasing capabilities, and continued commitment to product design, innovation, and sustainability.

We have the potential to unlock long-term value creation through our ability to monetize our minority interest at an estimated net present value of $500 million. Even though we envision a long-term profitable relationship with Arçelik, the shareholder agreement includes a number of exit options at predetermined parameters after five years.

Our 40-year Whirlpool brand licensing agreement is expected to generate predictable cash flows of more than $20 million per year. Overall, we expect $750 million net present value of future cash flows and approximately $250 million to $300 million of incremental free cash flow expected in 2025, with the absence of the cash-consuming MDA Europe business. We are excited to have achieved this milestone in our portfolio transformation that significantly progresses us towards a higher growth, higher margin business.

Turning to slide 16, I will review our full year 2024 guidance. We are reaffirming our ongoing earnings per share range of $13 to $15 and free cash flow guidance of $550 million to $650 million. Additionally, our net sales guidance of approximately $16.9 billion, alongside approximately 6.8% full year ongoing EBIT margins, remains unchanged.

Although our MDA North America business had a slower-than-expected start to 2024, we are confident that we have the right actions in place to expand margins sequentially throughout the year. We expect second half MDA North America margins to expand approximately 4 points compared to the first six months of 2024. We still expect MDA North America full year margins of approximately 9%, with an exit rate of 10% to 11%.

We expect to deliver approximately 30% to 35% of our earnings in the first half of the year and continue to expect a full year adjusted tax rate of 0%, reflecting the benefits of the Europe transaction. We are updating our GAAP guidance to reflect non-cash charges related to the Europe transaction. We continue to expect our full-year GAAP tax rate to be approximately 25%. However, as we finalize the impact of the transaction, the GAAP tax rate may be materially impacted.

Turning to slide 17, our free cash flow guidance remains unchanged. In the first quarter, working capital consumed approximately $600 million of cash. Accounts receivable was impacted by sales seasonality within the quarter with weak industry demand in January, while March ended stronger than March of 2023. Accounts payable were impacted by lowering production levels in the quarter as we took actions to match supply with demand.

As we progress through the year, we expect to see accounts receivable and accounts payable recover to similar levels as the end of 2023, generating sequential free cash flow from working capital throughout the year. As we navigate the challenging macro environment in North America, we will continue to optimize our working capital. Overall, we continue to expect free cash flow of $550 million to $650 million.

Turning to slide 18, I will review how we are on track to deliver our 2024 capital allocation priorities. We continue to take actions to strengthen our balance sheet. In the first quarter, we completed the sale of 24% of Whirlpool of India's outstanding shares, while retaining a majority interest. And the divestiture of our Brastemp-branded water filtration business in Brazil is expected to close later this year. Combined, these two actions generate approximately $500 million of cash in 2024.

With our first quarter dividend of $1.75 per share and declaring the same for Q2, we are on track to pay dividends of approximately $400 million in 2024. Additionally, we repaid $500 million of our term loan in April. Demonstrating our commitment to maintaining our strong investment-grade credit rating, we completed $50 million of share buybacks in the first quarter, offsetting dilution from employee compensation programs. As you can see, we are on track to deliver our 2024 capital allocation priorities.

Now, I will turn the call over to Marc.

Marc Robert Bitzer

Chairman & Chief Executive Officer, Whirlpool Corp.

Thanks, Jim. Turning to slide 19, let me recap what you heard today. First quarter results were largely in line with expectations while navigating a challenging macro environment. We had a strong performance in SDA Global, MDA Latin America, and MDA Asia. While we had a slower-than-expected start in North America, we continue to be well-positioned to disproportionately benefit from a recovery in the US housing market, with 8 of the top 10 US builders under contract.

We are and will continue to take action to address the macroeconomic environment, including the already implemented promotional program price increase of 5%. We expect sequential margin expansion to begin in Q2 and fully ramp up by the third quarter. With approximately $100 million of cost takeout delivered in the first quarter, we remain focused on delivering $300 million to $400 million of full-year cost takeout. We have already taken action on our company-wide organization simplification, and the second wave will be completed in the second quarter.

