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Whirlpool Corp. (WHR)

Q4 2021 Earnings Call

### **CORPORATE PARTICIPANTS**

**Korey Thomas** 

Head of Investor Relations, Whirlpool Corp.

**Marc Robert Bitzer** 

Chairman & Chief Executive Officer, Whirlpool Corp.

Joseph T. Liotine

President & Chief Operating Officer, Whirlpool Corp.

James W. Peters

Chief Financial Officer & Executive Vice President, Whirlpool Corp.

### OTHER PARTICIPANTS

Susan Maklari

Analyst, Goldman Sachs & Co. LLC

**Eric Bosshard** 

Analyst, Cleveland Research Co. LLC

David S. MacGregor

Analyst, Longbow Research LLC

Sam Darkatsh

Analyst, Raymond James & Associates, Inc.

Michael Rehaut

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**Kenneth Zener** 

Analyst, KeyBanc Capital Markets, Inc.

Elizabeth L. Suzuki

Analyst, BofA Securities, Inc.

### MANAGEMENT DISCUSSION SECTION

**Operator**: Good morning, and welcome to Whirlpool Corporation's Fourth Quarter and Full Year 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 (sic) [Head] (00:14) of Investor Relations, Korey Thomas.

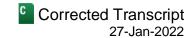
#### **Korey Thomas**

Head of Investor Relations, Whirlpool Corp.

Thank you, and welcome to our fourth quarter and full year 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 provide you a better baseline for analysing trends in our ongoing business operations.

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

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

#### Marc Robert Bitzer

Chairman & Chief Executive Officer, Whirlpool Corp.

Thanks, Korey, and good morning, everyone. I'm very proud to say that 2021 was another record-setting year for us, now the fourth record-setting year in a row. And as you all know, 2021 was certainly not an easy year given all the COVID-related disruptions and the rapidly-accelerating inflation. As we turn to 2022, we expect to deliver yet another year of record results. While we, on one hand, strongly believe that consumer demand trends will remain strong, the ongoing pandemic, on the other hand, will continue to translate into supply constraints and cost inflation. As we have successfully demonstrated in 2021, we do know how to execute in a challenging environment. Also, with the strength of our balance sheet and significant cash generation, we are well positioned to fund innovation and growth, while returning cash to shareholders.

Now, I'll turn to our full year highlights on slide 5. Throughout 2021, we demonstrated the agility of our business and the ability to operate in any challenging environment. Faced with supply chain constraints and significant inflationary pressures, we responded with early and decisive actions to protect margins. We executed cost-based price increase in every region, fully offsetting \$1 billion in raw material inflation.

Ultimately, we drove record results for the fourth consecutive year. We delivered double-digit revenue growth of 13%. We delivered this accelerated growth with record margin of 10.8% and record ongoing earnings per share of \$26.59, a 44% year-over-year improvement. And we generated record adjusted free cash flow of \$2 billion, led by strong earnings. As a result, we strengthened our balance sheet and drove significant shareholder returns.

We returned \$1.4 billion to shareholders with \$1 billion of buybacks and increased our dividend for the ninth consecutive year. We reduced our gross debt leverage to 1.8 times, delivering below our long-term target of two times. And we delivered a return on invested capital of 15%, an improvement of 420 basis points compared to the prior year. Overall, our 2021 performance again reflects the structural improvement in our business, and that we're a different Whirlpool than we were 10 years ago, operating in a very different world.

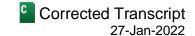
Turning to slide 6, I will provide an update on our fourth quarter results. Our Q4 results were fully in line with our expectations, as we knew we will be faced both with constrained supply chain and sharply elevated inflation. We delivered record revenue in the quarter and an 8% growth compared to 2019. Additionally, we delivered ongoing EBIT margin of 8.6%, largely offsetting over \$500 million of inflation from raw material and logistic cost increases. Next, we generated significant cash in the quarter and returned \$400 million to shareholders through buybacks. This quarter demonstrates our deeper understanding of the environment we are operating in and the strong execution capabilities of our teams.

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

#### Joseph T. Liotine

President & Chief Operating Officer, Whirlpool Corp.

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Thanks, Marc, and good morning, everyone. Turning to slide 8, I'll review results for our North American region. In North America, we delivered record revenue, with 11% full year revenue growth, driven by strong consumer demand and the execution of cost-based price increases. Additionally, we delivered record full year EBIT margins, driven by our disciplined execution of cost-based price increases and sustained positive mix. Demand for our products remains high as we operate in a constrained environment, which we expect to persist throughout 2022. Lastly, the region's again outstanding results demonstrate the fundamental strength and agility of our business model.

Turning to slide 9, I'll review results for our Europe, Middle East and Africa region. The region delivered strong full year revenue, a 16% improvement compared to the prior year. And despite negative impact of inflation, the region drove margin expansion of 190 basis points, delivering 2% margins for the year. We are confident in the actions we have in place, and our long-term turnaround plan for the region is on track.

Turning to slide 10, I'll review results for our Latin America region. Full year net sales growth of 22%, driven by cost-based price increases. The region delivered very strong EBIT margins of 8.4% for the year, despite supply constraints, inflation and continued negative impact from currency.

