

WHIRLPOOL CORP /DE/
Form 10-Q
October 23, 2015

UNITED STATES SECURITIES AND EXCHANGE
COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2015

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934

Commission file number 1-3932

WHIRLPOOL CORPORATION

(Exact name of registrant as specified in its charter)

Delaware

38-1490038

(State of Incorporation)

(I.R.S. Employer Identification No.)

2000 North M-63,

49022-2692

Benton Harbor, Michigan

(Zip Code)

(Address of principal executive offices)

Registrant's telephone number, including area code (269) 923-5000

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company)

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

Number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date:

Class of common stock

Shares outstanding at October 16, 2015

Common stock, par value \$1 per share

78,194,437

QUARTERLY REPORT ON FORM 10-Q
WHIRLPOOL CORPORATION
Three and Nine Months Ended September 30, 2015
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FORWARD-LOOKING STATEMENTS

The Private Securities Litigation Reform Act of 1995 provides a safe harbor for forward-looking statements made by us or on our behalf. Certain statements contained in this quarterly report, including those within the forward-looking perspective section within the Management's Discussion and Analysis, and other written and oral statements made from time to time by us or on our behalf do not relate strictly to historical or current facts and may contain forward-looking statements that reflect our current views with respect to future events and financial performance. As such, they are considered "forward-looking statements" which provide current expectations or forecasts of future events. Such statements can be identified by the use of terminology such as "may," "could," "will," "should," "possible," "plan," "predict," "forecast," "potential," "anticipate," "estimate," "expect," "project," "intend," "believe," "may impact," "on track," and similar expressions. Our forward-looking statements generally relate to our growth strategies, financial results, product development, and sales efforts. These forward-looking statements should be considered with the understanding that such statements involve a variety of risks and uncertainties, known and unknown, and may be affected by inaccurate assumptions. Consequently, no forward-looking statement can be guaranteed and actual results may vary materially. This document contains forward-looking statements about Whirlpool Corporation and its consolidated subsidiaries ("Whirlpool") that speak only as of this date. Whirlpool disclaims any obligation to update these statements. Forward-looking statements in this document may include, but are not limited to, statements regarding expected earnings per share, cash flow, productivity and raw material prices. Many risks, contingencies and uncertainties could cause actual results to differ materially from Whirlpool's forward-looking statements. Among these factors are: (1) intense competition in the home appliance industry reflecting the impact of both new and established global competitors, including Asian and European manufacturers; (2) acquisition and investment-related risk, including risk associated with our acquisitions of Hefei Sanyo and Indesit, and risk associated with our increased presence in emerging markets; (3) Whirlpool's ability to continue its relationship with significant trade customers and the ability of these trade customers to maintain or increase market share; (4) risks related to our international operations, including changes in foreign regulations, regulatory compliance and disruptions arising from natural disasters or terrorist attacks; (5) fluctuations in the cost of key materials (including steel, plastic, resins, copper and aluminum) and components and the ability of Whirlpool to offset cost increases; (6) the ability of Whirlpool to manage foreign currency fluctuations; (7) litigation, tax, and legal compliance risk and costs, especially costs which may be materially different from the amount we expect to incur or have accrued for; (8) the effects and costs of governmental investigations or related actions by third parties; (9) changes in the legal and regulatory environment including environmental and health and safety regulations; (10) Whirlpool's ability to maintain its reputation and brand image; (11) the ability of Whirlpool to achieve its business plans, productivity improvements, cost control, price increases, leveraging of its global operating platform, and acceleration of the rate of innovation; (12) information technology system failures and data security breaches; (13) product liability and product recall costs; (14) inventory and other asset risk; (15) changes in economic conditions which affect demand for our products, including the strength of the building industry and the level of interest rates; (16) the ability of suppliers of critical parts, components and manufacturing equipment to deliver sufficient quantities to Whirlpool in a timely and cost-effective manner; (17) the uncertain global economy; (18) our ability to attract, develop and retain executives and other qualified employees; (19) the impact of labor relations; (20) Whirlpool's ability to obtain and protect intellectual property rights; and (21) health care cost trends, regulatory changes and variations between results and estimates that could increase future funding obligations for pension and postretirement benefit plans.

We undertake no obligation to update any forward-looking statement, and investors are advised to review disclosures in our filings with the SEC. It is not possible to foresee or identify all factors that could cause actual results to differ from expected or historic results. Therefore, investors should not consider the foregoing factors to be an exhaustive statement of all risks, uncertainties, or factors that could potentially cause actual results to differ from forward-looking statements. Additional information concerning these and other factors can be found in "Risk Factors" in Part II, Item 1A of this report.

Unless otherwise indicated, the terms "Whirlpool," "the Company," "we," "us," and "our" refer to Whirlpool Corporation and consolidated subsidiaries.

