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Whirlpool Corp. (WHR)

Q3 2021 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning, and welcome to Whirlpool Corporation's Third Quarter 2021 Earnings Release Call. Today's call is being recorded. For opening remarks and introductions, I would like to turn the call over to Senior Director of Investor Relations, Korey Thomas.

Korey Thomas

Head-Investor Relations, Whirlpool Corp.

Thank you, and welcome to our third quarter 2021 conference call. Joining me today are Marc Bitzer, our Chairman and Chief Executive Officer; Jim Peters, our Chief Financial Officer; and Joe Liotine, our Chief Operating Officer. Our remarks today track with a 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'll be making forward-looking statements to assist you in better understanding Whirlpool Corporation's future expectations. Our actual results could differ materially from these statements due to many factors discussed in our latest 10-K, 10-Q and other periodic reports.

We also want to remind you that today's presentation includes 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 with a better baseline for analyzing trends and our ongoing business operations. Listeners are directed to the supplemental information package posted on the investor relations section of our website with a reconciliation of non-GAAP items to the most directly comparable GAAP measures.

At this time, all participants are in a listen only mode. Following our prepared remarks, the call will be open for analyst questions. As a reminder, we've asked 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, Korey and good morning, everyone. Today, in addition to our third quarter results, I will be sharing our new long-term value creation goals. Despite operating in a supply constraint and inflationary environment, we continue to consistently demonstrate strong results at or above our previous long-term targets. We want to take the opportunity to share our insights and expectations for our business moving forward.

But first, I'll turn it over to Jim to review our global third quarter results and 2021 guidance.

James W. Peters

Chief Financial Officer & Executive Vice President, Whirlpool Corp.

Thanks, Marc and good morning, everyone. Now turning to our third quarter highlights on slide 5. We anticipate that in the third quarter we would face both a constrained supply chain, alongside elevated inflation. The exceptional execution of the actions we put in place and the sustained robust consumer demand delivered yet another quarter of very strong results. We delivered revenue growth of 4% year-over-year which represents growth of 8% compared to 2019.

Next, the decisive actions we took early this year delivered strong double-digit margins of 11.1%, which largely offset the expected cost inflation of 650 basis points. Additionally, we generated positive adjusted free cash flow of \$1.3 billion, a \$1.1 billion increase compared to a year ago. Cash generation was led by strong earnings and the successful completion of divestitures in the first half of the year.

Lastly, we opportunistically executed \$441 million in share buybacks in the third quarter, and added to our previous investments in Elica India by acquiring the majority interest in the company. Our ability to successfully deliver strong results in a difficult operating environment gives us the confidence to increase our guidance to approximately \$26.25 per share. Turning to slide 6, we show the drivers of our third quarter EBIT margin. Raw material inflation, particularly steel and resins resulted in an unfavorable impact of 650 basis points. This was fully offset by our combined price mix, and net cost actions.

Price and mix delivered 600 basis points of margin expansion, led by the execution of the previously announced cost-based price increases. Additionally, ongoing cost productivity initiatives delivered 50 basis points of net cost margin improvement. Our ongoing cost initiatives more than offset increased logistics, labor, and other supply chain premiums we and many companies are facing. Lastly, increased investments in marketing and technology and the continued impact from currency in Latin America impacted margins by a combined 75 basis points.

Overall, we are very pleased to be delivering above our previous long-term EBIT margin commitments, and are confident this positive momentum will continue to drive very strong results throughout 2021 and beyond. Now,

turning to slide 7, I will discuss our revised full-year 2021 guidance. We remain confident in both the actions we have put in place to protect margins and in the strong execution capabilities we continue to demonstrate. We expect to drive strong net sales growth of approximately 13% and EBIT margins of 10.8%. Additionally, we continue to expect to deliver \$1.7 billion in adjusted free cash flow or 7.7% of net sales.

Finally, we are raising our ongoing EPS guidance to approximately \$26.25, a year-over-year increase of over 40%. Turning to slide 8, we show the drivers of our increased ongoing EBIT margin guidance. We continue to expect 600 basis points of margin expansion, driven by price mix. We have increased our expectation for net cost takeout to 200 basis points as we realize further efficiencies and continue to focus on cost productivity. Within our net cost results, we are fully offsetting the inefficiencies across the supply chain, notably in distribution and labor.

While our expectations remain unchanged, we continuously monitor cost inflation globally, largely in steel and resins and still expect our business to be negatively impacted by about \$1 billion, with the peak increase already realized in the third quarter. Inflation is fully offset by our price/mix actions. We continue to expect increased investments in marketing and technology, and unfavorable currency, primarily in Latin America, to impact margins by 125 basis points. Overall, we are confident in our ability to continue to navigate in this environment and deliver 10.8% EBIT margin, representing our fourth consecutive year of margin expansion.

Turning to slide 9, we provide an update on our capital allocation priorities for 2021. Our commitment to fund innovation and growth remains unchanged as we expect to invest over \$1 billion in capital expenditures and research and development. Next, with a clear focus on returning significant levels of cash to shareholders, we expect to repurchase over \$940 million of shares in 2021, which includes over \$300 million in the fourth quarter. Including dividends, we expect to return a total of over \$1.2 billion to shareholders this year.

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

Joseph T. Liotine

President & Chief Operating Officer, Whirlpool Corp.

Thanks, Jim, and good morning, everyone. Turning to slide 11, I'll review our third quarter regional results. In North America, we delivered 5% revenue growth, with sustained and robust consumer demand in the region. Additionally, we delivered another quarter with strong EBIT margin driven by disciplined execution of cost-based price increases. Demand for our products remains high as we operate in a constrained environment which we expect to persist into 2022. Lastly, the region's outstanding results demonstrate the fundamental strength and agility of our business model.