Turning to slide 11, I'll review results for our Asia region. We streamlined our portfolio with successful completion of the sale of our majority interest in Whirlpool China. The region's revenue decline is fully attributable to the Whirlpool China divestiture. Excluding this, the region grew by 16% year-over-year. We restored profitability to the region and delivered EBIT margins of 5.4%, driven by cost-based pricing actions and the positive impact from our divestiture. Lastly, COVID-related disruptions continue as cases have surged in India, with shutdowns impacting demand as we entered a new year.

Now on slide 12, I'll turn it over to Jim to discuss our full year 2022 guidance.

#### James W. Peters

Chief Financial Officer & Executive Vice President, Whirlpool Corp.

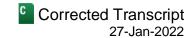
Thanks, Joe, and good morning, everyone.

Now, turning to our full year 2022 guidance on slide 13. 2022 will be another year where we will face a difficult operating environment, including COVID and supply chain disruptions that we now face in the first quarter. However, consumer demand remains robust, driven by nesting trends and a strong replacement cycle. We are uniquely positioned to capture these structural drivers of demand and can operate in any environment. It is with confidence that we provide our 2022 guidance, which reflects significant top line growth and a fifth consecutive year of record earnings per share. In line with our long-term value creation goals, we expect to drive net sales growth of 5% to 6%. Additionally, we expect to deliver EBIT margins of approximately 10.5% and \$1.5 billion in free cash flow. This represents a full year EPS range of \$27 to \$29.

Turning to slide 14, we show the drivers of our full year ongoing EBIT margin guidance. We expect price/mix to expand margins by 600 basis points from the following three drivers: one, carryover pricing actions from 2021; two, recently announced cost-based price increases in the US, Europe and India, which will be fully in place in the second quarter; three, the continued positive trends in mix we have seen as consumers nest at home and the impact of new product launches.

Next, we expect net cost takeout to negatively impact margins by only 50 basis points, with increased logistics and labor costs, partially offset by ongoing cost productivity measures. We expect our business to be negatively impacted by \$1 billion to \$1.25 billion in raw material inflation, led by higher steel and resin costs. As we already

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began to realize a significant cost increase in the latter portion of 2021, the largest year-over-year impact is expected during the first half of the year, particularly in Q1. On a full year basis, inflation is fully offset by our price/mix actions.

Next, as we continue to invest in our business, we expect increased investments of 50 basis points in marketing and technology. Unfavorable currency, primarily in Latin America, is expected to impact margins by 25 basis points. As inflationary pressures will most heavily impact our first quarter and our recently announced cost-based pricing actions will be fully implemented in the second quarter, we expect to deliver 40% to 45% of our earnings in the first half of the year. We are confident that we have the right actions in place to again navigate a supply-constrained and inflationary environment and deliver approximately 10.5% EBIT margin. Restructuring costs will be reduced in 2022. And moving forward, we will only exclude restructuring actions greater than \$50 million from our ongoing results.

Turning to slide 15, we show our regional guidance for the year. Starting with industry demand, we expect a continued robust demand environment for North America, supported by broader home nesting trends and undersupplied housing market and a strong replacement cycle. In EMEA, we expect modest growth of 0% to 2%. And in Latin America, we expect a contraction of 2% to 4% as the region experiences slowing demand and increased macroeconomic uncertainty. Asia industry is expected to accelerate by 5% to 6% as the region continues to rebound from COVID-related shutdowns in 2021. Regarding our EBIT guidance, we expect very strong margins of approximately 16% in North America.

We expect the benefits of our previously announced cost-based pricing actions to largely offset inflation and operational efficiencies associated with producing in a heavily constrained environment. In EMEA, we expect to continue to execute upon our positive turnaround strategy, including accelerated built-in growth and share gains, driving EBIT margins of approximately 3%. In Latin America, we expect to deliver EBIT margins of approximately 8% as positive price/mix is offset by inflation and continued currency devaluation. Lastly, we expect to achieve EBIT margins of approximately 8% in Asia, driven by top line growth and our strategic divestment actions in 2021.

Turning to slide 16, we will discuss the drivers of our 2022 free cash flow. We expect strong cash earnings of approximately \$2.5 billion, driven by top line growth and improved EBIT margins. We plan to increase capital investments by \$175 million as we continue to invest in our products and fund organic growth. These investments include unlocking capacity constraints, launching innovative products and furthering our digital transformation journey. We are planning for a moderate inventory build as we begin to recover our inventory position, particularly in the United States. We anticipate minimal cash outlays related to restructuring or post-integration activities as these have largely been completed.

Overall, we expect to deliver free cash flow of \$1.5 billion or approximately 6.5% of sales. We expect some asset sales in 2022. However, moving forward, we will no longer report adjusted free cash flow. Free cash flow will be defined as cash provided by operating activities less capital expenditures.

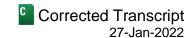
Now on slide 17, I'll turn it over to Marc to discuss how we are structurally positioned to fund our growth while delivering shareholder returns.

#### **Marc Robert Bitzer**

Chairman & Chief Executive Officer, Whirlpool Corp.

Thank you, Jim. We've demonstrated we can generate significant levels of cash, and we're unwavering in our commitment to drive shareholder value. We have structurally improved our cash generation through our accelerated growth and expanded margins. Next, with our multiyear footprint optimization actions largely behind

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us, we've reduced unique cash outlays. Additionally, we will continue to invest in innovation, capacity and strategic initiatives, further demonstrating our confidence in the business. Lastly, with our strong balance sheet and significant cash generation, we expect to return approximately \$1.5 billion to shareholders in 2022. This represents a cumulative return of nearly \$4 billion to shareholders since 2019.