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

WHIRLPOOL CORPORATION

CONSOLIDATED CONDENSED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

FOR THE PERIODS ENDED SEPTEMBER 30

(Millions of dollars, except per share data)

| | Three Months Ended | | Nine Months Ended | | |
|--|--------------------|---------|-------------------|----------|---|
| | 2015 | 2014 | 2015 | 2014 | |
| Net sales | \$5,277 | \$4,824 | \$15,331 | \$13,869 | |
| Expenses | | | | | |
| Cost of products sold | 4,347 | 3,997 | 12,643 | 11,500 | |
| Gross margin | 930 | 827 | 2,688 | 2,369 | |
| Selling, general and administrative | 529 | 448 | 1,583 | 1,344 | |
| Intangible amortization | 18 | 6 | 55 | 17 | |
| Restructuring costs | 54 | 38 | 145 | 101 | |
| Operating profit | 329 | 335 | 905 | 907 | |
| Other income (expense) | | | | | |
| Interest and sundry income (expense) | (21 |) (39 |) (32 |) (78 |) |
| Interest expense | (41 |) (35 |) (124 |) (119 |) |
| Earnings before income taxes | 267 | 261 | 749 | 710 | |
| Income tax expense | 17 | 26 | 116 | 126 | |
| Net earnings | 250 | 235 | 633 | 584 | |
| Less: Net earnings available to noncontrolling interests | 15 | 5 | 30 | 15 | |
| Net earnings available to Whirlpool | \$235 | \$230 | \$603 | \$569 | |
| Per share of common stock | | | | | |
| Basic net earnings available to Whirlpool | \$2.98 | \$2.92 | \$7.64 | \$7.26 | |
| Diluted net earnings available to Whirlpool | \$2.95 | \$2.88 | \$7.54 | \$7.16 | |
| Dividends declared | \$0.90 | \$0.75 | \$2.55 | \$2.125 | |
| Weighted-average shares outstanding (in millions) | | | | | |
| Basic | 78.8 | 78.4 | 78.9 | 78.3 | |
| Diluted | 79.7 | 79.6 | 79.9 | 79.4 | |
| Comprehensive income | \$45 | \$39 | \$254 | \$429 | |

The accompanying notes are an integral part of these Consolidated Condensed Financial Statements.

WHIRLPOOL CORPORATION
CONSOLIDATED CONDENSED BALANCE SHEETS

(Millions of dollars, except share data)

| | (Unaudited) | |
|--|-----------------------|----------------------|
| | September 30, 2015 | December 31, 2014 |
| Assets | | |
| Current assets | | |
| Cash and equivalents | \$ 698 | \$ 1,026 |
| Accounts receivable, net of allowance of \$165 and \$154, respectively | 2,914 | 2,768 |
| Inventories | 2,943 | 2,740 |
| Deferred income taxes | 341 | 417 |
| Prepaid and other current assets | 983 | 1,147 |
| Total current assets | 7,879 | 8,098 |
| Property, net of accumulated depreciation of \$5,964 and \$5,959, respectively | 3,684 | 3,981 |
| Goodwill | 3,039 | 2,807 |
| Other intangibles, net of accumulated amortization of \$309 and \$267, respectively | 2,705 | 2,803 |
| Deferred income taxes | 1,917 | 1,900 |
| Other noncurrent assets | 399 | 413 |
| Total assets | \$ 19,623 | \$ 20,002 |
| Liabilities and stockholders' equity | | |
| Current liabilities | | |
| Accounts payable | \$ 4,162 | \$ 4,730 |
| Accrued expenses | 693 | 852 |
| Accrued advertising and promotions | 614 | 673 |
| Employee compensation | 426 | 499 |
| Notes payable | 803 | 569 |
| Current maturities of long-term debt | 507 | 234 |
| Other current liabilities | 1,006 | 846 |
| Total current liabilities | 8,211 | 8,403 |
| Noncurrent liabilities | | |
| Long-term debt | 3,502 | 3,544 |
| Pension benefits | 976 | 1,123 |
| Postretirement benefits | 405 | 446 |
| Other noncurrent liabilities | 740 | 690 |
| Total noncurrent liabilities | 5,623 | 5,803 |
| Stockholders' equity | | |
| Common stock, \$1 par value, 250 million shares authorized, 110 million shares issued, and 78 million shares outstanding | 110 | 110 |
| Additional paid-in capital | 2,597 | 2,555 |
| Retained earnings | 6,611 | 6,209 |
| Accumulated other comprehensive loss | (2,211) | (1,840) |
| Treasury stock, 32 million shares | (2,244) | (2,149) |
| Total Whirlpool stockholders' equity | 4,863 | 4,885 |
| Noncontrolling interests | 926 | 911 |
| Total stockholders' equity | 5,789 | 5,796 |
| Total liabilities and stockholders' equity | \$ 19,623 | \$ 20,002 |

The accompanying notes are an integral part of these Consolidated Condensed Financial Statements.