Turning to slide 12, I'll review our third quarter results for our Europe, Middle East and Africa region. The region delivered stable revenue year-over-year which represents growth of over 15% compared to 2019. Cost-based price increases partially offset the impact of inflation in the quarter. We remain confident in the actions we have in place. Our long-term turnaround plan for the region remains on track.

Turning to slide 13, I'll review our third quarter results for our Latin America region. Net sales increased by 17%, led by cost-based price increases and strong demand across Mexico. The region delivered very strong EBIT margins of 8.7% despite supply constraints, inflation and continued negative impact from currency.

Turning to slide 14, I'll review our third quarter results for our Asia region. The region's revenue decline was entirely driven by the Whirlpool China divestiture. Excluding this, the region grew by 3% year-over-year or 10% compared to 2019. As expected, the region continued to recover from COVID-related shutdowns experienced in

the first half of the year. The region delivered very strong EBIT margins of 8.6% driven by cost-based price actions and positive impact from our Whirlpool China divestiture.

Lastly, our increased investments in Elica PB India enhances our built-in cooking product offering, strengthens our distribution network and is expected to be margin-accretive to the region.

Now on slide 16, I'll turn it back over to Marc to discuss our new long-term value creation goals.

Marc Robert Bitzer

Chairman & Chief Executive Officer, Whirlpool Corp.

Thanks, Joe. And before I look forward, I will take a moment to look back. We are a 110-year-old company with a legacy of success and a vision anchored on improving life at home. From our introduction of the first electric wringer washer and first stand mixer in the early 1900s to our launch of a first French door built-in refrigerator and our leadership in connected appliances today, we relentlessly reinvent ourselves with consumer at the heart of everything we do.

These new long-term value creation goals build on our strong foundation but reflect the fact that we are a very different Whirlpool than 10 years ago, operating in a very different world. Today, we are operating in a supply constrained and inflationary environment which is negatively impacting most industries across the world, yet we are on track for a year of record performance.

In 2020, the world was impacted by the COVID-19 pandemic and, before that, numerous other unforeseen global challenges. We have faced many significantly challenging environments, and yet we're on track for our fourth consecutive year of record results. We have an agile and resilient business model, which enables us to succeed in any operating environment.

Our increased value creation goals demonstrate our confidence in our long-term success and are supported by strong underlying drivers, such as positive outlook on housing, strong replacement demand and evolving consumer habits. Additionally, our demonstrated value-creating go-to-market approach, lower cost base and compelling innovation pipeline position us for continued success. Our new long-term value-creation goals reflect our confidence in a different Whirlpool in this different world.

Now turning to slide 17, you will see that we have exceeded our existing targets. We first introduced these targets in 2017 with a clear focus on value creation and a balanced approach to grow profitably. We've been consistently delivering at or above all of these targets. While we're pleased with our progress, we're not done yet.

And turning to slide 18, I will review our new long-term value creation goals. We now expect revenue to grow at a rate of 5% to 6%, almost doubling our previous goal of approximately 3%. Next, we are increasing our EBIT margin expectations from approximately 10% to a range of 11% to 12% which is a level of performance that our business is absolutely capable of achieving.

Additionally, we expect to continue to convert cash at a high level and have increased our adjusted free cash flow as a percent of net sales from 6%-plus to a range of 7% to 8%. Lastly, we expect to deliver return on invested capital of 15% to 16%, an increase from our previous target of 12% to 14%. We are confident in our future success and that achieving these goals will continue to drive significant shareholder return.

Now turning to slide 19, I will discuss why we expect revenue growth of 5% to 6%. Demand in our industry is segmented by three primary purchase drivers, housing, replacement and discretionary. We're entering a period

with strong growth catalysts across all three categories. First, let's begin with new housing construction. Housing remained well below historical and structurally needed levels for over a decade, which is compounded by pent-up demand from millennials that we're only now beginning to see. Lastly, interest rates remain at historically low levels.

Second, let me discuss replacement. We're entering a period in which the natural replacement cycle will move from headwind to a tailwind. This is driven by elevated usage rates and a larger installed base of appliances which will need to be replaced. Also, with our installed base of connected appliances, we have clear data on how our consumers are using our products, and they're using them more. For example, consumers are using our connected wall ovens and freestanding ranges twice as often as before COVID.

Even more important, with hybrid work models becoming more widespread, we do expect appliance usage levels to remain significantly higher than pre-COVID, ultimately driving shorter replacement cycles. Third, let's review discretionary purchases. COVID has brought a fundamental reorientation of a consumer towards home which will not just go away. In addition, the consumer remains healthy with increased disposable income and more equity in their home, which ultimately drives higher investments in the home.

To recap, we have strong positive demand trends across all three segments. Next, turning to slide 20, I will discuss additional revenue catalysts. During this pandemic, we all witnessed a significant increase in all e-commerce activities which we do not expect to revert back to pre-COVID levels. Over the past years, we've built our own Whirlpool direct-to-consumer business that represents today approximately \$1 billion. Our multiyear investment in our strategic digital transformation has been and will continue to deliver growth rates of over 25%.

Lastly, we continue to enter and expand upon new ecosystems which presents significant new revenue opportunities. This was demonstrated when we entered the consumable detergent segment business with the launch of our ultra-concentrated Swash detergent. We offer an end-to-end experience where the consumer can fill his or her detergent through a bulk dispenser in the unit, be alerted when replenishment is needed and order through our app for convenient at-home delivery. This is one of many applications where we have earned the right to win.