Now turning to slide 18, I will summarize why we are positioned to grow our business and drive shareholder returns. Let me begin by reiterating our significant cash generation expectations and the strength of our balance sheet. We have achieved our gross debt leverage target of below 2.0, and additionally, we expect to deliver free cash flow of \$1.5 billion in 2022 or approximately 6.5% of sales. Lastly, we have reduced our unique cash use significantly, in line with our long-term expectations. Second, we will continue to invest in the business, while at the same time, returning cash to our shareholders. We will fund our business through increased investments that support accelerated growth by returning approximately \$1.5 billion in cash to shareholders in 2022. These actions demonstrate the confidence we have in our business and our commitment to drive strong shareholder value.

Now turning to slide 19, let me recap what you heard over the past few minutes. In 2021, our teams impressively demonstrated our ability to operate in a challenging environment, and we were able to deliver another record year of results. We will continue to do so in 2022 and will deliver another record year, coupled with significant returns of cash to shareholders. This clearly demonstrates that Whirlpool is today a structurally different company and well-positioned to leverage the strong consumer demand we expect in a COVID and post-COVID environment.

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

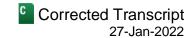
### QUESTION AND ANSWER SECTION

**Operator**: [Operator Instructions] And your first question comes from the line of Sue Maklari from Goldman Sachs. Your line is open.

Susan Maklari Analyst, Goldman Sachs & Co. LLC	Q
Thank you. Good morning, everyone.	
Marc Robert Bitzer Chairman & Chief Executive Officer, Whirlpool Corp.	A
Good morning, Sue.	
James W. Peters Chief Financial Officer & Executive Vice President, Whirlpool Corp.	A
Good morning.	
Susan Maklari Analyst, Goldman Sachs & Co. LLC	Q

My first question is thinking about – I know you mentioned that you expect the greatest impact in terms of inflation in the first quarter and the first half of the year. Can you just give us a bit more color on how you're thinking about the sequential shifts in a lot of those input costs? I see as a bridge you sort of had a 6.5% hit to the margin in the

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fourth quarter. You're implying a 5% impact for the full year. Just talk to us about how we should be thinking about the cadence of those costs and what that could imply for the margins across the business?

Marc Robert Bitzer

Chairman & Chief Executive Officer, Whirlpool Corp.

A

Hey, Susan, it's Marc. So, let me try to provide a little bit broader context. And first of all, as you know, we don't give quarterly guidance. But I think it's very important to understand this year's seasonality in our guidance. And what do you see underlying, there's basically two fundamental factors in the seasonality, which are not exactly in the same cycle. So first, you have cost increases, which we do expect to peak in Q1 and Q2 and then moderate in the back half of 2022. Part of that is also a baseline effect of last year, but we expect the peak in Q1, Q2.

The offsetting incremental pricing actions which we have already announced, they will – I mean, again, we announced them, but they are not yet in effect, you will start seeing the incremental additional benefit towards the end of Q1 and particularly Q2. So, while the negative side is more heavily balanced towards Q1 and Q2, the pricing benefits will be more significant in Q2, Q3 and Q4. So, you overlay these two factors, that led to kind of the first half indication, which Jim provided in his remarks, that we expect 40% to 45% of our full year EPS being delivered in the first half.

Susan Maklari

Analyst, Goldman Sachs & Co. LLC

Q

Okay, that's very helpful. And then following up, you came into the fourth quarter expecting to focus on ramping your inventory? You made the comment that you expect that effort to continue through 2022, especially in the US. Can you talk to the supply chain, the sort of headwinds that you're seeing as you come into this year, anything that's really changed? And how you're expecting that to come through the year? And how we should be thinking about your volumes relative to the industry in North America, and the US specifically?

Joseph T. Liotine

President & Chief Operating Officer, Whirlpool Corp.



Hi, Susan, this is Joe Liotine. Yeah, in terms of our inventory, if we just take a step back, we'd still see very strong consumer demand, and we see a lot of reasons for that across housing, nesting and just usage of our products. And so as we talk about inventory, it's a function of kind of the outside demand as well. And so, we did experience good consumer pull. But at the same time, we continued to be hampered by operational disruptions. And so, the combination of the two, we essentially talked about a backlog of orders up to eight weeks earlier in the year, we've kind of chipped that down to six weeks and then ultimately to four weeks. So, we've not yet made the full progress that we would have liked on inventory as a consequence of those two functions. We expect the disruptions really to continue into the Q1, first half period, as Marc and Jim had indicated. And so that also is a factor in getting the inventory to levels we wanted.

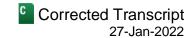
Marc Robert Bitzer

Chairman & Chief Executive Officer, Whirlpool Corp.



Susan, maybe just adding to this one. Basically, in the most simple term, we do expect the supply chain constraints to persist throughout 2022. And the reason why I'm saying this one, and of course, with some uncertainty is, if you look back at what drove supply chain shortages in 2021, it's largely labor shortage in our own factories, component issues, chip issues and transportation delays, both across the ocean and even domestically. Ultimately, all these factors are somewhat related to respective COVID waves. And as we all experienced and all we can see every day, COVID is not yet completely over, even though there may be some light at the end of the tunnel, but there's always rippling effects coming out of the respective COVID waves as we work ourselves

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through the supply chain, and also in particular, as we think about Omicron and what it might mean for Asia and Asia component suppliers.