WHIRLPOOL CORPORATION
CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS (UNAUDITED)
FOR THE PERIODS ENDED SEPTEMBER 30
(Millions of dollars)

| | Nine Months Ended | |
|---|-------------------|--------|
| | 2015 | 2014 |
| Operating activities | | |
| Net earnings | \$633 | \$584 |
| Adjustments to reconcile net earnings to cash used in operating activities: | | |
| Depreciation and amortization | 496 | 397 |
| Curtailement gain | (63 |) — |
| Changes in assets and liabilities: | | |
| Accounts receivable | (405 |) (302 |
| Inventories | (397 |) (399 |
| Accounts payable | (288 |) 44 |
| Accrued advertising and promotions | (34 |) (18 |
| Accrued expenses and current liabilities | (26 |) (161 |
| Taxes deferred and payable, net | (44 |) 40 |
| Accrued pension and postretirement benefits | (109 |) (165 |
| Employee compensation | (31 |) (55 |
| Other | 111 | (93 |
| Cash used in operating activities | (157 |) (128 |
| Investing activities | | |
| Capital expenditures | (391 |) (422 |
| Proceeds from sale of assets and business | 35 | 18 |
| Change in restricted cash | 21 | — |
| Acquisition of Indesit Company S.p.A. | — | (75 |
| Acquisition of Hefei Rongshida Sanyo Electric Co., Ltd. | — | (250 |
| Investment in related businesses | (72 |) (16 |
| Other | — | (3 |
| Cash used in investing activities | (407 |) (748 |
| Financing activities | | |
| Proceeds from borrowings of long-term debt | 531 | 818 |
| Repayments of long-term debt | (278 |) (606 |
| Dividends paid | (200 |) (165 |
| Net proceeds from short-term borrowings | 307 | 476 |
| Common stock issued | 36 | 31 |
| Repurchase of common stock | (95 |) (25 |
| Purchase of noncontrolling interest shares | — | (5 |
| Other | (5 |) (13 |
| Cash provided by financing activities | 296 | 511 |
| Effect of exchange rate changes on cash and equivalents | (60 |) (28 |
| Decrease in cash and cash equivalents | (328 |) (393 |
| Cash and equivalents at beginning of period | 1,026 | 1,380 |
| Cash and equivalents at end of period | \$698 | \$987 |

The accompanying notes are an integral part of these Consolidated Condensed Financial Statements.

NOTES TO THE CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (UNAUDITED)

(1) BASIS OF PRESENTATION

General Information

The accompanying unaudited Consolidated Condensed Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") for interim financial information, and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all information or footnotes required by GAAP for complete financial statements. As a result, this Form 10-Q should be read in conjunction with the Consolidated Financial Statements and accompanying Notes in our Form 10-K for the year ended December 31, 2014.

Management believes that the accompanying Consolidated Condensed Financial Statements reflect all adjustments, including normal recurring items, considered necessary for a fair presentation of the interim periods.

We have eliminated all material intercompany transactions in our Consolidated Condensed Financial Statements. We do not consolidate the financial statements of any company in which we have an ownership interest of 50% or less unless that company is deemed to be a variable interest entity ("VIE") of which we are the primary beneficiary. Certain VIEs are consolidated when the company is the primary beneficiary of these entities and has the ability to directly impact the activities of these entities.

We are required to make estimates and assumptions that affect the amounts reported in the Consolidated Condensed Financial Statements and accompanying Notes. Actual results could differ materially from those estimates. Certain prior year amounts in the Consolidated Condensed Financial Statements have been reclassified to conform with current year presentation.

New Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, "Revenue from Contracts with Customers (Topic 606)", which supersedes the revenue recognition requirements in ASC 605, Revenue Recognition. This ASU is based on the principle that revenue is recognized to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The ASU also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. The FASB has approved a one year deferral of this standard, and this pronouncement is now effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period and is to be applied using one of two retrospective application methods, with early application not permitted. We have not yet determined the potential effects from this pronouncement on our Consolidated Financial Statements.

