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Whirlpool Corp. (WHR)

Q2 2024 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Scott Cartwright

Head-Investor Relations, Whirlpool Corp.

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

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

We also want to remind you that today's presentation includes the non-GAAP measures outlined in further detail at the beginning of our earnings presentation. We believe these measures are important indicators of our operations as they exclude items that may not be indicative of results from our ongoing business operations.

We also think the adjusted measures will provide you with a better baseline for analyzing trends in our ongoing business operations. Listeners are directed to the supplemental information package posted on the Investor Relations section of our website for the reconciliation of non-GAAP items to the most directly comparable GAAP measures.

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

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

Marc Robert Bitzer

Chairman & Chief Executive Officer, Whirlpool Corp.

Thanks, Scott, and good morning, everyone. We demonstrated strong sequential global margin expansion in the second quarter. This global margin expansion of 100 basis points is an important step towards continued margin expansion throughout 2024.

MDA North America also delivered sequential margin expansion supported by our pricing actions announced in our first quarter earnings call. Our pricing actions in North America delivered as expected with sell-through trends improving throughout the quarter. This reflects our execution capabilities and confirms the strength of our products and brands. We're confident in our ability to execute the pricing actions while maintaining our MDA North America market share for the full year.

We continue to be very pleased with the performance of our SDA Global and international MDA business. Our SDA Global business saw strong top line growth and margin expansion as we benefited from a momentum of new product launches and continued to grow our direct-to-consumer business. We're excited about the future potential of this business.

In our MDA Latin America and MDA Asia business, we continued to gain share in key countries and we continued to see meaningful long-term growth potential in both businesses. We were disciplined with our cost management and successfully completed our organizational simplification this quarter, putting us on track to achieve our full year cost takeout guidance of \$300 million to \$400 million.

We are confident there are additional cost takeout opportunities ahead, as we shared at our Investor Day, such as manufacturing supply chain efficiencies, including automation across our business, and continuing to optimize our input costs back to pre-COVID levels.

Turning to our full year guidance. We are reiterating flat net sales of \$16.9 billion driven by new product launches, strong replacement demand, previously announced MDA North America pricing actions and continued strength in our international businesses, offsetting the challenging macro environment in the US given elevated mortgage rates, which have led to continued weakness in home sales and overall discretionary demand.

We are revising our ongoing EBIT margin to 6% from 6.8% previously as we expect continued discretionary demand pressure from a soft housing market impacting full year price/mix negatively. However, at the same time, a previously announced pricing and cost takeout actions are expected to deliver sequential margin expansion with a solid exit rate of approximately 7.5% ongoing EBIT margin in Q4. In turn, we expect to deliver \$12 ongoing earnings per share this year.

As we look ahead, we're confident in our strategy and the favorable long-term fundamentals of our business. Our view of the housing market remains unchanged, given a well-documented structural undersupply of houses in the US; existing home sales at multi-decade lows; elevated home equity values, which are near all-time highs; and our strong position with 8 of the top 10 US builders. We are very well positioned to benefit from eventual housing rebound, and we continue to innovate and have a strong lineup of new products this year that I'm personally excited about, which will support the strength of our brands.

Turning to slide 6, I will provide an overview of our second quarter results. Organic net sales, excluding the Europe divestiture, increased by over 1% in the quarter. The growth across our international businesses and SDA Global offset the expected decline in North America, which was impacted by the carryover of the second half 2023 normalized promotion environment, but still resulted in unfavorable price/mix in the second quarter, along with continued suppressed discretionary demand. This negative macro environment was partially offset by our pricing actions taken within the quarter, which are fully on track.

We delivered ongoing earnings per share of \$2.39 with ongoing EBIT margin of 5.3%, representing solid sequential margin expansion of 100 basis points, which we expect to continue throughout the second half of the year.

Within the quarter, we made meaningful progress on our working capital and inventory management, resulting \$275 million of cash generation. We remain confident in our ability to improve free cash flow in second half of the year to deliver approximately \$500 million on a full year basis.

As a reminder, free cash flow year-to-date was negatively impacted by non-recurring cash outflows associated with the Europe transaction of \$250 million to \$300 million in the first quarter. This cash consumption will no longer impact our results in 2025, structurally strengthening our free cash flow delivery going forward.

Our free cash flow delivery enables us to continue to return cash to shareholders [ph] and our (00:06:59) capital allocation priority is unchanged.

Finally, continuing our nearly 70-year history of steady or increasing dividends, we paid \$1.75 per share in second quarter and expect to return \$400 million to shareholders in the form of dividends this year.

Turning to slide 7, I will review second quarter ongoing EBIT margin drivers. Price/mix impacted margin unfavorably by 300 basis points, with a negative mix resulting from lower discretionary demand. And as we look ahead, we expect the second half price/mix comparison to sequentially improve with our executed pricing actions, in addition to lapping a more normalized promotional environment from the second half of 2023.

Our cost takeout actions delivered 100 basis points margin expansion, led by the completion of our organizational simplification actions. As expected, raw materials did not have a meaningful impact on the quarter.

We continued to invest in marketing and technology, supporting product launches such as the fully and semiautomatic KitchenAid espresso machine.

Finally, foreign currency negatively impacted margin as the Brazilian real and the Canadian dollar experienced some weakening relative to the US dollar. Ultimately, we delivered 100-basis-point ongoing EBIT margin expansion sequentially to 5.3% in the second quarter.

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

James W. Peters

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

Thanks, Marc. Good morning, everyone. Turning to slide 8, I'll review second quarter results for our MDA North America business. Net sales were down 6% year-over-year, driven by unfavorable price/mix. Our pricing actions



are fully on track as evidenced by price/mix turning positive in June. These actions drove approximately 70 basis points of sequential EBIT margin expansion.