So, there is uncertainty. And with that uncertainty, that's why we say most likely, the supply chain impact will be visible in 2022, I would say right now, there's reason to be slightly more optimistic in the back half, but in the first half, I don't expect a significant improvement. As a result of this one, we would love to build some inventory, to be very clear. I don't think it will happen in the first half. Depending on how the situation in the supply chain, we may be able to build some inventory levels to manageable working capital levels by the end of the year.

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

**Eric Bosshard** 

Analyst, Cleveland Research Co. LLC

Thank you. Good morning.

Marc Robert Bitzer

Chairman & Chief Executive Officer, Whirlpool Corp.

Good morning, Eric.

Eric Bosshard

Analyst, Cleveland Research Co. LLC

Good morning. Two questions, if I could. First of all, in terms of demand, the 2% to 3% market growth outlook in 2022, the conviction and visibility to that, and then also curious how you watch demand behave through 4Q and into 1Q, especially with this Omicron spike that's taking place.

#### **Marc Robert Bitzer**

Chairman & Chief Executive Officer, Whirlpool Corp.

Eric, it's Marc here. First of all, for broader group, the 2% to 3% referred to the industry shipment guidance, which we've given for North America. To be really clear, that's an important differentiation. That number is driven by supply chain constraints. The underlying consumer demand is stronger. So, we factor in certain supply chain constraints, which will lead to an overall industry growth, which is significant investment the consumer actually would give us permission to. So, that's already factored in, which also explains a lot of the questions about industry growth going forward will still be – have to be explained by how much the industry can ship and produce.

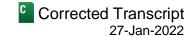
Having said all of that, I would say, take into account the comments I made earlier, the biggest kind of risk, if you want to say, some industry shipments is probably in the first half. Also, in comparison in Q1 last year, Q1 was reasonably solid. That's what we would right now expect in our full year guidance. But again, the 2% to 3%, we feel pretty confident. If supply chain gets better, there could be upside. But right now, we take a certain risk factor here into account.

#### **Eric Bosshard**

Analyst, Cleveland Research Co. LLC

And then second, if I could, the price/mix number in 2021 of 6% for the full year is something that I don't think you've achieved in a long time, perhaps ever, and now expecting to run that back again in 2022. Obviously, you can manage raising price, but just interested in terms of the consumer, are you seeing any change in the

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consumer reception or their attitude or elasticity to ongoing now a second year of pretty notable price and mix increases?

Marc Robert Bitzer

Chairman & Chief Executive Officer, Whirlpool Corp.

Eric, it's Marc again. And maybe Joe Liotine can also chime in. The simple answer is, so far, we do not see any major concerns about price elasticity. The demand continues to remain strong and robust. And frankly, right now, with the most recent increase we put out there, we don't see that as the number one constraint. So again, it comes back to the overall theme is consumer right now is not our prime concern. It is on the supply chain side. Of course, you could argue that [indiscernible] (24:15) talk about inflation at one point, the broader context about expected inflation could impact consumer confidence. But so far, we don't see that yet. The [ph] actual (24:26) price elasticity is, I mean – right now, we don't see a big impact coming from any of the previous price increases. Joe?

Joseph T. Liotine

President & Chief Operating Officer, Whirlpool Corp.

Yeah. Maybe just adding on those points, I think the offering that we have in market gives consumers quite a bit of choice matching their needs. And so, as a consequence of not seeing that pressure from an elasticity standpoint and really having great product and brand offerings for consumers to choose, what exactly they need, kind of has been favorable in that regard so far.

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

David S. MacGregor

Analyst, Longbow Research LLC

Yeah. Good morning, everyone, and congratulations on all the progress.

Marc Robert Bitzer

Chairman & Chief Executive Officer, Whirlpool Corp.

Good morning, David.

David S. MacGregor Analyst, Longbow Research LLC

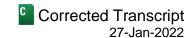
Yeah. I just wanted to talk about the 2022 guidance on EPS of \$27 to \$29. Could you just talk a little bit about sort of the difference in the assumptions behind the low end of that range versus some of the assumptions underlying the upper end of that range?

James W. Peters

Chief Financial Officer & Executive Vice President, Whirlpool Corp.

Yeah, David. And this is Jim. And maybe I'll start off and then Marc or Joe could add some context there. As we go into the year, and if you think about even historically, as we've given ranges in the past, it's typically been about a 10% range around our earnings. And so, as our earnings, our EPS has grown, the range has gotten a little bit wider. If you look at what we're saying today and the low end versus the high end, as we come into the year, we're starting off with an estimate on a range of material cost increases between \$1 billion and \$1.25 billion.

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So obviously, there's still some moving parts within there, and we feel very good about though the range that we've given.

Additionally, as we look at demand around the globe, we talked a little bit earlier, while we do see strong consumer demand, right now, we see supply chain constraints that could come into play and limit the amount that we can produce and others could produce and ship. So that's where how we got to the range right now. If they're on the low end, you assume the supply chain constraints are a little bit higher than — or last a little bit longer than we thought and materials might be at the higher end of that range. If you go to the high end of our range, you're seeing that materials would be a little bit lower than what we used.