Moving to slide 21, I would like to address why we're positioned to capitalize on these opportunities and grow profitably. As we exited the Great Recession of 2009 to 2011, we took many difficult actions enabling the low fixed cost position we have today. We removed over \$1 billion in costs, while reducing our fixed asset base by over 30% in just the last five years. Next, we have a proven value-creating approach to promotions and a relentless focus on cost and complexity reduction. All of these are evidenced by our continued demonstration of financial success, and we're not done yet. For example, today, we are absorbing significant costs associated with operating in an inflationary environment.

Lastly, we will continue to prioritize investments to drive innovation and growth. Now turning to slide 22, I will review our adjusted free cash flow and return on invested capital expectations. Large acquisition-related items are behind us. Additionally, a seasonally balanced approach and disciplined working capital management position us to drive higher cash conversion.

Next, we will opportunistically seek bolt-on acquisition targets that are EPS-accretive soon after acquisition. And with our significant reduced asset base, we are positioned to continue to deliver strong return on our investments. Now turning to slide 23, let me recap what you heard over the past few minutes. Q3 again impressively demonstrated our ability to operate in a very challenging environment and deliver very strong operating results.

Sustained housing market demand and strong operational execution gives us the confidence to increase our ongoing earnings per share to approximately \$26.25, while delivering adjusted free cash flow of \$1.7 billion.

Next, we are unwavering on our commitment to drive strong shareholder value as we expect to deliver record ongoing EPS and return over \$1.2 billion to shareholders in 2021. As we look beyond 2021, we firmly believe we have demonstrated that our business is structurally different and well positioned to, again, build on our record results. Lastly, our new long-term value creation goals reflect the fact that we are a different Whirlpool operating in a different world. And in early 2022, we plan to hold an Investor Day at which time we look forward to discussing our view of our business in greater depth.

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

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Your first question comes from David MacGregor of Longbow.

David S. MacGregor

Analyst, Longbow Research LLC

Yes. Good morning, everyone.

Marc Robert Bitzer

Chairman & Chief Executive Officer, Whirlpool Corp.

Good morning, David.

David S. MacGregor

Analyst, Longbow Research LLC

And nice to see the long-term value creation goals being updated, obviously, an expression of confidence in your ability to continue growing the financial performance of the company, so thanks for that. I wanted to talk about a more immediate condition being cost inflation. You're dealing with a fairly substantial level now. Inflation looks like it will continue into 2022. Can you just talk about your plans to mitigate the impact to profitability, the extent to which you feel further price increases are achievable to offset that pressure?

Marc Robert Bitzer

Chairman & Chief Executive Officer, Whirlpool Corp.

Good morning, David. It's Marc. So first of all, on the cost inflation, as you know, ever since our Q1 earnings call, we guided to a significant cost inflation. We put out \$1 billion as the cost inflation in April, and that's the same \$1 billion which we have today. So, probably one of the few companies who kind of didn't change the guidance. We saw it coming and we're dealing with it. [ph] In this Q3, all that we expected, (19:32) we probably saw the highest inflation increase ever year-over-year. I mean 6.5%, which is sitting in the Q3 P&L. Frankly, in 22 years, I never had a single quarter with that kind of inflation. But we dealt with it. And I would say Q3 is certainly a strong proof point that we can deal with exceptionally high inflation.

So going forward, we don't expect that inflation will quickly fall off and will be [ph] short termers (20:04) by definition, there is carryover into next year. But by definition, you will also have pricing carryover into next year. So I would say, as you know, around this time of year, we're not yet giving guidance on inflation for next year, we'll do

that in January. But I would rather point to Q3 as a proof point. Even an extreme spike of inflation year-over-year like you had in Q3, we're dealing with it without even a blip on our margin. So I'm pretty confident that we can deal with the carryover which we will see to some extent from inflation.

David S. MacGregor

Analyst, Longbow Research LLC

Q

Just on that point, do you feel like you still have room to go on pricing before you reach any kind of demand elasticity issues with the consumer? And then I have a follow-up.

Marc Robert Bitzer

Chairman & Chief Executive Officer, Whirlpool Corp.

A

Yeah, David, as usual, we're not commenting a lot on the go-forward pricing. But again, if you split in several pieces, it's kind of – I think if there's anything which we've seen the last 18 months is basically the consumer, call it, the category price elasticity is very little.

Typically, what you see in price elasticity is more, what you see promotional or cross price elasticity in the store. But the consumer is very limited price elasticity. Actually, in fact, over years, we've been running consumer research where we ask consumers before they enter the store, how much do you expect to pay versus what they actually paid. And they consistently overestimate how much we have to pay. So I think it's just the nature of an infrequent purchase that the consumer awareness of exact price point is somewhat limited.

On top of that, let's not also forget the disposable income in households is right now probably at an all-time high. So I think from that perspective, I'm less concerned. Will at one point promotional pressure in the market will get a little bit bigger? Yes. But right now, we're not seeing it in the current environment. And as long as the broader global supply chain constraints will exist, I think you will see very little pressure from that perspective.

David S. MacGregor

Analyst, Longbow Research LLC

Q

Good. Thank you for that. And as a follow-up question, I guess, just with regard to earnings power, sort of at the lower end of the cycle or what a minimum level of earnings power might look like. I mean given all that you've accomplished with regard to cost reductions and exiting underperforming businesses and productivity investments, can you just talk about downside risk to earnings? And what gives you confidence and whatever that level of support might be?

James W. Peters

Chief Financial Officer & Executive Vice President, Whirlpool Corp.

A

Yeah, David, this is Jim. And maybe I'll start off here. And I think you can take the second quarter of 2020 as really a good benchmark out there when we saw a significant drop in volumes around the globe and significant disruption, our overall margins for that quarter only dropped to 5%. If you look at our North America business, it was actually 12% during that. So I think that's one beginning a proof point there. I think the second thing that we've always pointed to is when we came out of the recessionary period in 2011, 2012, a lot of the improvements we made really brought our overall margins up to that type of point and got our North America margins up to 8% at that time.