The EMEA transaction represents a considerable step towards a higher growth, higher margin business. The transaction is expected to meaningfully accelerate our structural free cash flows by approximately $250 million to $300 million in 2025. We have clear capital allocation priorities, including sustaining our strong dividend and reducing debt leverage, supported by strong 2024 cash generation. We are confident that we have right operational priorities and actions to navigate this dynamic environment and deliver sustained shareholder returns.

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

QUESTION AND ANSWER SECTION

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

Susan Maklari Q
Analyst, Goldman Sachs & Co. LLC

Thank you. Good morning, everyone.

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

Good morning, Susan.

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

Good morning.

Susan Maklari Q
Analyst, Goldman Sachs & Co. LLC

Good morning. I want to start by focusing a bit on the North America MDA segment. You mentioned that you expect to get 1 point of price every quarter relative to the 5% promotional increase – promotional price increase that's been announced. I guess, what gives you the confidence on that 1%? Does it feel like that is conservative or in line with where you think things will come in? And how do you think volumes will move in response to that? And can you help us perhaps bridge as that comes through, getting from that 5.6% margin you reported this quarter to the 10% to 11% exit rate you expect for this year?

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

Susan, it's Marc. So, let me just comment on the North America margins and the pricing announcement, which [ph] we've (00:25:40) done. And first of all maybe, which I think is beneficial for the broader audience, explain a little bit how pricing in North America is typically structured. First of all, starting out with the retailers set the consumer prices. So, the way how we typically talk about prices towards retail and how we guide it is there's typically two goalposts. One is what we call the MSRP, manufacturer's suggested retail price, which tends to be the high mark. And there's these promotion price programs, and they're typically tied towards corp advertising. So, there's a monetary incentive to stick to these prices.

On our retail side, the vast majority of volume, typically about 70%, is somewhat tied towards these promotion price programs. So, what we have announced is a structural across-the-board increase of these promotional price programs of 5%. If you compare that to moving MSRPs, there's a benefit of being able to move faster because it doesn't take a lead time. So, it's in effect now and it really affects the real business. So, it's very relevant.

In terms of a timing, first of all, for Q2, even though it's now in effect, of course, you can't touch April anymore. So, it starts touching May and Memorial Day and then July 4. And then it starts building from there. So, that's just the sequence of how you get into the market. As a reminder, and this is typically to our successful price increase in the past, 5% typically doesn't translate directly into 5% bottom line impact. There is some leakage because of the margin protection, but you typically would expect over time to be this 2% to 3% net price realization. So, that explains the sequential move. So, of this – of that one, in Q2, we expect about 1 point and then subsequently the similar elements. So, that's a buildup of the range.

Now, on the volume impact, of course, North America is highly competitive market environment. But frankly, we feel very confident about our product, product launches. As we evidenced over the last 15 months, we had solid share gains. We have a strong product pipeline. So, we do believe our promotional pricing and the revised promotion pricing fully reflects the value which the consumer gets for it and the consumer is willing to pay for it. So, actually, I think we're pretty confident, particularly also on the back of the distribution gains which we got in the last three to four quarters, that the volume impact will be moderated.

Susan Maklari
Analyst, Goldman Sachs & Co. LLC
Q

Okay. That's helpful color, Marc. Thank you. And then maybe turning to the small domestic appliance business, you had some really impressive results there, especially on that margin. Can you talk a bit more about what drove some of those factors and just how you're thinking about where we are today relative to the guide that you didn't change for this year? What are the puts and takes that take us through the next couple quarters?

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

Yeah, Susan. So, SDA, [ph] while we (00:28:46) very much like Latin America and Asia, had a really strong start of the year and we feel very good about and feel very proud of it. The small domestic appliance business is a combination of both. We had good cost progress. That's one element. We had a very solid sell-through on, call it, our bread-and-butter business, the stand mixer, but frankly, also some of the new product introductions like the cordless and the rice, grain cooker, so there's some good momentum also coming from these new product introductions.