In April 2015, FASB issued ASU No. 2015-03, Interest - "Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs". The guidance requires debt issuance costs related to a recognized debt liability be presented on the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with the presentation for debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by the amendments in this ASU. In August 2015, the FASB issued ASU No. 2015-15, Interest-Imputation of Interest (Subtopic 835-30): Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements - Amendments to SEC Paragraphs Pursuant to Staff Announcements at the June 2015 EITF Meeting. ASU 2015-15 amends Subtopic 835-30 to include that the SEC would not object to the deferral and presentation of debt issuance costs as an asset and subsequent amortization of debt issuance costs over the term of the line-of-credit arrangement, whether or not there are any outstanding borrowings on the line-of-credit arrangement. This guidance is effective for fiscal years and interim periods within those years beginning after December 15, 2015, and must be applied on a retrospective basis with early adoption permitted. The adoption is not expected to have a material impact on our Consolidated Financial Statements.

In July 2015, the FASB issued ASU No. 2015-12, "Plan Accounting—Defined Benefit Pension Plans (Topic 960), Defined Contribution Pension Plans (Topic 962) Health and Welfare Benefit Plans (Topic 965)". There are three parts to the ASU that aim to simplify the accounting and presentation of plan accounting. Part I of this ASU requires fully benefit-responsive investment contracts to be measured at contract value instead of the current fair value measurement. Part II of this ASU requires investments (both participant-directed and nonparticipant-directed investments) of employee benefit plans be grouped only by general type, eliminating the need to disaggregate the investments in multiple ways. Part III of this ASU provides a similar measurement date practical expedient for employee benefit plans as available in ASU No. 2015-04, which allows employers to measure defined benefit plan assets on a month-end date that is nearest to the year's fiscal year-end when the fiscal period does not coincide with a month-end. Parts I and II of the new guidance should be applied on a retrospective basis. Part III of the new guidance should be applied on a prospective basis. This ASU is effective for fiscal years beginning after December 15, 2015, and for interim periods within those fiscal years. The adoption is not expected to have a material impact on our Consolidated Financial Statements.

In July 2015, the FASB issued ASU No. 2015-11, "Simplifying the Measurement of Inventory", which amends ASC 330, Inventory. This ASU simplifies the subsequent measurement of inventory by using only the lower of cost and net realizable value. The ASU does not apply to inventory measured using last-in, first-out method. This guidance is effective for fiscal years and interim periods within those years beginning after December 15, 2016, and must be applied on a retrospective basis with early adoption permitted. The adoption is not expected to have a material impact on our Consolidated Financial Statements.

In September 2015, the FASB issued ASU No. 2015-16, Business Combinations (Topic 805): "Simplifying the Accounting for Measurement-Period Adjustments", which eliminates the requirement for an acquirer in a business combination to account for measurement-period adjustments retrospectively. Under this ASU, acquirers must recognize measurement-period adjustments in the period in which they determine the amounts, including the effect on earnings of any amounts they would have recorded in previous periods if the accounting had been completed at the acquisition date. This guidance is effective for fiscal years beginning after December 15, 2016, with early adoption permitted. The Company elected to early adopt this ASU in the third quarter of 2015. As a result, we have not retrospectively accounted for the measurement-period adjustments determined in the third quarter of 2015 related to the corrective action described in Note 2 in our Consolidated Financial Statements.

All other issued but not yet effective accounting pronouncements are not expected to have a material impact on our Consolidated Financial Statements.

(2) ACQUISITIONS

Whirlpool China

On October 24, 2014, Whirlpool's wholly-owned subsidiary, Whirlpool (China) Investment Co., Ltd., completed its acquisition of a 51% equity stake in Hefei Rongshida Sanyo Electric Co., Ltd. ("Hefei Sanyo"), a joint stock company whose shares are listed and traded on the Shanghai Stock Exchange, which we have since renamed Whirlpool (China) Co., Ltd ("Whirlpool China").

The aggregate purchase price for the transaction was RMB 3.4 billion (approximately \$551 million at the dates of purchase for each step of the transaction). The Company funded the total consideration for the shares with cash on hand. The cash paid for the private placement step of the transaction is considered restricted cash, which will be used to fund capital and technical resources to enhance Whirlpool China's research and development and working capital. Whirlpool China results are included in our Asia operating segment.

Indesit Company S.p.A.

On December 3, 2014, Whirlpool completed the final step in its acquisition of Indesit Company S.p.A. ("Indesit") and, on the same day, Indesit delisted from the Electronic Stock Market organized and managed by Borsa Italiana S.p.A. Total consideration paid for Indesit was €1.1 billion (approximately \$1.4 billion at the dates of purchase of each step in the transaction) in aggregate net of cash acquired.

The Company funded the aggregate purchase price for Indesit through borrowings under its credit facility and commercial paper programs, and repaid a portion of such borrowings through the issuance of an aggregate principal amount of \$650 million in senior notes on November 4, 2014 and an aggregate principal amount of €500 million

(approximately \$525 million as of the date of issuance) in senior notes on March 12, 2015. Additional information about our 2015 financing arrangements can be found in Note 6. Indesit results are included in our EMEA operating segment.