And we've kept those fixed costs out and taken more out. So I think what you saw in a very extreme situation in 2020 proves that we can handle drops in volume as well as we can handle some of the shocks that come with these type of volatile environments.

Operator: Your next question comes from Sam Darkatsh of Raymond James.

Sam Darkatsh

Analyst, Raymond James & Associates, Inc.

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

Marc Robert Bitzer

Chairman & Chief Executive Officer, Whirlpool Corp.

Good.

James W. Peters

Chief Financial Officer & Executive Vice President, Whirlpool Corp.

Good morning, Sam.

Joseph T. Liotine

President & Chief Operating Officer, Whirlpool Corp.

Good morning.

Sam Darkatsh

Analyst, Raymond James & Associates, Inc.

Two questions. First, with respect to market share recovery. Within your long-term goals, obviously, you talk about regaining market share in North America. And I'm sure you're talking about beyond just working through your backlog. At what point do you anticipate specifically defending your market share, is that going to be fiscal 2022? And what are the methods by which you plan to do so, is it more new product rollouts or is it defending on price?

Marc Robert Bitzer

Chairman & Chief Executive Officer, Whirlpool Corp.

Yeah. So, Sam, let me maybe first take it and then Joe Liotine, our COO, will kind of add to it. So first of all, on the long-term, you've seen that beyond establishing a very healthy EBIT margin target in the long-term of 11% to 12%, we kind of significantly increased our revenue growth goal to 5% to 6%. That is, as you pointed out, driven by both market demand and market share aspirations.

The demand – and let me just [ph] comment on this one – (24:34) we're exceptionally positive in terms of the outlook going forward on the mid and long term. And that is driven by, as we pointed out earlier, the housing market is a strength – will be a strength. The housing market has been undersupplied for a decade. Our position in the builder channel is a very strong one, it's probably been the strongest in 100 years. So we feel good about housing market.

Replacement – and that's what still many people get a little bit wrong when they look at the market. Replacement has been, as we pointed out, has been a headwind in the last couple of years because in a certain way, you were cycling or comping against the low sales period of financial crisis. It now starts turning into a tailwind because you're now comping or replacing against the stronger installed years – or strong growth years of post-financial crisis. On top of that, and I can't stress this enough, this COVID has brought increased appliance usage. So if you want to say so, you have a significantly higher wear and tear, which will further drive replacement cycles.

And lastly, we're very bullish on the discretionary spend. As I mentioned before, there's high disposable income, consumer reorientation towards the home. To put that all together, I think we rarely had a scenario where all three demand components point in the right direction. That is the fundamental background of why we feel very good about the demand.

But beyond this one, yes, we do believe we can further expand our share in that business, not just in North America, around the globe. It is – and I'll let Joe comment on this one – kind of through existing tools. But the other thing which we also pointed out early in the presentation is there's different revenue streams. If you have a D2C business, it gives you a higher revenue per unit. If you have additional revenue sources like the detergent business or other kind of ecosystem revenues, that is additional revenue. So it is going beyond calling the natural or the traditional market share on a unit perspective. Joe?

Joseph T. Liotine

President & Chief Operating Officer, Whirlpool Corp.

A

Yeah. Thanks, Marc. Maybe just a couple points to add, Sam. On our new product launches, the world has been a volatile place in the last year. And so really our dishwashers that we've launched are best-in-class, have a lot of innovation and they're really yet to be fully seeded in the market. We're very excited about how that product is doing already and will continue to do.

In addition, our laundry products, in top load, we've launched some really fantastic products here just recently in the last quarter or so and those are just getting seeded now and will have the growth trajectory into 2022. Super excited about those. And then Marc touched on it, there's products in the new areas around detergents. Our Yummly Pro that we just recently launched as well that are just now getting in the marketplace and are essentially new areas of growth for us that we've not really participated in historically. So you put that all together with the fundamentals behind demand, we're very optimistic about the overall demand profile.

Sam Darkatsh

Analyst, Raymond James & Associates, Inc.

Q

My second question, the guidance for the year implies that the fourth quarter margin stepdown pretty meaningfully, sequentially, like 200 basis points, 300 basis points versus the third quarter despite the fact that sales will be up sequentially. That's unusual from a seasonal perspective historically. I'm trying to get a sense of what the drivers of that margin stepdown might be. I know that price versus raw is getting a little bit worse, but it doesn't – I don't think explain the entirety of that margin stepdown in your guidance, if you could help. Thanks.

Marc Robert Bitzer

Chairman & Chief Executive Officer, Whirlpool Corp.

A

Yeah. So, Sam, it's Marc. First of all, I would like to point out we raised guidance for like the fourth or fifth time now in a row. So we feel very good about business. Whenever you raise guidance, it is a good sign of confidence. The honest and direct answer to your question, don't read too much on the exact mathematics of \$26.25 on the full year. [ph] It says around (28:25), and I would probably describe it today, also with having a perspective on October, I think it will probably mark the lower end of where we end up with.

So we probably have strength against the \$26.25. There are some smaller tactical investments which we have to do in Q4 around capacity and procuring and getting supply, but these are purely tactical. But I would see – we might have strength against the \$26.25.

James W. Peters

Chief Financial Officer & Executive Vice President, Whirlpool Corp.

A

Yeah. And, Sam, maybe the one other thing I'd call out is [ph] you need to talk (28:54) about our historical seasonality. I think you're starting to see that's smooth out a little bit more, especially when you look at whether it's our small appliance business or the previous history we've had with large promotional periods being in the fourth quarter. This year was more a demonstration, both from a free cash flow and an earnings perspective, how our business is not as seasonal as it used to be and we do generate positive results and cash throughout the year consistently now.