#### David S. MacGregor

Analyst, Longbow Research LLC

Got it. Thanks for that. And then second question, I mean there's been a lot of concern expressed lately around your market share in the United States and unit share in particular. And it appears like as though it was down again in the fourth quarter. But I recall your explanation last quarter that it's entirely due to production constraints with the supply channel and labor, et cetera. As you think ahead to that point once these supply channel issues

are no longer a constraining factor, how confident are you in your ability to win that share back again? And why?

**Marc Robert Bitzer** 

Chairman & Chief Executive Officer, Whirlpool Corp.

David, it's Marc, and maybe Joe should chime in as well. So first of all, also to be very transparent and clear, Q4, we gained sequential market share in the US compared to Q3. Year-over-year, we were still slightly down. So, if you want to – another way to look at it, probably our weakest US market share was pretty much around the summer period. And ever since, we slightly managed back. And that is also a little bit of a reflection to the order backlog, which we've explained in the past, where kind of in a worst state, we were kind of seven or eight weeks' order backlog. We're now kind of pretty much back to four weeks. So, we're gradually making our way back on the market share. But given the constraint comments we talked about before, it's not going to be in the short, short-term because simply we can't produce enough.

Having said that, and that gives us confidence. We have a very, very high demand for our newly launched products, the high-end products. So, we know the demand out there. We know what we can work with. So, from a pure preference for our products and our brands, we feel we might be in the best position like in many years. So, we feel very good once we have availability of products, that we can gradually regain that market share.

Joseph T. Liotine

President & Chief Operating Officer, Whirlpool Corp.

Yeah. Maybe, Marc just to build on that point. Our product launches related to top load two-in-one agitator that we launched, has been very successful. Our dishwasher launch in the last, let's say, 12 or 18 months continues to gain steam there, very successful. And really, our JennAir Luxury premium brand has grown quite well. So, we do see a lot of assets in market that are ready to – in position to help us grow. To Marc's point, on the disruptions and the limiting factor of supply, we need to get that stabilized and improving consistently, really to have all those things come together.

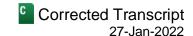
**Operator**: Your next question comes from the line of Sam Darkatsh from Raymond James. Your line is open.

Sam Darkatsh

Analyst, Raymond James & Associates, Inc.

Q

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

#### **Marc Robert Bitzer**

Chairman & Chief Executive Officer, Whirlpool Corp.

Good morning, Sam.

#### James W. Peters

Chief Financial Officer & Executive Vice President, Whirlpool Corp.

Good morning.

#### Sam Darkatsh

Analyst, Raymond James & Associates, Inc.

Two quick questions, if I might. Jim, you mentioned that some of the variability around your expectations for earnings this year is going to be where RMI ultimately shakes out. Can you talk about how much sensitivity within your RMI guidance is specific to changes in prevailing steel and base metals in 2022? I think, we get the fact that resins move around, and I think you got three or four months of visibility there. So clearly, that could be some sensitivity. I'm really looking more so at steel and base metals in particular.

#### James W. Peters

Chief Financial Officer & Executive Vice President, Whirlpool Corp.

Yeah, Sam. And this is Jim, and Marc can kind of add in a little if he'd like or Joe. But what I would say is when we look at the contracts we have in place and our expectations, that range incorporates what we think the variability could be. As you know, historically, we really don't give specifics on various commodities in terms of what they are. But when we look at them in total, we believe the range of \$1 billion to \$1.25 billion incorporates the different movements we could see within there, and based on what we know today and the contracts we have in place.

So again, what I would also highlight is, last year, we were very accurate in terms of when we came out, but it was one quarter later when we really came out with a very firm number, but the \$1 billion we said we'd see in 2021 was in line. It held all year long. So right now, based on where steel prices are today and resin prices, we believe we'll be in that range.

#### Marc Robert Bitzer

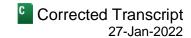
Chairman & Chief Executive Officer, Whirlpool Corp.

Sam, it's Marc. Just maybe echoing what Jim is saying and also tying back to David's earlier question about the \$27 to \$29. Yes, the biggest amount of variation probably comes around how much of a raw material inflation or overall inflation we will see, and that explains the variation.

Back to Jim's comments. The raw materials, in particular, in steel [ph] and everyone's hedging over where it's (31:05) typically longer contracts and hedging in some case in place. So that part is pretty much locked in, and still with some variation, but that's pretty much the predictable part. The element which has still kind of uncertainty in terms of how big it is, is rippling effects on other components as sub-suppliers pass on cost increases.

And the other element is also logistic cost is still a significant concern. And logistic costs have gone – both global transportation, but also domestic transportation, have gone up a lot in 2021. So, I would say these factors are one probably which explains some of the variation. But again, I'm coming back to Jim's point. We were pretty much spot on in our cost forecast for 2021, doesn't mean that we like it over spot on. And I think by now, we have a pretty good sense about what amount of costs we're faced with.

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#### Sam Darkatsh

Analyst, Raymond James & Associates, Inc.

My second question – thank you for that granularity. My second question, as it relates to you working down the backlog from eight weeks to six weeks now to four weeks, can you be real specific or as specific as you can competitively as to how you've been able to do that? Where were the bottlenecks that you have been able to break through and why those bottlenecks don't continue to improve or at least the effects of them don't continue to improve throughout 2022?

