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Whirlpool Corp. (WHR) CEO Marc Bitzer on Q3 2019 Results - Earnings Call Transcript

Oct. 24, 2019 2:52 AM ET

by: SA Transcripts

Q3: 10-22-19 Earnings Summary

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EPS of \$3.97 beats by \$0.07 | Revenue of \$5.09B (-4.41% Y/Y) misses by \$-41.98M

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Whirlpool Corp. (NYSE:WHR) Q3 2019 Earnings Conference Call October 23, 2019 8:00 AM ET

Company Participants

Roxanne Warner - Senior Director, Investor Relations

Marc Bitzer - Chairman and Chief Executive Officer

Jim Peters - Chief Financial Officer

Conference Call Participants

David MacGregor - Longbow Research

Megan McGrath - Buckingham Research

Curtis Nagle - Bank of America/Merrill Lynch

Mike Rehaut - JPMorgan

Sam Darkatsh - Raymond James

Alvaro Lacayo - Gabelli Research

Mike Dahl - RBC Capital Markets

Ken Zener - KeyBanc

Operator

Good morning and welcome to Whirlpool Corporation's Third Quarter 2019 Earnings Release Call. Today's call is being recorded. For opening remarks and introductions, I would like to turn the call over to Senior Director of Investor Relations, Roxanne Warner.

Roxanne Warner

Thank you and welcome to our third quarter 2019 conference call. Joining me today are Marc Bitzer, our Chairman and Chief Executive Officer and Jim Peters, our Chief Financial Officer. Our remarks today track with the presentation available on the Investors section of our website at whirlpoolcorp.com.

Before we begin, I will remind you that as we conduct this call we will be making forward-looking statements to assist you in 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 and other periodic reports. We want to remind you that today's presentation includes non-GAAP measures. We believe these measures are important indicators of our operations as they exclude items that may not be indicative of results from our ongoing business operations. We also think the adjusted measures will provide you 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 opened for analyst questions. As a reminder, we ask that participants ask no more than two questions. With that, I will turn the call over to Marc.

Marc Bitzer

Well, thanks and good morning everyone. On Slide 3, we show our third quarter 2019 highlights. We delivered very solid global results with ongoing EBIT margin of 7.2%, a 100 basis point increase compared to the prior year. We were pleased with our first half performance and continue that positive momentum this quarter. These results represent our third consecutive quarter of global margin expansion as we progress towards our full year and long-term goals.

In North America, we delivered impressive margin expansion for strong price mix, execution and focused cost discipline. In Europe, we drove near breakeven ongoing EBIT results as momentum from our strategic actions to stabilize volumes and right-size our business drove strong year-over-year and sequential improvement. Given our strong year-to-date performance which we expect to continue, we are confident that we are trending towards the high-end of our full year ongoing earnings per share range of \$14.75 to \$15.50. Lastly, in August, we paid down our \$1 billion term loan, which resulted in significant progress towards our long-term leverage target of approximately 2.0. In total, we are very pleased with our momentum year-to-date.

Turning to Slide 4, I will discuss our third-quarter results in more detail. We delivered organic net sales growth, which excludes the impact of Embraco and currency of approximately 2%. Ongoing EBIT margin was 7.2% for the quarter, a year-over-year increase of 100 basis points as positive price/mix and focused cost discipline more than offset the impact of slightly lower unit volumes. Our 9-month free cash flow reflects normality seasonality of cash usage and was impacted by our planned settlement payment to the French Competition Authority and cash taxes paid from sale of Embraco.

Turning to Slide 5, we show the details of our third quarter margin performance. Three of our four regions delivered positive price/mix resulting in margin expansion of approximately 150 basis points as we continued to realize the carryover benefit of previously announced pricing actions. We continue to expect margin benefit from price/mix through year end however at a more moderated level as we compare against

last year's fourth quarter cost-based pricing actions in the U.S. kitchen segment and Brazil. Additionally, we continue to see the benefit from our cost takeout initiatives deliver favorable impact across all regions, resulting in a margin expansion of 25 basis points.

Lastly, improving trends in raw materials outside of North America partially offset the continued tariff headwinds resulting in an unfavorable margin impact of 25 basis points. The net impact of currency and hedging was neutral for the quarter. These margin benefits were partially offset by continuation of increased marketing and technology investments. Overall, we are very pleased with our ability to leverage our global scale, drive product innovation, proactively manage costs and deliver strong global results despite ongoing macroeconomic volatility.