Overall, the segment delivered a 6.3% EBIT margin for the quarter. We expect that our pricing and cost takeout actions will continue to drive greater than 100 basis points of sequential margin expansion each quarter in the second half of 2024 and expect a Q4 EBIT margin of approximately 9%.

Turning to slide 9, I will provide an update on our pricing actions and cost actions, which remain on track. As you may recall, last quarter, we discussed the promotional investments in the US that were not achieving the expected incremental volume lift. The current environment of strong replacement demand typically brings a lower mix and limits promotional effectiveness.

To address the environment, we announced a 5% weighted average increase to our promotional pricing programs in MDA North America, which went into effect on April 25, demonstrating our commitment to only participate in value-creating promotions. We are confident in our pricing actions.

Although we have continued to see discretionary demand impacted by a depressed existing home sales and a weary consumer, we have already driven 70 basis points of sequential margin expansion in the second quarter and expect the net margin benefit from our price actions to be fully realized in the third quarter.

As noted in our first quarter earnings, with persistently high inflation impacting manufacturing and supply chain, we are experiencing a slower realization of our incremental cost actions. While we remain on track to deliver \$300 million to \$400 million of cost savings in 2024, we continue to trend towards the lower end of the range.

The North America MDA portion of this is approximately 60%. We completed our organizational simplification in early May and expect to fully realize the margin benefit from these actions in the third quarter.

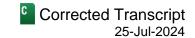
Despite the macro environment, we delivered approximately \$150 million of cost takeout globally in the first half of 2024, and we expect our manufacturing and supply chain initiatives to deliver the majority of the cost takeout in the second half.

Turning to slide 10, I'll review the results of our MDA Latin America business. The segment saw strong net sales growth of 15% year-over-year, excluding currency, driven by industry growth and continued share gains in both Brazil and Mexico, more than offsetting unfavorable price/mix. We delivered a solid EBIT margin of 5.8% in the quarter.

Turning to slide 11, I'll review the very strong quarter from our MDA Asia business. The segment saw a significant net sales growth of 21% year-over-year, excluding currency, driven by industry growth and continued share gains. We delivered a 6.2% EBIT margin, driven by our strong cost actions and fixed cost leverage, delivering significant year-over-year and sequential margin expansion.

Turning to slide 12, I'll review the solid results for our SDA Global business. Despite industry decline, net sales increased 12%, excluding currency year-over-year, driven by new product launches and growth in our direct-to-consumer business. We delivered a solid EBIT margin of 13.9% through cost actions and volume growth, partially offset by incremental marketing investments for our recent espresso product launches. The SDA business is well positioned for the selling season in the second half of the year where we expect approximately two-thirds of its demand and profitability to occur.

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Turning to slide 13, I'll review our revised full year 2024 guidance. Our net sales guidance of \$16.9 billion is unchanged. We are revising our full year ongoing earnings per share to approximately \$12 and refining our free cash flow guidance to approximately \$500 million.

In addition, our product mix in North America is impacted by low consumer sentiment and suppressed existing home sales. As a result, we now expect to deliver a full year ongoing EBIT margin of 6%. Our guidance also includes updated expectations for our adjusted effective tax rate.

Now that we have closed the Europe transaction, we are able to more appropriately estimate the benefits of our tax planning strategies. We now expect an ongoing full year tax rate of approximately negative 8%.

On slide 14, we show the strong progression of our quarterly ongoing EBIT margin. The sequential margin expansion of approximately 100 basis points quarterly in the second half is driven by on track MDA North America pricing actions, incremental global cost takeout actions such as part complexity reductions and manufacturing efficiencies, continued strength across our international businesses and SDA Global seasonality. Our decisive actions and operational execution are expected to deliver a Q4 exit EBIT margin of approximately 7.5%.

Turning to slide 15, we show the drivers of our updated full year ongoing EBIT margin guidance. We have updated our expectation of price/mix by 25 basis points to a negative 200-basis-point impact, reflecting a negative product/mix driven by lower-than-expected discretionary demand in the US that is expected to continue into the second half.

Net cost takeout reflects the expectation of delivering on the lower end of the \$300 million to \$400 million range.

Lastly, currency is anticipated to have a slight impact for the full year at 25 basis points due to weakening Brazil real and Canadian dollar. We now expect an ongoing EBIT margin of approximately 6% for the year.

Turning to slide 16, I'll review our updated segment expectations. Globally, we now expect the total industry to be approximately flat. In MDA North America, the recent restatement of AHAM information has created some quarterly comparability issues. However, we are in alignment with the year-to-date reported AHAM results of down approximately 2% year-over-year. This links well to the sell-through results we have experienced in the first half of 2024.

Replacement demand remains strong. However, discretionary demand continues to experience macro headwinds. As a result, we expect the industry to remain approximately flat for the year.

MDA Latin America has seen significant demand recovery in both Brazil and Mexico, more than offsetting a very challenging economic environment that persists in Argentina. We now expect the industry to be up 5% to 7% in Latin America.

MDA Asia industry remains unchanged, as we continue to see demand improvement in India as expected.

Finally, SDA Global continues to be impacted by discretionary demand weakness in the US and Europe, resulting in the expected industry for the year to be approximately flat.

We have adjusted EBIT margin to reflect the discretionary demand softness in the US negatively impacting price/mix. We expect full year MDA North America margins of approximately 7% with a Q4 EBIT margin of approximately 9%.

With the strong share growth and cost actions in MDA Latin America and MDA Asia, we now expect higher EBIT margins of approximately 7% and approximately 4%, respectively. SDA Global's strong EBIT margin of 15.5% remains unchanged.