So put that all together, we had a very strong Q1. The reason why, I mean, Q1 is not the right quarter to change the full year guidance, it's just – in particular on the SDA business, it's the smallest of all four quarters. So, there's a full year coming and the seasonality in the small domestic appliance business is more back-up loaded. We also have a massive product launch in Q2, which we will invest with significant marketing dollars. So, there's some moving parts. But no matter what, we're off to a very strong start. And could there be some upside at one point? Yes, but it's way too early to kind of commit and confirm that.

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

Michael Rehaut
Analyst, JPMorgan Securities LLC
Q

Yes. Hi. Good morning, everyone. Thanks for taking my question.

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

Good morning.

Michael Rehaut
Analyst, JPMorgan Securities LLC
Q

Good morning. First, I just wanted to drill down a little bit on the movement in North American industry shipments. I think you said down 2%, which would – actually, if you kind of strip out the headwind from your price/mix in the quarter, would be consistent with the slight sequential gains. But also the AHAM shipments kind of [ph] stead (00:30:35) down 6% for the quarter. I was wondering if you could kind of reconcile those two. And also, more broadly, just talk about the discretionary demand and why it's lagging here perhaps in spite of some of the promotional activity.

And you're talking about, kind of on a bigger picture question, a price increase. If your competitors are not following that, I'm just kind of wondering, in a weaker demand backdrop, if they don't follow, let's say, if there could be some potential for share loss in the next quarter or two.

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

So, Michael, it's Marc. Let me first address the industry shipments. As you noted, AHAM has restated the Q1 numbers. We had some restatements in the past. This restatement was driven by one of the smaller import players. And frankly, we have some questions about the consistency and validity of these restatements. And the reason I'm saying this one, typically in the past, between what we know from our sell-through data, what we know from our balance of sale from retailer, it typically triangulates very well with AHAM data. And we feel pretty confident about the numbers which we've given are directionally correct.

Having said that, so if you would take the revised AHAM numbers, that would mean we had in Q1 a fairly sizable market share gain, which would be nice, but I think it's more fair to say we basically held on to the share gains which we had last year and sequentially it's flat to slightly up. And I think that's a more realistic scenario. So, right now, and also based on the sell-through data, I would say – and that is, again, pretty much in line with the expectations which we had coming into Q1, US industry was down minus 2%. I think sell-through was pretty much in that ballpark, and that's also what we seem to be [ph] confirm (00:32:35).

It doesn't change our full year outlook on 0% to 2%. Obviously, with some moving parts, and of course, there's also baseline from last year, Q3 and Q4. And we all know it ultimately driven consumer sentiment is mixed. The mortgage rates don't help existing home sales. I think as a result of stubbornly high mortgage rates, you might see still fairly solid new home sales, existing home sales being soft, but you may also see a resurgence of home improvements and remodeling, because people – the consumer equity, the balance sheet is not bad. People have money. They just don't want to leave existing homes. So, I think you will see more and more trends towards remodeling, refurbishment, and to be honest, that's not a bad business for us. So, again, right now, at this point, we still feel the 0% to 2% industry guidance is the right one.

As it relates to promotion price increase, again, let's first of all keep in mind, historically, consumer elasticity to broader category pricing is very little, i.e., given that it's an infrequent purchase, consumers – there's no hypersensitivity on the consumer side towards category pricing. And of course, we're living in a competitive environment. We do what we think is right for our business, where we participate and do promotions which create value for us, and we do what we think our products are valued for in the marketplace. Again, it comes back to we have a strong product pipeline, and with that product pipeline and the distribution gains of last year, I think we have a very good opportunity to make the price increase work and have a very moderated impact on volume.

Michael Rehaut
Analyst, JPMorgan Securities LLC
Q

Okay. No, no, no. I appreciate that. I guess, also just wanted to focus on the EBIT margin bridge for the full year. I noticed that your components remain unchanged in terms of price/mix and net cost. At the same time, you're talking about a 5% price increase on your promotional program actions, which would be, everything else equal, a positive. I'm wondering why that component hasn't been changed. Also, the net cost, you're talking about maybe being at the lower end of the cost actions as well as some incremental cost inflation on areas like freight, logistics, et cetera. So, it'd seem like maybe there's a little bit of downside risk there, a little bit of upside risk maybe on the price/mix. Just kind of your thoughts on why some of the components haven't changed yet while some of the input has.