Joseph T. Liotine

President & Chief Operating Officer, Whirlpool Corp.

Hi, Sam, this is Joe. In terms of kind of how we progressed through that, there are lots of factors. Earlier in the year, we had different events related to resins and weather and things of that nature. So really those were pervasive in terms of the category, but they were specific as it pertained to just resins. As we got through that, that was probably around the mid-summer side. That was our peak. So, as we went through that, we had other different disruptions related to suppliers just generally. That got a little bit more stable as a consequence of health progressing. And then really, we had some consistent, I'll say, disruptions around transportation, global transportation. We had some persistent ones around chips. And so, the reason why we're not expecting big improvements is because we still have the characteristics that Marc cited earlier in terms of Omicron and the waves of disruption that could impact other suppliers.

So, until we really see that go through, we really can't expect to be in a better position from some of these persistent areas. But the one-offs from weather and various specific events, we kind of got through. So that really took us from the, let's say, seven to eight week backlog to the six and now to the four. And until we see the rest of these phases come through the supply chain system, probably not real reasonable to expect a lot of improvement in Q1 per se.

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

Michael Rehaut

Analyst, JPMorgan Securities LLC

Thanks. Good morning, everyone.

Marc Robert Bitzer

Good Morning, Michael.

Chairman & Chief Executive Officer, Whirlpool Corp.

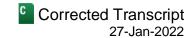
Michael Rehaut

Analyst, JPMorgan Securities LLC

First question I had was around market share and – a big area of investor focus. If you look at the fourth quarter, your North America grew 2.5%. If you kind of apply, just for argument's sake, and I think you've said in the past, that it's roughly proportional, the overall price mix benefit to North America, you're looking at maybe 2% or 3% of volume decline versus industry days being flat. Similarly, at least on a consolidated basis, you're talking about 5%, 6% revenue growth for 2022.

If you take out the mix there, price/mix benefit, you're looking at flattish volumes versus industry shipment globally of 2%. I just want to make sure we're thinking about it right, that it appears that the market share slippage is

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continuing. Obviously, I presume you're saying around supply chain constraints. But if that's the right way to think about what's occurring in terms of your market share in 4Q and what you expect in 2022, and how that might change over time or even during the upcoming year?

**Marc Robert Bitzer** 

Chairman & Chief Executive Officer, Whirlpool Corp.

A

Yeah. So Michael, it's Marc. So first of all, and let me first zoom in on US. Again, as I mentioned before, in Q4, we gained sequential market share, but we're still down year-over-year. For US specific for 2022, we expect a slight year-over-year market share gain. What you're referring to the 5% to 6%; that is our global revenue growth. Again, you have a different mix components going on.

And as you've seen in their respective guidance, we're a little bit cautious on the Latin America demand, which is from a pure global volume perspective, a significant portion. And also, I think in Europe, you may not see the same kind of growth as we would expect from US. So there's still regional differences, which are factored in the overall 5% to 6%. But again, very specifically for the US, we do expect for 2022 a slight year-over-year market share gain.

Michael Rehaut

Analyst, JPMorgan Securities LLC



Okay. That's helpful, Marc. I appreciate it. I guess, secondly, just wanted to be clear on some of the components also of the thoughts around 2022 and a couple of other areas. One, the price/mix cadence throughout 2022, I assume first quarter will be less than the full year average, and that's part of the challenge of the first quarter. And then also on the \$27 to \$29 EPS, whether or not that includes share repurchase in the denominator, that \$1 billion. I wasn't fully clear with the slides.

James W. Peters

Chief Financial Officer & Executive Vice President, Whirlpool Corp.



Yeah. Michael, I'll start with – I'll actually – I'll take both of them here and then ask Joe and Marc to kind of comment. But on the price mix, as we talked about earlier, we've got some carryover coming into the year, but the recently announced price increases don't start to take effect and drop to the bottom line until you get to later in Q1 and into Q2. So there is a kind of back half pickup on that in terms of the price increases we've recently announced.

In terms of share repurchase, what I would assume right now is there's a moderate level within there because a lot of that's dependent upon the timing of when we do it within the year. And obviously, we've incorporated all the share repurchases we did last year. But as we go throughout the year, if, at some point in time, that drives a different estimate then we'd obviously update. But right now, it's just assuming a moderate level within the year. Spread relatively evenly.

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

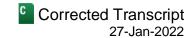
Mike Dahl

Analyst, RBC Capital Markets LLC



Hi, thanks for taking my question. Just another follow-up on cadence through the year, but maybe ask from the volume standpoint. Sorry to harp on this. But it sounds like supply constraints are staying at an elevated level. Near-term, there's also some more difficult comps in the first half of the year. So it – when you think about your global – the global guide seems to suggest volume kind of flat for the year. Would you expect volume down in the

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first half of the year and then up in the second? Is that effectively what the guide's implying to get to the full year? And any comments specifically on other North America would be similar to that would be great.

James W. Peters

Chief Financial Officer & Executive Vice President, Whirlpool Corp.

Yeah. And Mike, maybe this is Jim. I'll start a little bit with the volume assumptions. And as Joe kind of mentioned earlier, as right now with some of the constraints that we see, we do assume that as we go throughout the year, our ability to produce will increase. So that does impact the volumes throughout the year.