Turning to slide 17, I'll review our free cash flow guidance. We have updated our cash earnings and other operating accounts consistent with full year EBIT guidance. We have further refined our capital expenditure expectations and remain confident in achieving 100-plus new products launched in 2024.

In the second quarter, we made meaningful progress on our working capital, leading to an improvement of over \$200 million of cash versus the first quarter. As we move through the year, we expect to further reduce inventories.

We also expect to see accounts receivable and accounts payable return to similar levels at the end of 2023, allowing us to deliver sequential free cash flow from working capital throughout the back half of the year.

Finally, we updated the restructuring impact of the previously announced organizational simplification actions. Overall, we expect free cash flow of approximately \$500 million for the year.

Turning to slide 18. Let me recap our commitment to our capital allocation priorities. We've completed actions to strengthen our balance sheet in 2024. In the first quarter, we completed the sale of 24% of Whirlpool of India's outstanding shares while retaining a majority interest. Additionally, the planned divestiture of our Brastemp-branded water filtration business in Brazil closed on July 1, generating over \$50 million of cash. Combined, these two actions generated more than \$500 million of cash.

Coupled with our beginning cash on hand of \$1.6 billion and free cash flow generation of approximately \$500 million, we are well positioned to pay dividends of approximately \$400 million in 2024 and continue our debt reduction initiatives, demonstrated by \$500 million term loan repayment in April. With these actions, we are fully on track to deliver our 2024 capital allocation priorities.

Now I will turn the call over to Marc.

Marc Robert Bitzer

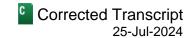
Chairman & Chief Executive Officer, Whirlpool Corp.

Thanks, Jim. Turning to slide 19, let me recap what you heard today. We are pleased to have delivered sequential margin expansion globally and in North America, primarily driven by our pricing actions. We continue to navigate a soft macro environment, but we're executing well and are confident in our strategy.

In 2021 and 2022, we incurred over \$2.5 billion of cost inflation and we have been relentless in addressing these cost challenges. We took out \$500 million of fixed costs since 2019 with the organizational simplification delivering \$100 million cost savings alone in 2024. We are on track to achieve \$300 million to \$400 million of cost savings for the year.

And as we look forward, we continue to see significant opportunity to take additional costs out of our products through input cost, manufacturing and supply chain. At the same time, with soft macro environment, and in particular, the US housing market will eventually turn positive. And our North America business is well positioned for future growth and further margin expansion.

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We've seen the downturn of consumer discretionary demand intensify since 2022, and existing home sales hit multi-decade lows in 2023 and 2024. There is no doubt that we have been and still are at a low point in the US housing market. With interest rate reductions, this will ease at some point and we are well positioned to benefit from improving demand.

Replacement demand remains strong, and we expect this to continue due to its strong installed base and the increased usage of appliances, which remains higher than pre-pandemic norms. Overall, we have a right strategy and operational priorities to navigate the challenging environment in our North America business.

Our SDA and international businesses continue to perform ahead of previous expectations, delivering sizable market share gains. These businesses have a long runway for growth and continue to be very important to our overall portfolio.

Finally, we are delivering strong cash generation in the quarter and are expecting significant improvement in the back half of 2024. We have a good line of sight to our approximately \$500 million free cash flow target for the year.

We continue to return cash to shareholders through our attractive dividend and have a long track record of shareholder-friendly capital allocation. We are confident in our strategy and the steps we are taking, both for short and long term to deliver value for our shareholders.

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

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Your first question comes from the line of Sam Darkatsh from Raymond James. Your line is open.

Sam Darkatsh Analyst, Raymond James & Associates, Inc.	Q
Good morning, Marc. Good morning, Jim. How are you?	
Marc Robert Bitzer Chairman & Chief Executive Officer, Whirlpool Corp.	A
Good morning, Sam.	
James W. Peters Executive Vice President & Chief Financial and Administrative Officer, Whirlpool Corp.	A
Good.	
Sam Darkatsh	

Two questions, both as it relates to North America MDA. First one, you originally were looking at a 10% or 11% margin exit rate in the fourth quarter. How long do you figure it will take to return the segment to that 10% or 11%? And what specifically would have to happen for those levels to be achieved? And then I've got a follow-up.

Analyst, Raymond James & Associates, Inc.

Marc Robert Bitzer

Chairman & Chief Executive Officer, Whirlpool Corp.

So Sam, on – let me just take that question. The revised guidance, which we issued basically points toward roughly 9% exit margin, which is different from the previous 10% to 11%, which we had in mind. That is all and entirely driven by the delay of a housing recovery. As you know, we ended the year assuming, like many other people, that there will be probably two or three interest rate reductions and let's see how many will actually happen. So in reality, you talked about the delay of a recovery, which is reflected in our guidance.

So the simple answer to your question is when will it happen or what needs to happen. Housing recovery needs to happen. As you know, we're disproportionately benefiting from any housing recovery because of our strength in the builder channel and that is a really important element in getting to this run rate.

Now in the meantime, we do what we can do in our own control. There was the promotional price increase. We'll take aggressive stance from cost action, but the housing market at the same time needs to recover in order to get to this double-digit run rate again.

Sam Darkatsh

Analyst, Raymond James & Associates, Inc.

Got you. And my second question is actually related to your answer there. It was notable at least to me that mix alone created such a large cut to North American margins, at least versus the expectations previously. Just trying – at a high level, trying to get a sense of what informed your assumption of such a margin benefit in the back half originally from mix? I guess, it would be, I guess, 200 basis points-or-so, especially knowing that you're in the process of raising price, which could inhibit mix and your early interest rate cuts typically actually give homeowners a pause until they're waiting for interest rates to stabilize. So I'm just trying to get a sense of why mix was originally expected to be such a positive benefit in the back half?

Marc Robert Bitzer

Chairman & Chief Executive Officer, Whirlpool Corp.