And now, I will turn it over to Jim to review our regional results.

Jim Peters

Thanks, Marc and good morning, everyone. Turning to Slide 7, I will review the third quarter results for our North America region. We delivered a very strong financial performance with revenue growth despite weak industry demand in Canada. Additionally, we delivered record EBIT as strong price/mix execution and disciplined cost takeout offset lower unit volumes and continued freight inflation. This marks the eighth consecutive quarter of margin expansion in North America highlighting the fundamental strength of our business. Lastly, we are excited to announce that we were awarded a 5-year exclusive supplier relationship with DR Horton, the largest homebuilder in the United States. This relationship further reinforces the strength of our brands, product portfolio and logistics network as we bring winning products to more customers beginning January 2020.

Turning to Slide 8, we review the third quarter results for our Europe, Middle East and Africa region. Unit volumes increased 5% across our core European business led by growth in Russia, UK, Italy and Poland among others. This growth was offset by improving although weak Middle East and Africa demand. Despite the continued weakness in the Middle East and Africa and the impact of previous business exits, net sales excluding the impact of currency were essentially flat for the quarter. We delivered significant year-over-year and sequential improvements with ongoing EBIT near breakeven as momentum from our strategic actions continues to drive results. At our 2019 Investor Day, we highlighted

the following key actions to restore profitability to EMEA: exit of Turkey, Hotpoint SDA, South Africa, fixed cost reduction and regaining volumes. We are pleased to say that we are fully on track. We have fully exited our Turkish domestic sales operations as well as our Hotpoint branded small appliances business. We also completed the sale of our South Africa operations and are continuing to deliver structural operating improvements in the region.

Now we turn to Slide 9 to review the third quarter results for our Latin America region. Unit volumes were negatively impacted by temporary trade inventory adjustments at a key Brazilian retailer. We have already begun to see unit volumes return to normalized levels and expect to recover volume in the fourth quarter and in early next year. Organic net sales, which exclude the impact of Embraco and currency increased approximately 4%. EBIT margins contracted in the quarter as positive price/mix and favorable raw material inflation was more than offset by lower unit volumes related to temporary trade customer inventory timing, currency devaluation in Argentina and weak Mexico demand.

Finally, as a reminder, we completed the sale of our Embraco business unit on July 1, meaning this is the first quarter without the Embraco compressor business consolidated in our regional results. 2018 and first half 2019 results will continue to include the impact of our Embraco compressor business. Reference our appendix for a schedule of Embraco's quarterly results.

We now turn to the third quarter results for our Asia region, which are shown on Slide 10. Excluding the impact of currency, net sales increased 7%. Strong momentum continued in our India business delivering double-digit revenue and EBIT growth alongside continued share gains. Although unit volumes increased in China, the cost of the brand transition initiative resulted in elevated margin pressure. That said our brand transition strategy in China is on track with the value share of Whirlpool brands exceeding Sanyo brand for the first time during the quarter.

Before we move on to our full year guidance, I want to make a few comments regarding our third quarter consolidated financial results compared to prior year. Our SG&A favorability of approximately \$60 million, was primarily due to strategic actions in EMEA and currency favorability in Latin America. Favorability in interest and sundry income of

approximately \$50 million is primarily driven by currency-related hedging gains. The net earnings impact from currency and hedging throughout the income statement was immaterial in our results.

Now, I would like to turn it back over to Marc to review our guidance.

Marc Bitzer

Thanks, Jim. On Slide 12, we are reaffirming our ongoing guidance assumption for 2019. Revenue guidance remains unchanged at \$20.6 billion as moderate improvement in U.S. is offset by continued softness in Canada, Mexico and the exit of some of our European businesses. Our EBIT margin guidance is now 6.8% or slightly above reflecting our solid year-to-date performance and confidence in our ability to deliver fourth quarter results in line with our full year commitments. Our free cash flow guidance of approximately \$800 million, which includes Embraco sales proceeds and related term loan repayment, remains unchanged. In total, we are trending toward the high-end of our full year ongoing earnings per share range and have decreased our full-year GAAP guidance as additional product warranty and liability expenses was partially offset by adjustments to Embraco gain-on-sale calculation. With strong momentum through the third quarter, we are confident our strategy and actions will deliver continued progress toward our long-term goals.