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

A

Yeah, Michael, this is Jim. Let me start and then I'll have Marc kind of chime in. And as you called out, as we look at where we are at the end of the first quarter, we do believe these are the big drivers. And we do believe in terms of order of magnitude, they're directionally correct, but they're also order of magnitude correct. I would say, to your point on the price/mix, as we roll out the price increase – the promotional price increase that we've done here, it's coming out throughout Q2. So, we'll see the benefit partially in Q2, later Q2, but in the back half of the year. As we look at it today, it should take us to the higher end of the range or possibly even better than that as we get to the back half of the year. But I'd say, right now that's why at least we use a range to point out where that could be, but we do think we're going to the higher end there.

From a net cost perspective, as we did highlight, we do think we're possibly at the low end of that range right now. And we are driving the cost actions that we mentioned, but I would say if you looked at the broader range, the $300 million to $400 million, we're probably closer to the low end. So, we do see some possible upside on price/mix, but we do know we have some additional incremental inflation that we weren't counting on in the net cost. And right now, we believe they'd offset each other on a full year basis, most likely. But as we get through the second quarter, we'll continue to have a better picture of what all our actions will deliver for the full year.

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

A

Michael, just maybe to add on this one, obviously – and that's just the nature of Q1. If you first of all look at our different businesses, you have three businesses which are right now running higher than the EBIT guidance and North America is slightly running behind, but we have the EBIT guidance. I think at the end of the day, right now, yes, there's still some moving parts, but it's way too early to even think about a changing on this one. The same is a little bit on the components. First of all, just to clarify, the bridge which you saw, that's the total company bridge. That's not necessarily North America.

To Jim's point on the net cost, yes, because sticky inflation, we're kind of more on the low end, but I think also with what we demonstrated, with delivery of carryover and additional cost action in Q1, I think we're pretty solid on this one. On pricing, and with the price increase which we announced [ph] at the end (00:37:41), it could be on a better part of that range, but again, there's still a lot of moving parts. But overall, put it all together, we feel confident about this margin guidance as a total EBIT which we've given for the full year.

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

David S. MacGregor
Analyst, Longbow Research LLC

Q

Yes. Good morning, everyone, and thanks for taking the questions.

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

A

Good morning.

David S. MacGregor
Analyst, Longbow Research LLC

Q

Hey, guys. I guess I just wanted to start off by asking you about US retail inventories. It looks like there was a pretty significant destock in January ahead of the retail year-end. It was followed by some relatively flat units in February and March if you combine the two months, but how much additional destock do you think is left at retail and how would that impact the typical 2Q seasonal build in refrigeration?

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

A

So, David, it's Marc. So, you're correct. In January, there was quite a bit of destocking of a retail [ph] site (00:38:35). I think there was a little bit of rebuild back up on March, so I would still say while slightly down versus year-end, we're still, by and large, a little bit elevated inventory level in the retail environment. Not particularly concerning, but slightly elevated. So, what we saw end of the year is not being completely reduced because, again, there were some rebuild back into March. Doesn't make me overly nervous, and again, to some extent, expected. And I don't think it should impact the typical refrigeration seasonality.

David S. MacGregor
Analyst, Longbow Research LLC

Q

I guess as a follow-up, I just wanted to ask you about the Arçelik transaction. Your 25% stake in the earnings moves to the equity income line, I would believe, but can you quantify the stranded costs that were left behind and how those costs resolve over the remaining three quarters of this year? And what could that represent in the way of incremental margin benefit for full year 2025 versus full year 2024?