Yeah. So Sam, there's obviously multiple elements going on the pricing side. And regarding a differentiated year-over-year versus the sequential perspective, first of all, on pure pricing, and I will just come back to mix, as you know, there have not been a lot of like-for-like price change. But obviously, the carryover of a deep promotional discount in the second half of 2023, that was very visible and maybe more visible than we originally assumed in the first half, and that, by definition, impacted full year numbers.

So as you also know, we issued our promotion price program changes late April. We see the benefits of that fully coming into our business in June and that will, on a go-forward base, drive quite a bit of pricing. But the promotional impact in the first half, frankly, that was one element, which was probably even bigger than we originally assumed.

The second part of your question about mix. What you have right now going on, and I think you even pointed towards this one in your report is, there's almost two offsetting dynamics going on in the marketplace. You have, on one hand, the replacement market, which is very strong, driven by higher appliance usage and you're also now comping against good baseline numbers.

And so that's a strength, but it comes with a very weak mix. Just think about the consumer. The consumer who wants to replace the refrigerator or washing machine in one, two days, typically don't have a lot of opportunities to

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kind of get them to a higher price point, to explain the new technology or bigger product because it typically has to [ph] fit a cut-out (00:26:01).

The other side of that, the discretionary demand, that is the really weak side, even weaker than you would see right now on the overall industry numbers, quite a bit weaker. The discretionary side comes with a fundamental remodel or existing home sales or new housing. And of course, the moment you have a planned kitchen, which is designed, you have much, much bigger mix opportunities. And that's the element which has really changed versus the beginning of the year assumption.

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 as a follow-up on North America. Marc, can you talk to the competitive response you're seeing so far? Because I completely understand your point on the restatement to AHAM, but you do have a competitor out that posted some better trends. And it looks like that competitor and maybe one of your retailers have talked about promotional activity may be staying stable at the heightened levels. So could you just give us a little more color on what you're seeing? Are people following your actions? And how does that inform your second half implied guide?

Marc Robert Bitzer

Chairman & Chief Executive Officer, Whirlpool Corp.

Yeah. So Mike, let me just maybe respond to a broader industry and the results of our promotion price program changes. So the broader industry, as we pointed out, and I think some of you also reported in your own analyst report, there's been more noise than usual in the reported industry data.

As you know, we were not exactly representing the industry data in Q1 and also in Q2, we have a slightly different picture. So the year-to-date number, we're pretty confident is this minus – roughly minus 2% on a volume base, which, by way, what I've seen on the competitor's investor relations communication is very similar. So everybody pretty much points to a down market on unit, and probably because of the promotion price environment, quite a bit more on the revenue side or on the ASP side.

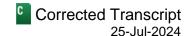
We came out with our promotion price program changes late April. As I said before, we see the full impact – the positive impact of this one starting in our June results. And of course, whenever you come out with these promotional program changes because you're kind of less promotional, if you want to say so, of course, you expect some volatility in your market share. But frankly, we see that stabilizing towards the end of the quarter. And knowing our product launches, which we have in Q3 and Q4, we feel very good about our full year market share will be pretty much stable. And also year-to-date, there's not so much noise.

So honestly, I can't tell you what the competitors do or might do. You've got to ask them. And we do what's right for our company, and that is continue on the course of margin expansion. And pricing is a key element in this one.

Mike Dahl

Analyst, RBC Capital Markets LLC

Got it. Okay. Thanks for that Marc. And then my second question, maybe just taking that and back to the margin bridge. In terms of the getting from 6.3% to approximately 9%, I know the price actions only helped half your quarter in 2Q, so there's still half of that to come through in 3Q. Can you just help us maybe just bucket out the



walk because it's still a pretty steep walk? So how much is the incremental benefit from the price actions? How much is the incremental benefit from the cost-out? And then what is the – what's the remaining delta and kind of – in the bridge to get up to the 9% by 4Q?

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

Yeah. So Mike, I think the - this is Jim. I think the first thing - and you've got the components there, but as you take it, the pricing, obviously, because it's only partially in, it's only partially in the results here in Q2. So once you get the full run rate coming in, in Q3 and Q4, that's obviously a big part of it. And then the cost is the remaining part of this.

And you would have heard me say that if you look at the cost benefits that we're seeing, approximately 60% of that really falls. So, it's pretty much a pro rational part of it that falls to the North America bottom line. And also, those cost benefits are ramping up sequentially here as we commit – as we completed a lot of our cost actions here within the second guarter. So you don't get the full run rate until you get to the third guarter. So I think you can think about those in many cases about equal in terms of the drivers that expand us from the 6% to the 9% exit rate.

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

Hi, Michael, it's Marc. There's also one additional element, just echoing Jim's point is, keep in mind our very profitable small domestic appliance business has a seasonality, which is heavily skewed towards the back half. That historically would have been sitting in the North America, and to some extent, European margin. That is now showing up in the segment results. So obviously, the profit, which comes with that heavily skewed business in Q3 and Q4, that also is another element, which explains margin walk.

Operator: Your next question comes from the line of Sue Maklari from Goldman Sachs. Your line is open.

Susan Maklari Analyst, Goldman Sachs & Co. LLC

Thank you. Good morning, everyone.

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

Good morning, Susan.

Analyst, Goldman Sachs & Co. LLC Good morning. My first question is going back to the realization of the promotional price increase, can you talk a bit about where North America perhaps fell in the quarter relative to that down 3% that you reported for price/mix?

I know you normally don't give us that level of color, but I think given the shift in there, any additional details would be helpful.

And then it seems like - or can you comment on, are we still tracking to that 1% to 2% realization that you had initially targeted? Does that still seem like a reasonable goal? Or has that changed at all given the implementation and the way that this has started to come through?