Turning to Slide 13, we show the drivers of our ongoing EBIT margin guidance. We now expect 200 basis points of improvement related to price/mix benefits in 2019. Net cost benefits have been slightly reduced by 25 basis points as ongoing cost productivity actions are offset by the impact of lower unit volumes. With these revisions, we continue to expect at least 50 basis points of margin improvement year over year.

Now, Jim will cover our regional guidance and cash priorities.

Jim Peters

Thanks, Marc. On Slide 14, we show our regional guidance for the year. In North America, we saw moderate improvement in the U.S. demand environment for the second consecutive quarter providing confidence in our guidance range for the full year. In Latin

America, we revised our industry guidance expectations to 3% to 4% as Mexico demand weakness continues to weigh on the region. Industry expectations for EMEA and Asia remain unchanged. In total, we continue to forecast approximately flat global growth for 2019.

Regarding our EBIT guidance, North America was revised to 12%-plus, reflecting our continued confidence in the region's ability to drive meaningful margin expansion. In EMEA, we are confident that we are executing the right actions to restore profitability and continue to expect EBIT margin of approximately breakeven for the full year. In Latin America, we have adjusted our guidance to approximately 6%, taking into account the impact of temporary trade inventory moves and weaker-than-expected Mexico demand. Lastly, our margin guidance for Asia remains unchanged. In total, we expect margin improvement of at least 50 basis points as we continue to leverage our year-to-date momentum and drive strong global results.

Turning to Slide 15, I will discuss the drivers of our 2019 free cash flow. We reaffirm our expectations to deliver free cash flow of approximately \$800 million, including the net proceeds and term loan repayment related to the sale of Embraco. With our year-to-date momentum and strong global results, we continue to expect strong cash earnings. We reaffirm our capital expenditures and restructuring assumptions, and we are focused on driving sustainably lower working capital. As previously mentioned, we made payments to the French Competition Authority in the first half, which netted to approximately \$100 million. And our restructuring guidance reflects ongoing asset optimization in our European region, inclusive of restructuring of our Naples, Italy manufacturing plant.

Turning to Slide 16, we provide an update on our capital allocation priorities for the year. The sale of our Embraco business unit is now complete and the proceeds from the sale were used to pay off our \$1 billion term loan in August as we previously communicated. This brings our gross debt-to-EBITDA to 2.5 which puts us well on track toward our long-term target of approximately 2.0. Additionally, we completed the sale of our South Africa operations, which is another step forward in our plan to restore the EMEA region to profitability. Lastly, we repurchased \$50 million of shares and expect to continue repurchasing shares at moderate levels going forward.

Turning to Slide 17, I would like to highlight our initial planning assumptions for 2020. We are anticipating industry growth of approximately flat in North America and globally as modest growth in the U.S. and Brazil is offset by continued softness in Canada, Mexico and China. The unfavorable impact of previously announced tariffs is expected to be offset by easing material cost. We anticipate approximately flat depreciation and amortization expense for the full year. Lastly, we expect restructuring expense to be approximately \$75 million to \$100 million on a go-forward basis and an effective tax rate of 20% to 25%. Further detail on our 2020 guidance will be provided on our January earnings call.

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

Question-and-Answer Session

Operator

[Operator Instructions] Your first question comes from the line of David MacGregor from Longbow Research. Please go ahead.

David MacGregor

Good morning, everyone.

Marc Bitzer

Good morning, David.

David MacGregor

First question just on EMEA, can you just remind us on the EMEA profit benefit from exiting Turkey and the Hotpoint SDA and then South Africa?

Marc Bitzer

Yes, David, it's Marc. As you may recall, when we laid out these actions, well, pretty much a year ago, we said the combination of Hotpoint SDA, exiting Turkey, the fixed cost action and everything else is about a \$50 million annualized run rate profit. So I would say in the quarter, we got pretty much of the net share thoughtfully in there. And on top of that, you have the additional benefit of now having solid growth in the core key markets. which kind

of gave us back some volume leverage. So I would say pretty much half of improvement comes back from our strategic actions, the fundamental strategic actions. The other part came back from – we see some growth in our core markets, and that's healthy.

David MacGregor

And just on the North America volume declines are you able to bucket that out across kind of value mass and premium?