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

A

Yeah, David, this is Jim, and maybe I'll start out with that. And as you said, now our 25% stake will move to a different line in the P&L, and being only 25%, it'll obviously be significantly smaller. If you look at it from a stranded cost perspective, you would see most of that flow through our corporate expense line, which actually right now is trending in a relatively positive level. And why is that? Well, there's a couple of things there. One, we actually did sell off that business in terms of fully operating business, so there weren't a significant amount of stranded costs that stayed. I mean, a lot of the costs went with it, and we do have some remaining costs that we may have had, but obviously, in a transaction like this, you have transaction service agreements where you're also providing those services and being paid for them.

So, when we look at it like that, and then we look at the cost takeout actions and the organization simplification actions that we're taking, those are also then offsetting any of the stranded costs that we might see. So, right now, we don't see the stranded costs as a significant headwind for us this year, because as I said, we're taking actions to really deal with them.

When you look at 2025 and beyond, the biggest driver on margin improvement is just the fact that we don't have the dilutive EMEA business within our portfolio anymore. Because as I said, most of the costs will come out within this year, so there's not a big year-over-year impact, but we don't have that dilution. What you will see going into

2025, similar to what you see in 2024, is when we take cost actions like this, there's always a carryover because it's a partial year type of thing.

So, this year, we started with about $100 million of carryover from the prior year in terms of cost actions. And I think as you just look towards next year, that's typically what you would expect on this type of cost takeout business. Now, again, we're not going to go further into that, but you should always assume that because these benefits come later in the year, there is a carryover component to next year, and we did talk about that at Investor Day, too. As you look at a multiyear cost takeout trend, we do expect some continuing benefits from this.

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

A

Hey, David, maybe just to add to Jim's point, one for clarity, absolutely correct, minority interest, keep in mind there's also a sizable royalty income from a Whirlpool brand that will show up in operating results in North America, because that's where the majority of Whirlpool brand work is happening and the cost is being paid. So, there's a benefit to our North America business.

The other comment on the stranded cost, to Jim's point, again, that's very important to know. The vast majority of existing costs were basically passed on in this transaction. The stranded cost, I would say, is largely dealt with and that comes back to what we announced already in Q1 and what we are – I think you may have seen some headlines yesterday, we're taking out $100 million of infrastructure [ph] organizational (00:42:22) costs.

To be clear, that goes beyond what would have been the stranded costs because, ultimately, we have now a significantly simplified business, and as such, we have now the opportunity to also have a significantly simplified organizational setup. So, $100 million goes way beyond the pure stranded costs which would have been there.

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

Laura Allyson Champine
Analyst, Loop Capital Markets LLC

Q

Hi. Thanks for taking my question. Just wanted to clarify comments that you've made. So, the outlook for revenues hasn't changed. The price increase has been announced. And my understanding is that you expect to realize, say, 1% in Q2 and then 2% to 3% in the back half. Does that price increase in North America have any impact in your views on taking market share this year in North America?

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

A

So, Laura, it's Marc. So, again, what Jim alluded to and what also we confirmed earlier, that's a 1 point net P&L impact which we expect in Q2 and then Q3 subsequently. But of course, that also has an impact on net revenues. At this point, and of course, that depends on overall market development, et cetera, I would expect our market share to be stable in the current environment and [ph] off of (00:43:45) a promotional price increase.

Laura Allyson Champine
Analyst, Loop Capital Markets LLC

Q

Okay. So, market share stable as opposed to market share gain. So, there is a change in share, not a change in your view for industry level demand in North America. Is that true?

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

A

Well, again, Laura, it's just – of course, when you go into price increase, you don't exactly know what will happen to your [ph] market (00:44:09) in short and midterm. Right now, I think we are adjusting production volumes and everything else with the assumption that we hold market share in that environment. But again, there's a lot of moving parts still and we need to see now how retailers and everything else responds to that environment.

Operator: Your next question comes from a 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?

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

A

Good. Good morning, Sam.

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

A

Good morning Sam.

Sam Darkatsh
Analyst, Raymond James & Associates, Inc.

Q

And I wanted to say congratulations to Carey on the new post, well-deserved, Carey.

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

A

She's listening.

Sam Darkatsh
Analyst, Raymond James & Associates, Inc.