Operator: Your next question comes from Michael Rehaut of JPMorgan.

Michael Rehaut

Analyst, JPMorgan Securities LLC

Q

Thanks. Good morning, everyone and congrats on the results. First question, I just wanted to maybe bear down on a couple prior ones and see if we could just revisit and make sure we're understanding things right. On the market share question, obviously, appreciate the confidence in the 5% to 6% organic growth and the new products are always a key component of that.

Just want to understand and unpack a little bit 3Q results in North America particularly. If you're probably benefiting from, I don't know, you tell me, mid, even high single-digit price increases, it would imply maybe a low single-digit volume decline. So, am I thinking about that right? And that would imply a little bit of continued lost market share, if you might explain the drivers of that.

Marc Robert Bitzer

Chairman & Chief Executive Officer, Whirlpool Corp.

A

So, Michael, let me try to explain the North America. So we did not make progress on regaining market share in North America, that is correct. Let me give you a little bit of perspective. That has nothing to do with products or new products, as Joe pointed out. Has nothing to do with pricing. It's entirely to do with how much can we dial up production, okay? Now also here to give you little bit background, we finally produced in Q3 more than in Q3 2020 and more than in Q3 2019.

Now you wonder why we didn't ship more. Last year Q3, we still were reducing inventory, i.e., we were selling off inventory. And now we – because we had to [ph] rebalance (31:18) the inventory, we started to carefully build back up inventory carefully, because we just have to make the logistics flow work. So that explains a little bit difference. But frankly, yes, we would have liked to dial up production even more. We're facing similar constraints as you hear throughout the press. It's labor shortage, component shortage and transportation bottlenecks.

Again, as you can read already from production volumes, it's slowly getting better in Q3 and we expect that to also continue to slowly getting better. But it's not going to disappear overnight. So we will carry some of the constraints into next year. Right now, that is still the fundamental constraint against regaining certain market share levels. We feel very confident and hopefully you heard that from Joe about our product range. We feel, from a price perspective, well positioned. So, it's just about how much we can further increase production.

Michael Rehaut

Analyst, JPMorgan Securities LLC

Q

Okay. So before I just hit my second question, just to clarify, and I know this is a huge if, but to the extent that the backdrop remains stable, you're saying you're starting to build up a little bit of inventory strategically. If this backdrop that you've had over the last couple of months were to persist, would you expect to be able to start to regain share in the next quarter or two, and again, obviously, big if, but assuming that things stay kind of the same as they are today?

Marc Robert Bitzer

Chairman & Chief Executive Officer, Whirlpool Corp.

A

Yeah. So, Michael, and again, it's always a question of demand/supply. And right now [ph] – I started with positive, (32:53) the reason why we have an order backlog is demand is so strong where we can't produce enough. That's a fundamental reason [indiscernible] (33:02). Having said that, we also expect to continue to increase production every quarter. Now, it's not going to dramatically increase, and that's very simply driven by the shortage and constraints which we're all well aware of. But we continue to expect to increase production. And even against a continuous increase of demand, we should be sequentially able to regain some market share. But it's not going to be a dramatic shift overnight because, very simple, just you can't produce enough.

Michael Rehaut

Analyst, JPMorgan Securities LLC

Q

Great. I appreciate that. Second question, just on share repurchase. To be clear on – in terms of guidance, it appears that the 4Q – the revised 2021 guidance does not include the \$300 million plus in the fourth quarter. I just want to make sure we're understanding that right. And secondly, when you talked about the amount of share repurchase that you've done in 2021, is that kind of a new benchmark per se? Because certainly, you're expecting continued solid free cash flow generation. And I guess I would say, obviously, outside of opportunistic M&A.

James W. Peters

Chief Financial Officer & Executive Vice President, Whirlpool Corp.

A

Yeah. And, Michael, this is Jim. And maybe I'll start with. If you take the \$300 million that we've given for Q4, to be honest, when you do the math on that that has a very minimal impact, because you're buying those shares ratably throughout the quarter in the back half of the year. So I would say that that, as Marc said earlier, that we – kind of the guidance we've given is more at the low end. And so – but we don't see that as a significant mover within there.

I'd say the second thing when you think about where we are from the perspective this year, obviously, if you look at our free cash flow, it's been very strong this year. And with that, we've increased the amount of cash we return to shareholders, whether it'd be through share buyback or dividends this year. And we have five different capital allocation priorities.

Now as we look forward, share buyback will continue to be one of those. And especially in an environment right now where we don't have a different strategic purpose for the cash, we would continue to do that. But also some things that we've highlighted in there is we continue to invest or expect to continue to invest higher levels in our business, especially coming out of this period right now where we haven't been able to implement large product launches in some of our factories, you should see our CapEx picking up along with we will continue to look at opportunistic M&A, things that come along. And I think the acquisition we did of the remaining or additional stake in Elica within India is an example of how we balance all those priorities.

Marc Robert Bitzer

Chairman & Chief Executive Officer, Whirlpool Corp.

A

And, Mike, let me maybe also add maybe a broader comment. As you've seen in our numbers, we are right now having a very strong balance sheet and we have a pretty significant cash balance on our balance sheet. That is good because it gives you optionalities.

As we look at these options, as you can imagine, we have regular reviews with our board to discuss the capital allocation, which ultimately comes back to where can we create the biggest return for shareholders for each allocated dollar, particularly in the share buyback. The ultimate decision about how attractive a share buyback, it's not a tactical decision.

What we basically look at is what is the discounted value of our long-range plan versus market valuation right now for share price. And right now, we do see a fairly significant disconnect between these two numbers, and that's why we have, in accordance with our board, we made the decisions to buy back significant amount of shares. And as Jim alluded to, you should also expect that in Q4.