Marc Bitzer

Yes, David, it's Marc. First of all, frankly, I wouldn't read too much into the North America volume decline, which is slightly – minus 6.9% or 7%. It's almost entirely coming from the Canadian market weakness, but we didn't lose share, it's just an overall industry weakness, and the SDA or KitchenAid SDA volume. As you know, the KitchenAid SDA is a heavily Q4-focused business with a promotion period. And whenever – when you have trade inventory moves kind of last week's, September 1 through October that can have an impact. At the end of the day, our North America revenue, were still up 0.5%. And the core majors business, we didn't have a very – I mean, based on volumes, are essentially flat to slightly down. So we didn't see that kind of impact.

David MacGregor

Great. Thanks, Marc.

Operator

Your next question comes from the line of Megan McGrath from Buckingham Research. Please go ahead.

Megan McGrath

Good morning.

Jim Peters

Good morning.

Megan McGrath

I wanted to follow-up a little bit on your 2020 comments I know you don't want to give that much more color. But could you tell us – just give us a little color on your RMI assumptions for next year. Are you assuming commodity prices as of this week or are you taking into account – I assume you are sort of in negotiation process for contracts. How are you thinking about that heading into next year?

Jim Peters

Yes. Megan, this is Jim. And again, what we really start with is we look at where the prices are today going into the period where we begin to negotiate contracts and take that into consideration. Additionally, we look at the tariffs that have come into play this year, and that could still come into play, and estimate those out. So at this point in time, as we have said, we do expect unfavorable tariffs to be partially offset by favorable materials. But then once we get to the January earnings call, we'll really detail that more, and we'll have a much better feeling at that point on where we think material costs will be for the full year next year.

Marc Bitzer

Megan, it's Marc. Maybe just to echo what Jim was saying and give some additional color, first of all, what we lay out today, that's a point-in-time assumption. That could well change until end of January. But right now, we certainly do see – on the raw material side, we see a moderation of raw material levels, keeping in mind we still have a cumulative inflation of two years in – pretty much in our baseline, but we see moderation. And when – from that perspective, we have a – certainly a slightly positive outlook for RMI. On the other hand, to Jim's point, even we have tariffs. There is element of carryover because not all tariffs were in effect for full year. And right now, we have to take into account what has currently been announced but not yet implemented, which will be a further slightly headwind. So the two of them pretty much net themselves out, but I would expect between now and January there will be some moving parts here.

Megan McGrath

Thanks. That's really helpful. And I want to follow-up on the warranty costs in the quarter. That was sort of an unexpected expense there. So any more color you could give on the \$100 million? And any anticipated cash impact from that?

Jim Peters

Yes, Megan and this is Jim. To begin with, this is something that we are in the middle of the process of and we have identified a component-related issue with a product we sell in EMEA. And right now, we have put our best estimate out there of what it will cost to rectify that. And again, it's – at this time, that's an estimate and there is a lot of work going on to identify what the final remedies will be. If we look at it from a cash flow perspective, we would expect that more to be an early next-year type of issue in terms of when we will see the impact as I said as these actions are kind of unfolding as we speak.

Megan McGrath

Thank you.

Jim Peters

Thanks, Megan.

Operator

Your next question comes from the line of Curtis Nagle from Bank of America/Merrill Lynch. Please go ahead.

Curtis Nagle

Good morning, guys. Thanks for taking my questions. So just a quick one in terms of, I guess, confidence in EMEA turnaround, another negative margin, although, I guess, some progress made this quarter? Looking at what's implied for 4Q, I think it's something around a 3% margin, which is a pretty significant uplift from where you are now. So I guess just what gives you confidence in what you have in place like right now, you think, could help you achieve that?

Marc Bitzer

Yes. Curtis, it's Marc. First of all, I would see – the way I would look at this Q3, it's a very encouraging sign that our actions that we've put in place are fully on track. And to have pretty much a \$35 million year-over-year improvement is – no matter where you come from is a big move. But we are still losing money, but we are pretty close to breakeven. Having said that and that's – I would call that the normal seasonality on European business, which is a little bit more skewed toward Q4 in our regions, with a normal seasonality, we are – we will be above breakeven and positive in Q4. I am not quite sure I fully agree with the math of 3%, and we can follow up separately on this one, but it will be in the positive territory but probably not to the magnitude of 3%.

Curtis Nagle

Okay, thanks very much.