Susan Maklari

Marc Robert Bitzer

Chairman & Chief Executive Officer, Whirlpool Corp.

Yeah, Susan, without getting to the exact details of the North America versus global number, but both in the year-to-date, call it, year-to-date May negative pricing, North America US was the lion's share. And also now with improvement, North America is the lion's share. It's heavily driven by the North American market. And we had significant negative carryover, if [ph] we want to say so, from (00:32:34) promotion price environment from the back half last year and we see that fully now turning and we saw that turning in kind of late May and fully in June.

So we feel very good about the, certainly, sequential pricing trends in North America. And by definition, that now will start in Q3 and Q4 returning to also year-over-year positive benefits.

In terms of a net impact, we're fully on track towards that net impact, which we referred to earlier. So we feel very good about what the team has done and we will remain disciplined on this one. That's what we communicated, and that's what we're seeing.

Susan Maklari

Analyst, Goldman Sachs & Co. LLC

Okay. That's helpful. And then when you think about the global footprint that you have today, you mentioned that you closed the sale of the Brazilian assets in early July. Can you talk a bit about the cash generation of the business, given where these markets are all operating? And how you think about them contributing? And perhaps with that, the path to deleveraging over time?

James W. Peters

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

Yeah. And Susan, this is Jim. And I would say if you really step back and you look at our international businesses right now, what I would say is you've seen strong margin performance in the first half of the year on both our Asia business as well as our Latin America business. And so on a full year basis, both of those will be positive cash generators for us, unlike what we talked about in the past with our EMEA business. That was a cash consumer, but that was more because of continuous investment and restructuring.

On the other hand, today, our Asia and our Latin America businesses actually are positive cash generators. They generate enough cash to support their own investments. They don't require significant restructuring. And if you think about right now just the growth we're seeing in those markets, that growth is leading to both the higher margins that we've talked about, but absolute higher cash generation.

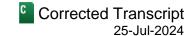
So they are positive cash-generating businesses for us. And really, if you just think about it, the easiest way to take one of those is just take what they generate from an EBIT perspective and then tax affected, and that's about what they generate from a free cash flow perspective on a full year type of basis. They obviously have some seasonality to them with their working capital. But outside of that, there's no other significant investments we need to make in them.

Marc Robert Bitzer

Chairman & Chief Executive Officer, Whirlpool Corp.

And maybe just adding, Susan, to this one, to your question about the deleveraging. As you've seen before, we did not change fundamentally what we are in terms of capital allocation in 2024. And even though we're kind of far away from giving 2025 guidance, that's pretty much what we're seeing, which we would also see for 2025.

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And what I mean with that is in 2024, I think we have a very good balance between returning cash to shareholders, largely through very attractive dividend, and we paid down \$0.5 billion of long-term debt. And again, absence of having a board discussion, but I would right now assume that in 2025, we will have a similar picture, i.e., a moderate reduction of long-term debt and we want to be very attractive and continue to be very attractive on returning cash to shareholders.

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

Yes. Good morning, everyone. Thanks for taking the questions.

Marc Robert Bitzer

Chairman & Chief Executive Officer, Whirlpool Corp.

Good morning. David.

David S. MacGregor

Analyst, Longbow Research LLC

Marc, I guess, I had a couple of high-level sort of strategic questions here. And we're talking about 9% margins for the end of the year for North America, but you're also talking about 9% margins on a consolidated basis for 2026. And I guess just given your 2024 guide of 6%, can you just bridge for us – again, it seems like a long put. But can you just bridge for us how you're thinking about getting to that 9% number and using price/mix net cost of raw materials?

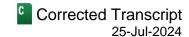
Marc Robert Bitzer

Chairman & Chief Executive Officer, Whirlpool Corp.

Yeah. So David, I mean, it's obviously too early to yet give you a 2025 guidance because that's what you're implying in your question. But I think there's a couple of fundamental drivers. First of all, you see, if I split it by our BUs, I think the Latin America and our Asia business are actually very well on track. I mean, yes, would you – would we expect another 0.5 point to 1 point of margin expansion over time horizon? Yes. But directionally, we're on a good pace.

On our small domestic appliance business, it's actually all about growth. I mean, we're operating at 15.5% – or 15.5% to 16%, which is a very healthy level. So it is all about the growth. And frankly, even versus what we shared with you in kind of when we met at Investor Day, that revenue growth is very strong. And with the product introduction, we expect that to continue to be very strong. So the growth which we see out of the SDA business and the impact that it has on our overall margin is an important element as we get to 2025 and 2026.

But the core of all of that, as you know, it will be about North America. The margin turnaround in North America, which – we're doing the right things on pricing, we're doing the right things on costs, and yes, at one point, we need to also have some support from housing market. And that will be a key element in how we bridge. But North America is right now, we are – also probably towards next year, we're not looking so much on revenue growth. We're really pushing for the margin expansion, and that is our course.



James W. Peters

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

David, I mean – and this is Jim. And just to kind of add to what Marc said, if you go back to Investor Day, we really highlighted the biggest move from 7% to 9% was cost. Now the difference between the 6% and the 7% right now is what Marc kind of highlighted earlier, is that the mix in North America and the discretionary part of the business has been much lower. We did assume that would be slightly – it would be better within 2024.

I do think you can expect between now and 2026 an improvement that is just to the level that we only assumed in 2024. And so that helps you get from where the starting point was and it moved, but then the biggest part of this still will be cost that we intend to continue to take out within our business through simplification over a multiyear period.