Operator: Your next question comes from Susan Maklari of Goldman Sachs.

Susan Maklari

Analyst, Goldman Sachs & Co. LLC

Q

Thank you. Good morning, everyone. I guess, my first question is thinking about the mix shift. In the past, you've talked about the fact that that has really kind of improved for you. Would you say that you're still seeing that improved mix shift, especially in the US? And how you are thinking about that in relation to these longer-term goals that you've put out for us this morning?

Joseph T. Liotine

President & Chief Operating Officer, Whirlpool Corp.

A

Sure. Hi. This is Joe. Just in terms of mix shift, we have seen continued improvement there. Part of that is as a consequence of our new product launches that we referred to earlier, which essentially hit more the mass premium segment of the business. In addition, as we've had different constraints across labor and suppliers, we've also prioritized our business in a way that was most advantageous and has helped continue to improve the mix. And so we feel good about the tools we employ. We've done this successfully the last few years here. And we expect with the combination of our product launch and our go-to-market to be able to continue to do that in the future. And so generally speaking, that's been a good baseline for us and something we've kind of built the foundation of.

Susan Maklari

Analyst, Goldman Sachs & Co. LLC

Q

Okay. And then as a follow-up, Marc, you obviously outlined for us how you're thinking about the business today and where you expect it to operate as we think about it from a top line and margin perspective, cash generation, all those factors. Can you talk about when you think that you actually sort of arrive at these levels? When we think about 2021, obviously, you've been operating at a much higher level relative to some of these goals in some quarters. How do we think about all these different moving pieces and what they mean over time?

Marc Robert Bitzer

Chairman & Chief Executive Officer, Whirlpool Corp.

A

Yeah. Susan, if you would see me, you would see me smiling because I expected to some extent that question. Now you also, if you step back a little bit, we established the last time the value creation goals in 2017. And as you may recall, some of them called them very ambitious and can you ever achieve them. We delivered. So we

delivered them after four years. I'm not saying these new ones will be delivered after four years, but these are our goals. And of course, we have our internal plans where we have a certain time line in mind, but we're kind of refraining from giving an exact year when we're going to hit them.

But I think as you pointed out, more importantly, because a lot of the question came up about the last five quarters, margin, can you keep them? That should be the best indication. We have all confidence that we can deliver on these margin levels. The real big change, I think is, as we pointed out, is moving our revenue goal from 3% to 5% to 6%.

And that is really, I think, the biggest change in this value creation goals where – and that is simply coming from longer-term strong demand trends. And again, trying to stay away from timelines, but I would see the 5% to 6% growth numbers you should see earlier, because we do see that demand strength both on short, mid and long term.

Operator: Your next question comes from Ken Zener of KeyBanc.

Kenneth Zener

Analyst, KeyBanc Capital Markets, Inc.

Good morning, everybody.

Q

Marc Robert Bitzer

Chairman & Chief Executive Officer, Whirlpool Corp.

Morning, Ken.

A

James W. Peters

Chief Financial Officer & Executive Vice President, Whirlpool Corp.

Hi, Ken.

A

Kenneth Zener

Analyst, KeyBanc Capital Markets, Inc.

Joe, congratulations. And I'm wondering if you can take that acknowledgment to comment on how supply chains have affected the North American landscape, specifically kind of the sales guidance [ph] Peter (40:25) talked about changing perhaps. Obviously, the impact on promotions.

And if these supply chain issues might, in your mind, actually be changing the cadence of how retailers address how they get product to consumers, i.e., maybe you don't have these big July 4, maybe you don't have the Black Friday events. That's my first question.

Joseph T. Liotine

President & Chief Operating Officer, Whirlpool Corp.

Thanks, Ken. Yeah, so from a supply constraint standpoint, I mean if we just zoom out a little bit and go back to what we've experienced over the last 18 months, I mean we have had many different events throughout the last 18 months, we've shown a very good ability to deal with them, although not always perfectly, but I would say deal with them successfully.

A

And so certainly, that world, I think, is still going to be a bit challenged as we look forward across all different factors, labor, could be components, supplier disruptions, whatever it might be. And so, I think that is inherent in what we've experienced and what we will expect here in the short term looking forward. To the points Jim made a little earlier in terms of our cash flow, there is – as a consequence of these constraints, we had been a little bit more even throughout the year and less seasonality around either holidays or promotions or even business segments. So I think that has been a consequence of us being even every month as opposed to something else that we've experienced historically.

How it impacts promotions with retailers, I really can't comment on that. That's really kind of for them to decide. But I would say, generally speaking, that is what we've experienced as a consequence of how we're managing our supply chain and how we're managing our production. And Marc touched on it as well, we are seeing an increase in production quarter-over-quarter and year-over-year for us, and that's a positive. But certainly, it doesn't relieve everything completely from the equation.

Marc Robert Bitzer

Chairman & Chief Executive Officer, Whirlpool Corp.

A

Ken, the only thing I want to add to this one, and I know we spoke about this before is, from a consumer perspective, I think the consumer will look at appliances very differently going forward than the past. First of all, in terms of how often they look at it. And I just want to repeat what I said in the earlier remarks is, we know, from our connected appliance where we have a significant installed base of several hundred thousand units, we know actual usage data, not research, not reported, real usage data. And on freestanding ranges and ovens, we see 2x the usage of pre-COVID. On washers, we see 27% higher increased usage rate. So – and that doesn't go away quickly because with hybrid work, people will spend more time at home.

So first of all, the consumers will see the product more often and use it more often. Second of all, because of all these nesting trends and investing in the home, consumers care more for about what they invest in the home and what kind of products they have in there. So I would strongly argue that, in general terms, you will see high replacement cycles and probably also higher willingness to spend because people are investing in the home.