Operator

Your next question comes from the line of Mike Rehaut from JPMorgan. Please go ahead.

Mike Rehaut

Thanks. Good morning, everyone.

Marc Bitzer

Good morning, Mike.

Jim Peters

Good morning.

Mike Rehaut

I wanted to focus for a minute on the North American margins in the third quarter, very strong results, a little bit more than we were looking for. And I was curious if you could kind of drill down a little bit in terms of the drivers of that improvement, if it was all effectively price/mix or if there were some other drivers there? And particularly, as part of that answer, if you could also address any changes in the competitive backdrop as LG and Samsung have been ramping production this year at their own facilities?

Samsung have been ramping production this year at their own facilities.

Jim Peters

Yes. Michael, this is Jim. And let me kind of start off here, and then Marc will add some more commentary to this, too. But as we look at North America, again it was a very strong quarter. We are seeing continuing benefits of many of the price increases that we have taken, as well as mix coming from recent product launches and all that. So that's one of the bigger drivers that we see. Obviously, cost has been a headwind within North America, whether it was material costs that have started to moderate some, but tariffs continue to be a year-over-year cost increase, as well as we've talked about freight costs. So we have been able to offset that, obviously, with the price increases we took. But also, as we said, the mix of our business is very healthy. In terms of the competitive environment, what I would say is through Labor Day, we did see some increased levels of competition, again not outside our level of normal and not outside of what we expected. As we look toward the Black Friday holiday period, that will obviously be an indicator of where things are and all that. But as we have said in the past, we do participate in promotions when we see that they create value. And right now, I think we have had a very good track record within the North America business of continuing to balance margins versus the promotional periods.

Marc Bitzer

Yes. Michael, it's Marc. Maybe a bit additional color I want to give on North America. At the end of the day, not just Q3 but the entire year, this is an environment where frankly we do not get a lot of help from the outside. I mean the industry demand has been pretty much moving sideways entire year. We have cost inflation and tariffs and logistic costs. To your point, the LG and Samsung, we are fully in production, and yet we delivered 12.8% EBIT margin, which basically tells me no matter how you look at the North America business, this business is in a really, really good shape and we have very strong momentum, and we have a lot of confidence for that business.

Mike Rehaut

That's great. I appreciate that. And I guess secondly, just to revisit an earlier question on EMEA and the profitability there. And obviously, you still expect a lot of big things out of that region or a lot of improvement over the next year or two. Right now, as you kind of look at the business plus or minus breakeven. I was hoping you — given you're another

look at the business plus or minus breakeven, I was hoping you – given you're another quarter or two into the turnaround and you laid out some of the plans at your analyst day, if you could kind of just remind us of how we should think about the next year or two in terms of the next two or three steps that are right in front of you in terms of driving improved profitability for the region. Is it all essentially – is it much more driven by recapturing some of the share gains, some of the new product introductions and retailing wins that you hope to achieve, maybe if you could give us an update on how those initiatives are progressing and how we should think about the next 12 to 18 months, particularly in a backdrop where Europe is still overall somewhat challenging.

Jim Peters

Yes. Michael, this is Jim. I'll start off with that. And I think the way you need to look at it is we talked about the actions earlier, and Marc talked about these and we talked about them on investor day. Remember, those were implemented this year. So you have carryover going into next year of benefits of that, of us being out of Turkey, of us having disposed of the South Africa business and of the cost takeout. You'll see a continued level of cost takeout within the EMEA business. Again, just because we've done a lot of the big actions, it doesn't mean that we don't have a lot of other things we're focusing on there to continue to adjust our costs. But also then, we talk about the 5% core growth within that business, and we do expect that to continue into next year as we gain back share in some of the countries where we lost it. So again, we – it's going to be a balance next year of cost takeout with an incremental volume coming in due to a stability of that business.

Operator

Your next question comes from the line of Sam Darkatsh from Raymond James. Please go ahead.

Sam Darkatsh

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

Marc Bitzer

Good.

Jim Peters

Good morning.

Sam Darkatsh

A couple of questions. First, regarding North America specifically and in light of the volumes being down 7%, how are you feeling about inventories? Was your production in line with shipments this quarter? What are you expecting for production? And then also, looking into 2020, are you where you want to be from a production versus shipment standpoint? I'll start there.