David S. MacGregor

Analyst, Longbow Research LLC

That's helpful. Thank you. I guess, secondly, there's been talk in the market of a Whirlpool sale. And I'm not asking you, just to be clear, to comment on market rumors. I'm not asking for that, but also just being mindful that, at the right price, everything is for sale. Is there a plausible scenario whereby Whirlpool exits, most or all of its core six white goods business in North America, Latin America and Asia and goes forward with small domestic appliances and commercial appliances, similar to what you've envisioned in your transformation strategy? Or are the economics of the small domestic appliance business and the commercial appliance businesses just so dependent on the white goods business, it would render them inseparable?

Marc Robert Bitzer

Chairman & Chief Executive Officer, Whirlpool Corp.

Yeah. So David, that is obviously a question, which goes probably well beyond an earnings call. But first of all, as you rightfully point out, we're not going to comment on any speculation or rumor. We've never done it, and we will not do that going forward.

I think the critical element is, if you really step back and look at the portfolio transformation, which we've done over the last couple of years, be it the China divestiture [ph] of – Europe (00:39:24) or even Embraco, what we have right now is all our businesses, be it InSinkErator, be it North America, be it Latin – be it SDA, in their respective segments, we're the number one. India may be the exception, but India is just such an attractive growth market.

So we have – in our portfolio, we have now a set of businesses, which I don't think you will find many companies who can claim being number one pretty much everywhere we operate. And that is a very, very good and sustainable base going forward.

Right now, we do see – and particularly, as you think about, for example, Latin America versus North America, there is quite a bit of connection and there's quite a bit of synergies. There is quite a bit of connection on the brands between KitchenAid SDA and our KitchenAid majors business. So there is a strong connector among all these elements. And that's why we right now see we have – post portfolio transformation, we have a very strong core business with a lot of growth opportunities going forward.

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

Laura Allyson Champine

Analyst, Loop Capital Markets LLC

Hi, guys. Is there any meaningful shift in your mix in the North American business by a major appliance category or brand?

James W. Peters

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

Laura, what I would say is probably if you look at the shift that we've had in terms of mix, as we talked about with the discretionary sales being lower and going to more of a replacement market, what I'd say is the shift is, it's gone away from selling things such as suites and we're not seeing as much in terms of at the Super Premium and maybe at the top of the Premium area because, again, we've got a lot more consumers that are coming in as duress purchasers or looking for replacement. That also naturally drives a little bit more mix to certain products that a consumer can't live without in terms of in a short period of time.

So obviously, it will help you from a refrigeration perspective, but – and also from a washer perspective, a laundry perspective, where you see that a consumer can wait a little bit longer to replace something such as a dishwasher or a cooking product. So again, we are seeing some shifts, but it's being driven really by that it's much more of a replacement market right now, which does move the mix down some and that's just less discretionary.

Laura Allyson Champine

Analyst, Loop Capital Markets LLC

Got it. And then on raw materials. I know you're trying to get raw materials costs back to pre-COVID, but I'm also curious about your comments that you had no change in raw materials in the quarter. So when should we start to see improvement there? And that's all for me. Thanks.

Marc Robert Bitzer

Chairman & Chief Executive Officer, Whirlpool Corp.

So Laura, it's Marc. So we basically referred to we didn't see a lot of raw material change versus what we previously assumed. And the previous assumption is that on a full year basis, it's neither going to be hugely negative or hugely positive.

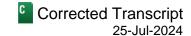
So let me give you a little bit more color. As you know, our number one material source – or raw material source is steel, by a long shot. As a company depending [ph] on our (00:42:27) steel prices, we're buying up to \$2 billion of steel. So it's massive. And yes, versus our assumption, there's not a lot of change now.

To give you a little bit more color on this one, we don't buy steel on spot or very rarely in some regions. But in North America, these are larger contractual purchases, which are either on an annual or we're trying to even get to longer contracts. They were largely fixed with some moving parameters, and we didn't see a huge change on this one.

Now – right now the – and then there's a lot of confusion out there between hot rolled and cold rolled. On the cold rolled steel, there is now finally some movement in the right direction. It gives us a little bit more benefit even in our contractual setup, but it's not massively.

Oil and plastics have been pretty stable. So we saw some negative impact on some other elements like zinc, which is not insignificant for some of our businesses. But overall, versus our original assumptions, it's a wash.

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Now that also means we don't have right now on raw materials a significant tailwind. As you think about 2025, it is obviously too early to say, we may get a small tailwind, but I'm not counting on a big one.

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
Chairman & Chief Executive Officer, Whirlpool Corp.

Good morning.

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

[ph] Hey (00:43:52).

I just wanted to – and I apologize if this sounds similar to prior questions. But just wanted to make sure I'm fully appreciating the different drivers behind the North American margin guidance reduction for the year. And versus 90 days ago, I mean, obviously, you've talked about the fact that discretionary demand has not come back, it's been primarily mix. At the same time, obviously, it's kind of driven a fairly significant change in the back half outlook. So just want to make sure that we're understanding the drivers of that guidance change, if it's purely the assumptions of mix that informs the new guidance of 7% for the year versus 9% before or if there's any other changes that we should be aware of as it relates to perhaps pricing backdrop, operational leverage. You have the North American shipment outlook down slightly from before. Or if there's any other factors to consider there?

Marc Robert Bitzer

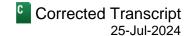
Analyst, JPMorgan Securities LLC

Chairman & Chief Executive Officer, Whirlpool Corp.

Yeah, Michael, it's Marc. So let me – of course, there's always a lot of components, but in very simple terms, versus the original guidance, the single biggest change is we originally assumed, like most people, that we would start seeing a housing recovery in 2024, and it's not happening, okay. That was based on the assumption that we would see interest rates, and therefore, mortgage rate reductions, and it didn't happen.