Kenneth Zener

Analyst, KeyBanc Capital Markets, Inc.

Q

Understood. I think I've had that issue with some of my appliances. As it relates to the replacement you have to do, new construction, but the discretionary is interesting, because in the past we've talked about how much of that discretionary is actually someone just walking out and replacing an appliance that's not broken because they want new features, but also on that discretionary is large remodel projects, so if someone's doing a kitchen.

Can you guys update us on kind of how you consider your suites, right, where you sell all those appliances together which looks to go into a kitchen remodel versus one-off purchases? Could you give us any commentary that you feel comfortable disclosing on that? Thank you.

Joseph T. Liotine

President & Chief Operating Officer, Whirlpool Corp.

A

Yeah. Ken, in terms of discretionary and remodel, essentially, a lot of these favorable trends that Marc alluded to, the nesting, being at home, using your appliances more, have really resulted in consumers caring more about that experience. And that caring more results in them wanting to invest in those spaces, customize those spaces, really get exactly what they want to meet their family's needs. And so we generally see that as a favorable trend in

this space in terms of their remodels and likely even suites, and ensuring that they have all the right features and functionality.

So we don't have perfect data here, but I would say the general trend and the sentiment is one that improves that position for us and makes consumers really want to invest more time and money to get exactly what they need for their family. And so I think we're going to continue to experience that here in the midterm. To Marc's point, people are still going to remain in a hybrid environment here, and so that's going to only bolster that position.

Marc Robert Bitzer

Chairman & Chief Executive Officer, Whirlpool Corp.

A

Ken, the only thing which I probably would want to add is it's an interesting dynamic which you highlight here is, as consumers are looking at buying new homes, I mean, with [indiscernible] (45:35) home market, the new houses are still completely undersupplied, have been undersupplied for 10 years, and as a result of that, despite strong demand, you had the very high price increases. So I think you would see more and more consumers who are absolutely from, call it, the household balance sheet capable of buying a home, just being frustrated about home prices [ph] or the (45:53) lack of availability, who may shift some of these investments into let's remodel the kitchen instead. So I would not be surprised if you see more and more of that happening going forward. And we've seen that in prior periods.

So I think this segment of what you call the discretionary whole kitchen remodel, I think, will be an attractive segment going forward and I think [ph] therefore, we have in the suite, (46:17) particularly through our traditional retail and the home improvement centers, we have some very attractive offerings there.

Operator: Your next question comes from Mike Dahl of RBC Capital Markets.

Mike Dahl

Analyst, RBC Capital Markets LLC

Q

Good morning. Thanks for taking my questions.

Marc Robert Bitzer

Chairman & Chief Executive Officer, Whirlpool Corp.

A

Morning.

James W. Peters

Chief Financial Officer & Executive Vice President, Whirlpool Corp.

A

Good morning.

Mike Dahl

Analyst, RBC Capital Markets LLC

Q

Marc, I wanted to follow up on a comment you made in response to Mike Rehaut's question, and you mentioned that you strategically built up a little inventory. I guess I'm kind of wondering, you've got such extended backlogs. Could you give us a little more color on the decision to prioritize a little inventory build versus kind of shipping out the door and servicing the backlog?

Marc Robert Bitzer

Chairman & Chief Executive Officer, Whirlpool Corp.

A

Yeah, Michael, I can maybe on a high level. First of all, when you look in particular – and I think your question refers to the US market. In the US market, you have – obviously, we have a large factory distribution center, regional distribution center, but you also need to have smaller distribution centers down the field from which you serve particular builder channel, the direct-to-consumer business, but also many of the home improvement centers. So as we reduced inventory last year, it basically [ph] came a particular type of expense for (47:36) smaller distribution centers, which basically ultimately translate into consumer service. So we had to rebalance some of inventory, call it, downstream in order to better service consumer and reduce some of these wait times.

Now couple that with transportation from one coast to another, is just getting slower these days. It's just what it is. So you basically tie up a little bit more inventory in transportation than you would do in normal circumstances. And that's, I think, what you would have seen in Q3. But of course, rest assured, we're trying to reduce the backlog of orders, which we have as quickly as possible.

James W. Peters

Chief Financial Officer & Executive Vice President, Whirlpool Corp.

Yeah. I think, Michael, this is Jim, the other thing to point out when you look at the inventory number, there's a big component in there, too, that's cost. Raw material costs have gone up and other things. So the portion that Marc is talking about that we've repositioned and that is only a part of this, the biggest driver of increased inventories is the increase in our input costs.

Mike Dahl

Analyst, RBC Capital Markets LLC

Okay. And I guess just a quick clarification, and then I have a second question. It seems like your implied fourth quarter guide, which is kind of flattish for total revs would still suggest, in a positive price environment, that that volume dynamic is likely to continue in 4Q. So could you just clarify that? But then the second question is more around your confidence in the inflationary environment. This has been such a dynamic environment for every company as you acknowledged. So just what are you seeing that's giving you the confidence or the visibility in terms of this kind of being the peak as you look out?

James W. Peters

Chief Financial Officer & Executive Vice President, Whirlpool Corp.

Yeah. And I'd say, Mike, if I start with the first question here and say, when we look at Q4 and all that, as Marc alluded to earlier, we believe that right now, our guidance for the full year is we do believe that that's on the low end of where we'll be. So you take that into Q4 and the assumptions that we have around our ability to produce and get product out of the door continues to increase. And so you can pretty much back into from the guidance we've given on revenues where we expect our sales to be.

But as we've said, we expect to continue to see throughput within our factories increase. And then when I look at just the dynamic of the market around us right now and say, okay, with where we are today, obviously we've done a very good job of understanding what the cost environment was going to do and offsetting that with cost-based price increases throughout the year.