Marc Bitzer

Sam, it's Marc. In short, we are where we want to be in that. Give you a little bit more color, our actual – our inventories are in pretty good shape. As you know, we spent a lot of time this year bringing down our inventories early in the year, and we're pretty much well on track, obviously, but hurt us a little bit on the production leverage, but we've dealt with that. The more important part, and that's behind the units which I was referring to earlier, we feel pretty good about the trade inventories out there. In particular small domestic where you have a lot of volume in Q4, I would even describe trade inventories as right now being fairly low. Now the more important thing for us is what we see on the sell-through, i.e. the sellout in the stores on both majors and small domestic, we're in pretty good shape. And we feel very good, and that gives us a lot of confidence for Q4.

Sam Darkatsh

And then my follow-up question is actually a follow-up on a prior inquiry about RMI. You mentioned that you expect a moderate tailwind from raw materials next year, perhaps offset by the tariffs. There is a fair amount of confusion though as to why that tailwind is only moderate based on what we can see obviously with the steel markets and copper and aluminum and what have you. So I am wondering why it's only moderate. Were you letting more of your steel purchases float this year? Do you have longer dated hedges for some of your purchases of base metals and plastics and what have you, just trying to get a sense of why that might be based on what we can see externally?

Marc Bitzer

Sam, it's Marc. Let me maybe try to take this one. First of all, as a reminder, on both steel and in particular base metals, as you know, we try to either buy very long or hedge as much as we can within our policies and guidelines. So by definition, the flip side means we never buy at spots. The spot barely impacts us. And in particular, during times of elevated raw material prices, usually we have quite a bit of a discount in our books versus the spot rate. So as such, yes, what you're probably referring to are the spots are coming down, and we see that. But again, it's – we bought below the spot, and our full-year costs are below spot prices. Having said that, we are certainly encouraged by the trends – certainly encouraged by momentum in raw materials, you may also know that the big steel contracts, they should really get negotiated toward the end of the year, early next year. And I think the current momentum puts us in a good shape, a good position toward these contract negotiations. But we will not know until end of January. We have a big, and that typically moves a little bit faster, element in raw materials. It's plastics. With plastics, you can't go out long. We will typically buy quarterly or even shorter term because you simply cannot go long. So any volatility you may have on oil prices ultimately, in most cases, reflects back on volatility on the plastics. And that is still a little bit in uncertainty even though that was certainly good guide for us in 2019.

Sam Darkatsh

Thank you both.

Marc Bitzer

Thanks, Sam.

Operator

Your next question comes from the line of Alvaro Lacayo from Gabelli Research. Please go ahead.

Alvaro Lacayo

Good morning. I wanted to start with price/mix in North America. It looks like sequentially, there was an acceleration, which I assume is driven by mix, if you could talk and try to parse out for maybe between price and mix? And then maybe give some high color on how you expect mix to evolve from here and maybe call out some of the things you are doing to drive that mix going forward?

Marc Bitzer

Alvaro, it's Marc. And let me maybe first take that. First of all, what most people should avoid is to – don't try to just take the unit decline and then take the revenue and assume that's price/mix because it's not that high. On our major domestic appliance business again where we have basically flat to slightly down volume, we had a revenue growth, which is indicative of we had very favorable price/mix in North America. We communicated that for the entire company, we had 1.5% price/mix in Q3, and North America was above that. So North America led that, and that's a very good performance. In particular, if we take into account that we're kind of running against already last year's price increases to some extent, not all but to some extent, which basically tells you the price/mix we should get in Q3 is a combination of both the announced price increase and how we execute it, but we also feel pretty good about the mix management, which came from new products and what we're rolling out with markets. So we feel pretty good about the mix.

Alvaro Lacayo

Okay. Now with regards to the DR Horton win, can you give us a little bit more color? One, do you currently already do business with DR Horton or would this all be 100% incremental? If you could you talk about – does this include all major appliances? And then what does that mean for your overall margin? Would this be accretive, similar or how would you categorize that going into 2020?

Jim Peters

Yes. Alvaro, this is Jim. And I will probably start with it and Marc can add some comments to it. This is a new customer for us. And again, it's a big win that we're very excited about. It will involve all of our major domestic appliances. And so again, as we look forward to

this, it is a volume increase for us next year and an increase in terms of the margin of the business. It's not outside of the norms of the margin of our overall business. So again, we feel very good about it.