Most visible is actually in existing home sales, which, as we several times point out, is the single biggest driver of overall appliance demand. And the existing home sales dropping to now, what was it, 3.89 million units, frankly, we did not have that in our original guidance assumption. We would have counted more on the number 4.5 million to 5 million in the back half, but it's just not happening. Now it will happen at one point, but it's not a 2024 event. So that's the single biggest driver of the guidance change. Now as a result of that, yes, you have an overall slight decline of the industry, you have a more negative mix, all of the subsequent effect, but the number one cause is the delay of housing recovery.

So the second part of what is the fundamental driver between first half and second half margins in North America, 80% of that change is pricing because we had a huge negative carryover from the promotional pricing in the first



half, we corrected that with our actions in late April, may become visible in June. And that explains the vast majority of improvement in the second half versus the first half.

Michael Rehaut

Analyst, JPMorgan Securities LLC

Okay. All right. Thank, Marc. I appreciate that. I guess, the second question, perhaps on a more positive note, the SDA Global industry outlook, you revised downwards from 2% to 4% to roughly flat. I think, as you probably earlier mentioned, also impacted by perhaps reduced discretionary spend versus prior outlook. But you've been able to maintain your margin outlook for the year at 15.5%. And I'm just curious if the ability to hold the margins is due to the fact that you're still executing from a sales growth standpoint and your own sales growth outlooks are similar despite a weaker industry. If there's other drivers that are allowing you to maintain that margin outlook that you've been able to maybe put into gear in a softer market backdrop. But would just love your take on the ability to hold margins and it's, in fact, perhaps the first part of the factors that you're just still able to execute and deliver

Marc Robert Bitzer

Chairman & Chief Executive Officer, Whirlpool Corp.

Yeah. So Michael, obviously, we like our SDA business. And wholeheartedly, it's probably in our portfolio of strong brands, but KitchenAid brand is probably the diamond. It is a super strong brand in both majors and small domestic.

sales growth in line with your prior expectations despite a softer market backdrop.

On the small domestic – the small appliances, when we refer to industry, to be honest, that industry data has maybe less relevance for SDA business than it has on majors. And that's very simply driven by the SDA market is such a diverse market where you have low-end cheap toasters, and on the other hand, you have \$2,000 fully automatic espresso machines. So it's a wide spectrum. So that's why I'm – I would say, we're a little bit more disconnected from a broader industry trend. I would say the industry trends more as broader consumer confidence in that segment.

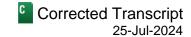
But I think what we demonstrate with the SDA business, not only – it's not only [indiscernible] (00:49:04), which is just our evergreen strong product, but you bring meaningful innovation to the market itself. And it's kind of the fully automatic espresso maker, which we launched. It's selling between \$1,400 and \$1,900. So it's not cheap by any definition.

But you bring good innovation and it has a consumer rating of 4.8, it sells. Same thing on the rice and grain cooker, which I know is a super small segment. You bring meaningful innovation to market, it sells. And that's why I think that demonstrates our ability to somewhat disconnect ourselves with a broader, call it, sentiment in the SDA market.

You have a strong brand, you bring straight – good innovation coupled with great quality, it sells. And the margin run rate and – was probably in between lines. We actually, in Q2, we invested a lot more in marketing for KitchenAid SDA. Despite that, we have a margin expansion, and we see the same theme also continuing throughout the back half. So that is a very strong business. Honestly, I have zero concerns about their margin. This is all about how much we can grow the business.

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

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Eric Bosshard

Analyst, Cleveland Research Co. LLC

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Thanks. Good morning.

Marc Robert Bitzer

Chairman & Chief Executive Officer, Whirlpool Corp.

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Good morning, Eric.

Eric Bosshard

Analyst, Cleveland Research Co. LLC



Housekeeping – yeah. A housekeeping question first. Just North American revenue, it looks like it's down roughly 7% in the first half and you've talked about full year market being flat, and progress with price. Is it – does the math then suggest we should be thinking about the second half North American revenue growing 3% or 5%? Is that reasonable or is there something that I'm missing?

Marc Robert Bitzer

Chairman & Chief Executive Officer, Whirlpool Corp.



Yeah. So Eric, just a directional color on our kind of, call it, mid-single-digit revenue down. There's a big element, which is the pricing carryover. And then you have a small unit decline, I would say, of year-to-date down mid-single digit. Three-quarters of that is pretty much pricing carryover, promotional and the rest is units. So the unit decline is obviously a little bit less than we [ph] over-showed (00:51:13) in revenue. And the same thing now flips as we look at the second half because we had the promotional price increase and we will start getting positive comps against last year and that stabilizes.

On the unit side versus the trend which we had so far, I wouldn't expect too much of a change. So – but the difference between – on the revenue side between first and second half is coming from a price realization per unit sold.

Eric Bosshard

Analyst, Cleveland Research Co. LLC



And then secondly, on market share in North America, there was a comment made about a bit of a greater focus on margin relative to market share and then also comments about full year stable market share. I guess, would just love you to talk a little bit about what your strategy and path is on holding or even gaining share in the back half from what looks to maybe be a little bit of dislocation in 2Q. And also just to make sure that I'm framing the strategic plan on market share and what you're trying to do in North America.

Marc Robert Bitzer

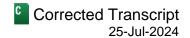
Chairman & Chief Executive Officer, Whirlpool Corp.



Yeah. So Eric, we – as we said before, we are planning to hold our market share this year, and we have a high degree of confidence on this one. Now zooming out a little bit. The fundamental reason why we did all this promotional price change actions was in a replacement market, if you invest heavily in promotions, it – you typically don't get the lift because the replacement consumer doesn't wait for July 4 holiday to get a deal.

So the fundamental economic return you get on promotional investment is just different right now than in any comparable year. So, do you expect [ph] come – (00:52:52) some volatility in market share in the short term?