And as we look forward, and I think Marc alluded to this earlier, we do see some carryover benefits that still will continue to come. I think the other thing that, I'd point to more historically even within our business and our ability to handle some of these dynamics, if you look back to like the 2018, 2019 timeframe, we also had cost increases within and many of them were driven by tariffs, which we were able to offset with cost-based pricing back then. So

again, the trends that we see right now, we believe we're taking the right actions to offset and we expect to continue to do that.

Marc Robert Bitzer

Chairman & Chief Executive Officer, Whirlpool Corp.

A

And, Mike, the additional comment I want to make on this inflation, yes, inflation is very dynamic. But again, I want to repeat what I said earlier, we basically saw that coming. We gave in April the inflation outlook, which probably many people perceived as, oh, that's pessimistic. But it turned out to be true, so I think we were pretty accurate in our reading of the broader markets, commodity markets and also the short-term markets. So – and as such, probably that's also the prime reason why this Q3 which had a pretty brutal year-over-year increase of inflation of 6.5 points, but it didn't leave a dent in our bottom line. And that's, I would say, is pretty remarkable.

So being able to read the inflation outlook a little bit earlier than others helps you just deal with it earlier. And then I think we've demonstrated it in Q3. As it comes to next year, as I mentioned before, of course, there will be carryover. But there will be also carryover from pricing, and I would again use Q3 as a proof point. We are able to operate in a pretty challenging dynamic environment, and we will continue to do so.

Operator: Your next question comes from Eric Bosshard of Cleveland Research.

Eric Bosshard

Analyst, Cleveland Research Co. LLC

Q

Thank you. Good morning

James W. Peters

Chief Financial Officer & Executive Vice President, Whirlpool Corp.

A

Morning.

Marc Robert Bitzer

Chairman & Chief Executive Officer, Whirlpool Corp.

A

Morning, Eric.

Eric Bosshard

Analyst, Cleveland Research Co. LLC

Q

Two things in terms of the longer-term guide. First of all, in terms of the margin guide, if you could just give a bit of clarity, guiding for margin improvement in the coming years, does that assume progress across all markets? And I guess the underlying question is, does that assume that the margin in North America is sustained or enhanced from here?

James W. Peters

Chief Financial Officer & Executive Vice President, Whirlpool Corp.

A

Yeah. Eric, here's what I would say, if you look at our long-term goals we just laid out, what that assumes is it does assume in our businesses outside of North America, we continue to see margin improvement and especially within EMEA. And we haven't really changed our targets in terms of our goals in terms of the overall margin profitability there.

When you look at our North America business, what it indicates is that we believe that, that business will stay at above a 15% EBIT margin type of range right now. And so we feel very good about where we are. Remember, our previous guidance was 13% plus for that. So we do believe we've made a step change in the profitability within North America. But a big driver that you shouldn't discount here is that the international, our businesses outside the US, will continue to expand margin.

Eric Bosshard

Analyst, Cleveland Research Co. LLC

Q

Okay. That's helpful. And then secondly, the increased revenue guide, the goal over the last, I guess, 5 years was 3%. And you achieved that goal in total, but it felt like there were a few years where you didn't grow 3%. As you look at this 5% to 6%, I guess what I'm trying to understand is that, in the last number of years, when given an opportunity to focus on market share or margin, it felt like you defaulted to margin and that may explain a few years you fell short of that goal. As you move forward, is the accelerated revenue growth representing mostly confidence in faster market growth or does that imply a different performance focused commitment to market share?

Marc Robert Bitzer

Chairman & Chief Executive Officer, Whirlpool Corp.

A

Yeah. So let me just take this one. First of all, to already answer the second part of your question, I think it primarily demonstrates confidence in the market outlook. Because of the market demand, we just view it as very strong as it were before. Having said that and stepping back a little bit, couple of years ago when we were operating at 6% or 7% EBIT margin, if you just look at the pure financials, how you create economic value for a company, you know you have a higher lever on the margin expansion compared to revenue growth. We are operating on different levels. If you take the North America business operating at 17% or 18%, by definition if you just look at basic value creation, you can create even more value, economic value if you drive growth.

So it all depends – I wouldn't call it's a shift, it just depends on where you are kind of in your margin progression and where you have going forward the highest lever for economic value creation. That picture, of course, is slightly different in Europe. In Europe, we will continue to drive a margin expansion very hard because we're not yet done with our turnaround. And again, it depends on the respective region, where we are in the business, and that's where we kind of – depending where we are, have a particular focus on margin expansion or revenue expansion. But again, the overriding theme is we're highly confident on a very strong market demand in the near and long term.

Marc Robert Bitzer

Chairman & Chief Executive Officer, Whirlpool Corp.

So with that, I think we're coming to the end of this Q&A session. First of all, I appreciate everybody calling in, dialing in. There was a lot of material to absorb today because it was more than the earnings call, it was also about the long-term value creation goals, and I appreciate a lot of questions about these long-term value creation goals. And again, I just want to reiterate what I said both on the call. This is now after Q2 last year with five exceptionally strong quarters, but it's not just the five quarters. This is a year number four where we have year-after-year all-time record performance. And I think you would all agree, it was not particularly easy trading environment, no smooth sailing, but we delivered.

In a certain way, you can almost say, well, give us a rough environment, we'll perform well. And I think that's the confidence you should also see going forward. We're not kind of planning or expecting that it's all going to be nice next year. It will continue to be challenging. But every quarter for me is a proof point. We have an agile

organization, we have an agile business model and we can deal with what comes and we can perform exceptionally well in these circumstances.

With that in mind, I thank you all for calling in, and wish you all a nice Friday and a nice weekend.

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

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