Q

So, a couple of questions here. First, the price increase in North America seems at least partially a function of what you called the sticky elements of supply chain-related inflation. Can you go a little bit more in the weeds in terms of what specifically you're seeing there? And I'm more so interested in, is this widespread in the industry or is this more Whirlpool-specific, especially knowing that you may be potentially alone in the price increase announcement?

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

A

Sam, it's Marc. I mean, ultimately, the rationale for a price increase is twofold. One is this sticky inflation, as we call it. The second part is very simply what we already alluded to in Q1, is the discretionary demand is limited. Replacement demand is very strong, but discretionary demand is limited. So, it just does not economically make sense to have a lot of promotion investments when the lift you get from these investments is just limited. It's just pure math. Economics just don't work. So, there's two component on why we're doing the promotion price program adjustments.

On the sticky inflation, of course, I don't know about competitors' P&Ls, but I would assume that is industry spread. And the reason I'm saying this one is we see it, to some extent, in logistic costs. We see it in certain strategic components, which – and very rarely do we have exclusive suppliers. So, it's still the tail end of a broader cost inflation, which we saw last year, which are right now sticky, as we said before. So, it's components, it's logistic costs.

Raw material trends, to Jim's earlier point, they didn't impact Q1. But of course, we're closely watching at what happens to steel prices, oil prices, et cetera. And these are broad-based commodities, so not exclusive to us.

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

Got it. And then my second question, if I could ask you, Jim, for a walk to get to the free cash flow, or I should say the cash from operations guide. I mean, obviously, the first quarter cash burn of $870 million, at least versus what we were expecting, it was considerably more of a burn than we thought. And it implies about, I don't know, call it, $2 billion or so in cash from ops in Q2 to Q4.

And I'm trying to get there. I can see with the net income and the D&A and the working capital guide, at least by my math, it gets somewhere around $1.6 billion, $1.7 billion. So, I'm still light by about $400 million or $500 million. So, if you could help with at least a specific walk to get to that guide, Jim.

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

Yeah. And Sam, I think that probably the bigger component that you're missing in there, and now is even more prevalent in 2024 than it's probably been in some of the recent years, is with the elevated level of promotions in the back half of the year, a lot of that gets paid out in the first half of the year. So, that's where you're going to see a significant swing in terms of – and it's kind of similar to what we used to see in the 2017, 2018, 2019 timeframe when our first quarter cash flow would be in the minus [ph] $800 million to $900-some (00:48:11) million range. And so, I think you had all the components there. As you said, we build up earnings throughout the year.

We have certain things within the first quarter, and that does include 100% of all the EMEA effects within the first quarter. Some of that we thought would come later in the year paying some of the legacy liabilities, but all of that has actually occurred within the first part of the year. But then that big swing is we pay those promotional programs out early in the year for the prior year, and then we build up the accruals throughout the year. So, it builds up on our balance sheet, and there's very little cash flowing out, which helps us throughout the year. And then in the first quarter of next year, we pay those out again.

We have other similar programs like employee compensation programs and things like that that operate, but promotional programs are the biggest driver. And I think if you add that piece in to what you're walking there, you'll get closer to your $2 billion number. So, that's how we get there.

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 question. I want to start with back on the North American margins, just to make sure I heard correctly. I think there was a comment that second half would be up 400 basis points versus first half. So, I guess, that implies that your second quarter margin is still kind of in the 6s to 7%, and the first half would be in kind of the 6%, 6.5% range, and then you're exiting, so the second half would be north of 10%.

I think the prior expectation was to start around 8% and build more slowly and maybe be in like the 9.5% range for the second half exiting closer to 10%. So, it seems like the year started slower, the backdrop is a little more challenging, but your second half margin guide has actually effectively gone up. And I understand the incremental pricing, but that's off of a lower base. So, can you just – another way of asking, just help us walk through kind of what changed in the guide and that expectation for now a better ramp?

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

A

Yeah, Michael, and this is Jim. And I think you did highlight a couple of the points, but let me expand upon that is one, at the beginning of the year, we did not assume that we were going to take pricing in North America. And obviously, that's one of the things that now as we look at the environment, we look at where the promotional spend has normalized to, and we look at what it's driving from a volume perspective and that it's not driving the value creation that we thought. We've taken some incremental actions. And that would say that, yes, we did start off a little bit slower than we thought in North America.