The other thing though we talked about with the seasonality and all that, as we said, is as you look at where material cost, the bigger year-over-year impact starts to come in the first half of the year and then we've assumed it moderates throughout the back half of the year. So there's a lot of different factors in there that drive the timing right now, but those are probably the two biggest.

Mike Dahl

Analyst, RBC Capital Markets LLC

Got it. Okay. Thanks. And then the second question is just on North America EBIT. You've 16% guide for the full year, that's obviously still a very strong level. Historically speaking, it is down from the 17% in – or high 17s in 2021. Obviously, you've talked to the cost inflation dynamics just now in prior answers. But can you talk about any other drivers of the year-on-year change in margin in North America? And maybe more specifically also, whether there's an assumption that promotional activity returns.

Joseph T. Liotine

President & Chief Operating Officer, Whirlpool Corp.

Yeah. Michael, this is Joe. In terms of the North American margins, they do remain at really strong levels from a 16% EBIT standpoint, again, well within our guidance of 15% to 16% kind of long term. And really, that is driven by the sequencing of the events that Jim, Marc and I all spoke to, cost headwinds and some of the disruption experienced earlier in the year, Q1, Q2, offset by a lot of the actions we put in place to either remove costs, eliminate costs, defer costs, and also add in price and mix benefits, coupled with a little bit of the product launch side of things continue to be in our favor. And so that really is the big drivers that we see.

In terms of promotions, we don't do a lot of future comments on promotions. But I would just say we always take a very rational and effective approach to what makes sense in the market, and we do the best we can there. And we've demonstrated a long track record of doing that fairly well.

Marc Robert Bitzer

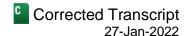
Chairman & Chief Executive Officer, Whirlpool Corp.

Michael, it's Marc, also maybe just adding to Joe's comments. Given that we established our long-term value creation goals in October, where we had US at 15% to 16%, I guess the 16% shouldn't be a big surprise. I would even argue even though we put the 16% at the high end on our long term just is reflective of how strong we feel about our North America business and what we – the opportunity and potential we have there.

Specific to your question about the promotional environment, given my comments earlier on the supply chain, we do not expect a return or a heavy promotional environment anytime soon.

Operator: Your next question comes from the line of Ken Zener from KeyBanc. Your line is open.

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Kenneth Zener  Analyst, KeyBanc Capital Markets, Inc.	Q
Good morning, everybody.	
Marc Robert Bitzer Chairman & Chief Executive Officer, Whirlpool Corp.	A
Good morning, Ken.	
James W. Peters Chief Financial Officer & Executive Vice President, Whirlpool Corp.	A
Good morning, Ken.	
Kenneth Zener  Analyst. KeyBanc Capital Markets. Inc.	Q

So many things. Let's just look at the US demand, which you're saying is being limited by supply. You wouldn't be the only one suggesting that. Specifically, if we could look at the kind of remodeling market, which, usually, as I think about a third of sales, my recollection is, that R&R market, maybe a third of that is what you'd be like a large suite, right, a kitchen remodel or something. Could you talk about those kind of trends on the large piece?

And then that would leave, right, two-thirds of a third, about 20% of your sales being really the consumer discretionary, which over time, I've seen highly correlated to consumer confidence. Could you maybe kind of talk about the different trends that you're seeing in those two areas? Because it seems that's where demand is going to be, perhaps have a longer lag and perhaps be more volatile as we move forward. That's my first question.

#### Marc Robert Bitzer

Chairman & Chief Executive Officer, Whirlpool Corp.

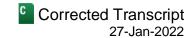
Ken, let me try to take it. First of all, reminding the audience of numbers which we communicated in the past. In the US, to some extent also globally, the rough split in terms of demand is about 15% housing, about 30% discretionary and about 55% replacement directionally.

Housing, as we repeatedly said, we're mid and long-term bullish. Housing, like our appliance industry, is right now more supply constrained as opposed to anything else. So again, we repeatedly said we would expect in nonconstrained housing environment, US housing to be 2 million units that starts every year. It's now barely made its way back to 1.7 million. Housing will continue to be strong, but still constrained by supply.

Discretionary, you have two effects why we're very positive is – one is you have strong consumer balance sheet. And that just comes from basic saving for one or two years and getting government support and that money not being spent yet. So very strong consumer balance sheet, coupled with consistent and even stronger trends on nesting and consumers being willing to invest in anything home related. So that helps us here, which leads me then to the last thing, the replacement, the 55% roughly.

And we talked about this before. I think one of the biggest misperception out there is that there has been pullforward in demand. We know from our data that's the opposite. What you've seen in the last two years is accelerated use and consumption of appliances, which drives faster replacement and stronger replacement going forward. To give you some numbers, and these are the most recent numbers, even in Q4, we saw the oven usage on connected appliance increase compared to pre-COVID by more than 150% and washers is about 50% up. That ultimately drives significantly higher replacement rates going forward. So I know, Ken, it's a long story, but it

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just reconfirms on the basic demand trends all three drivers, we feel very strong and very bullish about. The number one constraint is still the supply chain.

**Kenneth Zener** 

Analyst, KeyBanc Capital Markets, Inc.