Marc Bitzer

Yes. Alvaro, it's Marc. And obviously, we won't get in the details about the volume and the margins, but it is 100% incremental. I think the more important thing is we for years have been talking about us. We want to focus more on the homebuilder and the housing market. It's a big part of it. DR Horton is the leader in North America, a highly respected company. And we are very proud to have won this – happy to have won with an exclusive contract. So it's a big deal for us.

Alvaro Lacayo

Okay, thank you.

Marc Bitzer

Thanks.

Operator

Your next question comes from the line of Mike Dahl from RBC Capital Markets. Please go ahead.

Mike Dahl

Good morning. Thanks for taking my questions.

Jim Peters

Good morning, Mike.

Mike Dahl

Marc, just back on the North American volume, I wanted to just better understand that a little more because you called out Canada as being a headwind. And that makes sense, but last we saw, Canada is only 8% of that business from a revenue standpoint. So I guess I'm still struggling to understand how any decline could really explain the majority of the 7% overall decline. So maybe a little more color on that, and when you talk about the KitchenAid timing, what exactly that contributed?

Marc Bitzer

Yes, Mike, I mean I can only repeat what I said earlier. The volume decline is largely due to Canada and small domestic appliances. Canada market has been down and our small domestic appliance. Again, you have got to keep in mind that the vast majority of sellouts on small domestic appliance happens in Q4, so whereas every year there is a lot of inventory moves to be happening around September, October in that industry, we feel good about the sell-through. But right now, the trade inventories are right now fairly low. So I'm not overly nervous about it. At the end of the day, despite all of this one we showed 0.5% revenue growth in North America with these kinds of margins. So I am not at all nervous about these volumes and in particular knowing that our major domestic appliances, we did not lose any share. So we feel very good about that.

Mike Dahl

Okay, got it. And then the second question is a follow-up on the tariffs. I think there has been a lot of commentary this year that you guys have been able to provide around monthly numbers of tariff impacts. And on the website, you have posted what List 4 and a step-up if it happens, in Lists 1, 2 and 3 could mean on a monthly basis, but given your earlier commentary around just the carryover effect into 2020, can you just quantify how much is truly incremental to 2020 if we consider all current implemented tariffs and then the proposed increases and/or List 4? Just give us kind of the – what impacted '19 and what's incremental to '20?

Marc Bitzer

Yes. Mike, it's Marc. So again, to your point, there is the element of already implemented tariffs where we have a certain carryover. As you may recall, at the beginning of the year, we talked roughly about \$10 million every month, and now we talk about in the range of \$12 million to \$14 million, also depending on how much volume we have and how much you import. So put a number behind the carryover, it's probably around \$20 million, but we can provide more details. Maybe a little bit more. But then you have the additional element of tariffs announced but not implemented. And right now, as it is prudent, we have to take that into account, and that is an additional element of a small headwind. But we, of course, all recognize there is uncertainty around the actual implementation and of course, at the end of January, we will know more.

Mike Dahl

Okay, thank you.

Marc Bitzer

Thanks Mike.

Operator

Your next question comes from the line of Ken Zener from KeyBanc. Please go ahead.

Ken Zener

Good morning, gentlemen.

Marc Bitzer

Good morning, Ken.

Jim Peters

Good morning, Ken.

Ken Zener

So a lot of questions asked. So if we could just take a step back. I was looking at your 3Q presentation last year where you gave guidance for this year and you guys did pretty well obviously. If you look at 1Q, we can start seeing where the parts switched around. For example, we had lower volume, which hurt your net costs. You got better price/mix by a little bit and the RMI tariff. That moved in your favor. So clearly, that was a variety of things moving. How does that kind of play out? I mean was that a one-off situation because RMI went down so much? I mean you're talking about modest tailwind for RMI next year. But how often does that occur given what you guys kind of experienced? We have volume come down, which hurt your net cost out capabilities, basically offset by RMI. That's kind of my first question. But is that something that is normal or does that tend just to happen once when inflation drops dramatically the first year?

Jim Peters

Yes. I would say, Ken, it's – to say that it's the norm would – and that would not – I would not say it's the norm. When you look at it, obviously when volumes come down, you do expect the pressure on demand to come down also and in terms of commodity costs and all that. So as we look forward to next year, again as Marc talked about earlier, that's really why at this point in time we're giving guidance on what we – or indications on what we see on materials but not necessarily giving the guidance yet because there are a lot of moving parts still. And once we get to January, we have a much better understanding just like we would have in the third quarter last year versus when we got to January this year.