Now, when you add in a 5% price increase, and if you just, say, okay, a portion of that – that only a certain portion of that gets realized, you – still for the back half of the year, that's somewhere between a 1.5 to 2.5 point type of margin improvement that you build up throughout the year and throughout the back half, or for the full year, but that builds throughout the back half.

The second thing is – is what I would say is, listen, from a cost takeout perspective, as we mentioned before, we will continue to see benefits of that build. But now, if we look where we are, we're trying to drive increment – while we see cost being – inflation being stronger than we thought, we're trying to drive and we will drive incremental cost actions to offset that. So, we do expect that to build throughout the year.

But the biggest variable of what we originally assumed is pricing right now. Additionally, if you look at where we see the industry at the beginning of the year, we do also – and we said, as we started the year, we do expect as we get later into the year to see the industry at least normalize some and hopefully stabilize some coming off what is a down base right now.

Mike Dahl
Analyst, RBC Capital Markets LLC

Q

Got it. Okay. And then just to follow up on that cash flow question, I guess with the driver being some of those – the timing and payments, to the extent that you're reducing your promotional activity going forward, should we see as much of a build in the accrual than in the back half? And then, I think in the past, you have highlighted the seasonality in EMEA cash flows, where you typically maybe get some inflows in the back half of the year, this year, you're only absorbing the outflows, you don't get the inflows. So, is that dynamic that still that – it seems like it would be a different dynamic in terms of the first half, second half than maybe seen in the past?

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

A

Yeah. Here's what I would say is, listen, I still think, as you get to the end of the year, we still have higher promotional accruals than we do now, because if you just think seasonality in the promotional periods, even in an environment where we're raising our promotional program prices, there's still going to be Black Friday and there's still going to be things that go on in December in terms of promotional programs that will be at higher levels than they are throughout the year. So, we will build the accruals throughout the year.

I'd say, the other thing that you look at on cash flow, and you mentioned EMEA, and part of the reason why we said our cash flow would be $550 million to $650 million this year, despite the fact that typically on these type of earnings, we would think we could generate a higher level of cash flow, is that we've assumed that that EMEA would have a negative this year, without a positive to correspond with it necessarily in the back half of the year.

And some of that negative was just the unwinding of some of the working capital programs, working capital finance programs, programs that we had in Europe. So, we expected this. This is where we expected to start, we did expect it. And we said, when we go to 2025, you can then take that negative from EMEA and add that to this year's number to give you where you should plan to be for next year.

I think the other thing that maybe we haven't highlighted yet in the questions around free cash flow, you will see an improvement in working capital throughout the year. And when we get to the end of the year, you will see a significant improvement in working capital from where we are today. And that is one of the big drivers of where our cash flow is today to where we expect to end the year.

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

Rafe Jadrosich
Analyst, BofA Securities, Inc.

Q

Hi. Good morning. Thanks for taking my questions. First, just following up on the price increase, can you talk about what portion of the business does it cover? Is it for the entire North America MDA business? And then what are you assuming in terms of realization in your guidance? Is it that net 1% increase that you're baking into the guidance for the remainder of the year?

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

A

So, let me just re-explain the price increase. So, overall, we said earlier, it affects about 70% of our North America business. To give you a little bit more, of course, what it excludes is builder-related programs or other programs which are typically not covered by the promotion, the [ph] PMAPs (00:55:34) as we call these promotion programs. So, roughly you can assume it's about 70%, is across the board. The absolute amount, of course, differ product group by product groups. So in some cases, you would see a $20, $30 increase; in some cases, $70 to $80. But it is across the board, it's structurally and it largely affects in particular retail and freestanding business.

Now, to your point about realization, we said earlier, it's a 5% increase. What it means for bottom line, we would expect 2% to 3% net P&L impact building throughout the different quarters.

Rafe Jadrosich
Analyst, BofA Securities, Inc.