Good. Jim, I think people ask this in 50 different ways, and I'm not trying to pick and choose too much on your fiscal guidance. But with supply constraints, it seems your business would move more sequentially perhaps than occur during normal times, which we saw in 2021 where we basically just kind of kept progressing through the year. Does that suggest 1Q versus 4Q in terms of top line, could be kind of very similar or maybe just down a little bit, and then you just ramped throughout the rest of the year, and given your pricing comments and margin comments it seems like that sequential trend would be the same, where margins are lowest in the first quarter given your cost and price dynamic lifting throughout the year?

James W. Peters

Chief Financial Officer & Executive Vice President, Whirlpool Corp.

Yeah, Ken. As Marc kind of mentioned earlier in that is, we do expect that the pattern for this year that in the first half of the year, we'll see 40% to 45% of our earnings come and then, obviously, 55% to 60% in the back half of the year. So that one does imply that volumes and revenues will ramp throughout the year, as I mentioned earlier.

The second thing that drives that and you mentioned it, but as we implement the new price increases that we've just announced, those will obviously have an impact on the top line too. That will begin to ramp in Q2 and then into Q3. So you should expect a similar type of pattern, not exactly, but in terms of revenues ramping throughout the year.

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

Elizabeth L. Suzuki

Analyst, BofA Securities, Inc.

Great. Thanks for taking my question. I guess, first one is, if raw material costs moderate more quickly than you anticipate, would you expect to hold on to some of these higher prices, and therefore, lead to some margin upside? Or would the intention be to pretty quickly react to a lower cost environment with some more attractive pricing to the consumer and potentially some bigger market share gains?

**Marc Robert Bitzer** 

Chairman & Chief Executive Officer, Whirlpool Corp.

Yeah. Liz, it's Marc. Again, to reiterate, we expect inflation to peak in Q1 and Q2 and to start moderating in the back half. Moderating doesn't mean it's going down to 0. So we will still experience some inflation in the back half. And then we can reassess once we get in the back half. But we see – expect a moderation, but not a return back to deflation or zero. The other thing is also keep in mind, between input inflation and consumer price or output inflation, there's a certain time lag by the time you get into market. So there's a certain delay effect. And I can only repeat what we said before and what I said just on the call, is on a full year level, we guide towards a 6-point price impact, and we're pretty confident about this one. And yes, on a broad environment, we do not expect a kind of anytime soon a heavy promotional environment.

James W. Peters

Chief Financial Officer & Executive Vice President, Whirlpool Corp.

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Yeah. And I'd probably add to that too, Liz is, as Marc talked about the materials. But we also have logistics costs and labor costs that have gone up significantly over a period of time. So you've got multiple variables within there. And the timing of when some of those begin to moderate or come back may not be in sync. So there's a lot of factors to consider.

#### Elizabeth L. Suzuki

Analyst, BofA Securities, Inc.

Great. And just a follow-up on the demand environment, as we think about the use of credit and rates rising, what percentage of appliance consumers are typically buying on credit? And historically, has a rising rate environment put some pressure on demand for those large ticket items?

#### Joseph T. Liotine

President & Chief Operating Officer, Whirlpool Corp.

Hi, Liz, this is Joe. In terms of kind of interest and demand, I mean, really, the increases that have happened, we're still at historically low levels. So, from an absolute standpoint, we're not at a position where we're exceeding any kind of historical average. So that really is still favorable when you just take a step back. In addition, as Marc said earlier, a smaller percentage of appliances are related to new homes, approximately 15% or so. So that's also a smaller impact.

In terms of other financing and things that consumers would do in store or what have you, that's really just not a huge factor in the decision criteria today. And given the historically low levels, we expect that to remain the case. So, generally speaking, that's still a favorable item for us in terms of at least new home purchases. So we expect that to be not a big factor in consideration for consumers at this point in time.

#### Marc Robert Bitzer

Chairman & Chief Executive Officer, Whirlpool Corp.

Liz, it's Marc, just echoing. On an interest rate increase on the direct appliance purchase has almost no impact. The percentage of consumer finance products in the US is small, and with strong consumer balance sheet, it's even smaller than before. There are other markets like Latin America, where you have a slightly higher percentage, but it really – that will not impact our global business. You may have an indirect impact on housing. But even here, I would argue that given where the mortgage rates are in a multi-decade comparison, there's still some way to go before that really would impact consumer demand in a meaningful way. So let's put it this way, interest rates are right now a lesser concern for us.

#### **Marc Robert Bitzer**

Chairman & Chief Executive Officer, Whirlpool Corp.

Let me maybe just also get in there, we came to the last question, just wrap it up here. First of all, thank you all for joining. And also zooming out a little bit of repeating what we said earlier, ultimately, 2021 was an all-time record year, all-time record revenue, all-time record margins, all-time record cash flow and we have a strong balance sheet. And this is now the fourth year in a row, and we're guiding towards a fifth all-time record. So we feel very good about business.

Of course, we have some challenges and some unknowns to deal with, and they're particularly in Q1 and Q2. But I would argue, the last four years, I think we've demonstrated pretty well that we can deal with unknowns and challenges and deliver strong results. And that's our firm commitment and strong commitment to continue to do so. So again, thank you all. I look forward to talk to you at our next earnings call, and thanks a lot again.



# Whirlpool Corp. (WHR) Q4 2021 Earnings Call



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

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