Marc Bitzer

Yes, Ken, it's Marc. Maybe also some additional color, obviously, this year, our entire company business was riding heavily on the price increases, previously announced price actions. And we had to deal with cost inflation. The cost good news is as we come to the end of this year, we still have a benefit of pricing and we are really now starting to turn the corner on the cost side. So that's good news. So in a year from now, no, I don't think we will be reliant on one of these two drivers. I think you should expect more cost takeout from us in particular as you get a little bit more tailwind from RMI. And of course by definition, when you run into the anniversary of price increase, you will have less pricing. Having said that, keep also in mind we have in a lot of our business a lot of product

innovation coming into play into Q4, Q1 and Q2 next year, which always gives us a significant mix opportunity. So in short, I don't think we will be entirely reliant on pricing. You should expect more from costs. But we will give more details in January.

Ken Zener

Understood. Now related to – I am assuming a lot of it is product innovation, Marc with the U.S. volume where it was for the year is yet the price/mix – and I think you are obviously implying there was some good mix in North America given that you don't lose share. Does that seem strange to you all that you're seeing flat volume, but the consumer is mixing up as opposed to your initial expectations of volume growth? What does that – I mean, how does that sink in your mind that people are trading up, but the volume is flat?

Marc Bitzer

Ken, I am not quite sure I would – and I don't think we said that the industry or the total consumers is mixing up. Our business has been mixing up with good products in our business.

Ken Zener

Right.

Marc Bitzer

So I would...

Ken Zener

Yes, yes, yes, exactly, your business, yes.

Marc Bitzer

Yes. Our business is really – we have a good mix of opportunity. As you know, we introduced an entire Whirlpool kitchen range. We will have, next year, brand new dishwasher platform which will be really superior in the marketplace. We are introducing a new vertical top loader, which is a significant part of our business, which comes out in Q1.

So the product innovation gives us the power to mix up in the marketplace and then consumer pay for it. I am not quite sure that is reflective of the entire market. The entire market, I would say is pretty much flat.

Ken Zener

Okay, if I could, one last question, comment on India. Thank you very much.

Jim Peters

India, India continues to be a very strong business for us. Again, we are seeing significant growth within the India market, very strong margins there. And so from that standpoint, it continues to be one of the bright spots that we have within the different countries that we do business in, but nothing significantly different. Again, we are performing very well there maintaining and gaining share and continue to see good results.

Marc Bitzer

Ken, it's Marc. But I certainly do appreciate that you let us end on a positive note on India because it's a really good business, something we're very proud of. So now, well, we've come to the end of our Q&A. So let me just maybe summarize some of our key messages on Slide 19. As you've seen, we're certainly very pleased with momentum in our global business and the level of margin expansion we delivered year to date. And having Q3 at 7.2% EBIT margin ongoing is a very strong performance. In North America, again, no matter how you look at it, our strong fundamentals have allowed us to be agile in a volatile macro-environment. And despite change in economic trade and competitive landscape, our North American business has delivered margin expansion now for eight consecutive quarters. And in Europe, we're pleased to see the continued moment from our strategic initiatives. And we delivered near break-even results on an ongoing basis. And it's now been pretty much a year since we laid out our strategic initiatives for returning the region to profitability. And since that time, we've sold and exited unprofitable businesses we have regained volume in key countries across Europe and have successfully executed our various cost takeout initiatives. So overall, I think we laid out the plans, we're executing according to the plans and now we start seeing results. And additionally, we completed the sale of our Embraco business unit and used the proceeds to pay down our

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outstanding term loan and making significant progress toward our gross debt-to-EBITDA goal of 2.0. I would also like to mention a few key highlights that reflect our commitment to environment, society and governance issues. We are named in the 2019 Dow Jones Sustainability Index for North America, and we were named a leading company on the 2019 Diversity Best Practices Inclusion Index. So I'm very pleased with our performance year to date. I'm confident we're executing on the right operational priorities across the globe. And I just want to thank you for joining us today, and we look forward to speaking with you again on our fourth quarter earnings call in late January.

Operator

Thank you. Ladies and gentlemen, this concludes today's conference call. Thank you for participating. You may now disconnect.