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Yes, of course, but it's already kind of leveled out. And then we feel pretty good about how we exited the market share in June.

The real big driver of market share stable is maybe less promotion, but at the same time, we have a strong product pipeline. The products, which we launched now also majors in North America. We will have an all-new front load, Whirlpool front-load washer coming in Q3, et cetera, et cetera. So there's – we have a strong product pipeline and it sells. So that's why that gives us the confidence on our market share being stable.

And keep in mind, that does not yet have any positive market share impact, which would come with the builder business. The moment the housing recovers, because of our disproportionately strong share on the housing side, of course, you will get automatically a lift on the market share, but that's not factored in for 2024.

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

Rafe Jadrosich

Analyst, BofA Securities, Inc.

Hi. Good morning. Thanks for taking my question.

Marc Robert Bitzer

Chairman & Chief Executive Officer, Whirlpool Corp.

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Good morning.

Rafe Jadrosich

Analyst, BofA Securities, Inc.

I just wanted to ask about some of the comments you've made on mix so far. Is there any way you could help us understand the different – the margin difference between the replacement business and then the discretionary business? And then where are – where is the discretionary mix today versus where it's been historically? How

depressed is that business just so we can get an idea of how much that's pressuring margins right now?

James W. Peters

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

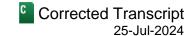


Yeah. So let me kind of start with your second part of the question and then we can talk about at least how margin progression kind of goes within our portfolio. But to your point, typically, replacement is about 50% to 55% of our business and new housing is about 10% to 15%. So it kind of leaves about 30% to 35% section in there, is typically the discretionary.

And when you step back now and you look at it, we're at an over 60% in terms of what replacement is today. And that – what that's really doing is that's driving the discretionary to be close to in the mid- type of 20s or low 20% of what our business is. So that is a pretty significant reduction in terms of shift. Even if volumes are relatively flat, we've just got such a strong replacement industry and that – so that is a significant shift within there.

Now as you talk about margins, and we don't really give margin-specific type of information among all our different product categories or – because there's a lot of factors that go into that. What I will say is we've always talked about, at least, the margin progression that we see within our portfolio. And within our portfolio of brands, it starts from value being obviously having lower margins up to our Premium and Super Premium, which have higher margins.

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In a down-discretionary environment, you are impacted at the Super Premium and Premium level significantly more and you do see more business in the value. So you've got to shift to a lower margin in terms of your brand portfolio.

Also, as you look at your product portfolio, I talked about the type of products that you see a consumer replacing relatively quickly. We've always talked about within our portfolio, refrigeration is the lowest in terms of margin, very competitive space through laundry and then to more your cooking and dish.

Obviously, I talked about earlier that a consumer will replace a refrigerator or a washer almost immediately after it breaks. So you see that replacement industry driving also towards what are probably lower-margin product categories within there.

And then the last piece that I said is that you don't get in terms of what you get from existing home sales and remodels is a lot of suite sales, which then tend to go more towards your premium brands and go towards your premium product mix of cooking and dish included within there.

So while we don't give specific guidance, you can see just based on when you go to more of a replacement industry, whether it's from a brand or product category perspective, it pushes you into the lower-margin areas. And as the discretionary comes back or new housing comes back, that's where we see the growth in the higher-margin areas.

Rafe Jadrosich

Analyst, BofA Securities, Inc.

Okay. That's really helpful color. And then, Jim, I just – I wanted to follow up on some of the debt financing that you said. So like you've been successful in refinancing. You just paid down \$500 million, but you are reducing the cash flow outlook. How do you think about sort of balancing the IG credit rating you have today with capital return to shareholders? And just remind us when the next debt payment you have due as, and just how you think about cash flow relative to your maturities and managing the dividend?

James W. Peters

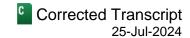
Executive Vice President & Chief Financial and Administrative Officer, Whirlpool Corp.

Yeah. So Rafe, here's what I would say is we did reduce the cash flow some for this year. Now we still are confident as we go into next year that we have the \$300 million incremental on top of where we are this year. That comes just by not having EMEA within the portfolio and the divestiture of EMEA. So when you step back and you look at that, we will have, as usual, a – some long-term debt coming due in the first quarter and then we have the remainder of the term loan related to InSinkErator that will also come due next year.

We're very confident in terms of our ability to pay down and refinance whatever we need to of that as we go into next year, and we don't get into specifics ahead of that, but just saying that that's what we've talked about. As we look to next year, we are confident in terms of our ability to handle that, also looking at where that will put us.

As we expand margins, part of the whole thing of getting back to the leverage levels and leverage ratios we've talked about, yes, we will continue to focus on returning debt and prioritize debt. We will prioritize the dividend and reducing debt, but deprioritize share buyback. But as we go into next year, that will be the continued priority. But as our EBITDA grows, it will also help us from reducing debt and growing EBITDA to get closer to the metrics that we've talked about by 2025 and 2026.

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So we're very confident with our path to deleveraging, and I would say that right now the reduction in cash flow this year is probably only having a small impact on that.

Marc Robert Bitzer

Chairman & Chief Executive Officer, Whirlpool Corp.

All right. I think that marks pretty much the end of our Q&A session. I do appreciate you all joining. As you obviously heard today, we're still – from a broader macro environment, we're still, and underlying as in still, in a somewhat negative cycle in North America. You also saw and heard that the rest of the world has already shifted into a much more favorable cycle.

But irrespective of still a little bit negative market cycle or macro cycle in North America, we're doing what we said we would be doing. We're successful in our pricing actions, we're successful in our cost takeout, we're committed to our margin expansion. And that macro environment, which I referred to earlier, will at one point turn, and that I think sets us up very well for 2025.

With all that in mind, have a wonderful day and talk to you soon.

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

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