Q

And then how do you think strategically about market share relative to pricing? If margins start to improve in the second half, but you're giving up some market share, is that a trade-off that you're willing to make? How do you think about the balance between the pricing and volume?

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

A

Just to clarify, we didn't say we want to give up market share. I said right now, our assumption is that we basically hold market share and that assumption is built based on the product pipeline, which we have, the distribution expansion, which we gained last year. So, ultimately, you have to earn market share from a consumer. So, you got to provide a consumer value proposition through innovation and what we deliver product, which is being earned. And we feel – actually, really based on the momentum which we built last year and what we see coming, we feel very confident that what we offer as a consumer value proposition justifies and, potentially at one point, offers the opportunity to even expand market share.

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. A follow-up and then a question, if I could. The 1Q margin around 2 points lower than expected, you've talked about it a little bit. But the bridge between the 7.5% or 8% and the 5.6%, what explains that difference?

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

A

In terms of which – are you talking North America or global margin?

Eric Bosshard
Analyst, Cleveland Research Co. LLC

Q

Just the North American margin.

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

A

So, as we said, within the North America margin and the slower start to the year, we would say is one that what we saw is volume was a little bit weaker than we thought. Cost was a little bit higher than we thought from an inflationary perspective. And then the promotional environment was right about where we thought, but again, probably at the higher end of what we thought. So, you take all those factors and combine them, and that's why we would have said we had a slower start.

Now, you start to roll that forward. And as we said, that's why we're taking incremental actions, especially on the cost and the pricing side is we did see things in the first quarter that told us that we needed to take additional actions on top of what we planned. But I'd say those are the three biggest driver, but the sticky inflation was probably one of the biggest impacts we saw, at least within the first quarter, compared to what we expected.

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

A

Eric, it's Marc. Let me just add to this one, because I think one of the earlier questions was referring to a North American margin of 8% to Q1. As you know, we don't give quarterly margin by region. Okay? If you ask me, it's absolutely true. North America is off to a slower start. I think that [ph] alters (00:59:07) our internal expectation by probably 1 to 1.5 points, which ultimately, to Jim's point, is a reflection of promotional environment was intense. Some of the inflation has turned out to be more sticky when we originally assumed.

There's also a third element. We typically in Q1 and Q2, in most regions, we start building a lot of production [ph] and (00:59:25) inventory. And we're right now a little bit cautious and we didn't build a lot of inventory. So, that of course has lack of volume leverage on the production side. So, these are the three elements. You heard earlier the comments in terms of how we intend to address it with both the promotion price increase, but frankly also additional cost actions. Some of them we announced already. So, that's how we intend to make the margin walk from Q1 in North America to the full year.

Eric Bosshard
Analyst, Cleveland Research Co. LLC

Q

And then the question on the promoted price, I guess specifically, to just cut to the point, Memorial Day is 30 days from now. You've communicated to retailers that your promoted prices will be 5% higher. Had the retailers told you you're going to keep your space and we'll have the same discounts or is your product going to be discounted less than other products? Or are you going to lose space within the promoted programs that they're going to have for Memorial Day? What have retailers communicated to you will be the real-time effect of this?

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

A

Yeah. So, Eric – and of course, then a question, while I understand why you're asking, it may go too far for an earnings call. As you know, we typically don't comment on individual retails or retail reaction. I would argue right now it's kind of – we are very confident that our price increase will be successful. Of course, with a short notice, Memorial Day may see something. But actually right now, even how our April shipments went, we're in line with expectations.

So, I would say, overall, the initial reaction confirmed our confidence that the price increase will work. But please, I hope you accept that I can't comment on specific retailer comments.

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

So, that marks the end of our questions. First of all, I appreciate all the questions. Again, to recap, we're overall satisfied with our Q1. Our earnings per share were large in line with what we expected. We all recognize we have three regions of business units which are running very strong and even ahead. North America is off to a slower start. I think you also heard from us, we're taking clear and decisive actions to address margins. And with that confidence, we're actually reconfirming our full year guidance.

So, again, appreciate you all calling in and hope to talk to you soon. Thanks a lot.

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