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Whirlpool Enterprise Portfolio Optimization

Moderator

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Speakers

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Whirlpool Corporation

Scope and Responsibilities

- 7 dedicated professionals
- 425 properties worldwide
- 125 countries
- 51 million square feet
- Multi-billion-dollar portfolio

Goals

- Anticipate changing corporate strategies
- Proactively serve operational needs of business units
- Articulate investment management aspects of portfolio strategies

Enterprise Portfolio Optimization

- Approach to FAO©
- The GAPT process
- Program benefits

- The Next Frontier
- Application to your company

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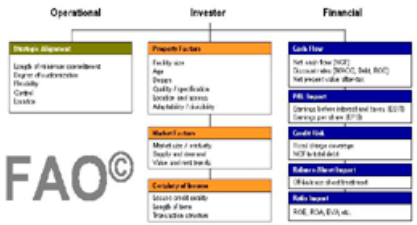
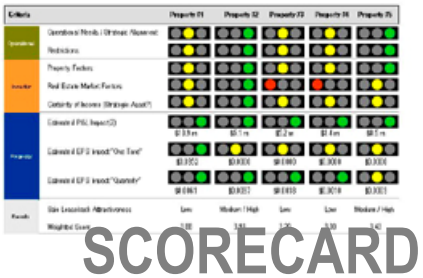
Whirlpool CRE's Transformation

Before	Innovations	After
• Real estate recommendations not aligned with finance • Decentralized, inconsistent financing decisions		• Alignment with finance community • Consistent, systematic decision framework
• Real estate decisions made with incomplete information • Focus on tactical functions		• Conversion to "dashboard" information • Seat at the strategic planning table
• Reactive to business unit operational objectives • Inability to prioritize among high potential projects		• Pro-active mining and prioritization of portfolio opportunities • Brings "gifts" to the senior management

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Approach to FAO©

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Lease vs. Own Decision

- Lease
  - Preserve capital
  - Monetize asset to generate capital
  - Remove assets from balance sheet
  - Enhance occupancy flexibility
  - Transfer residual risk exposure
- Own
  - Surplus, lower cost capital drives down occupancy cost
  - Specialized facilities, high-cost improvements or remote locations not valued by investors
  - Core facilities with predictable business requirements have low residual risks to companies

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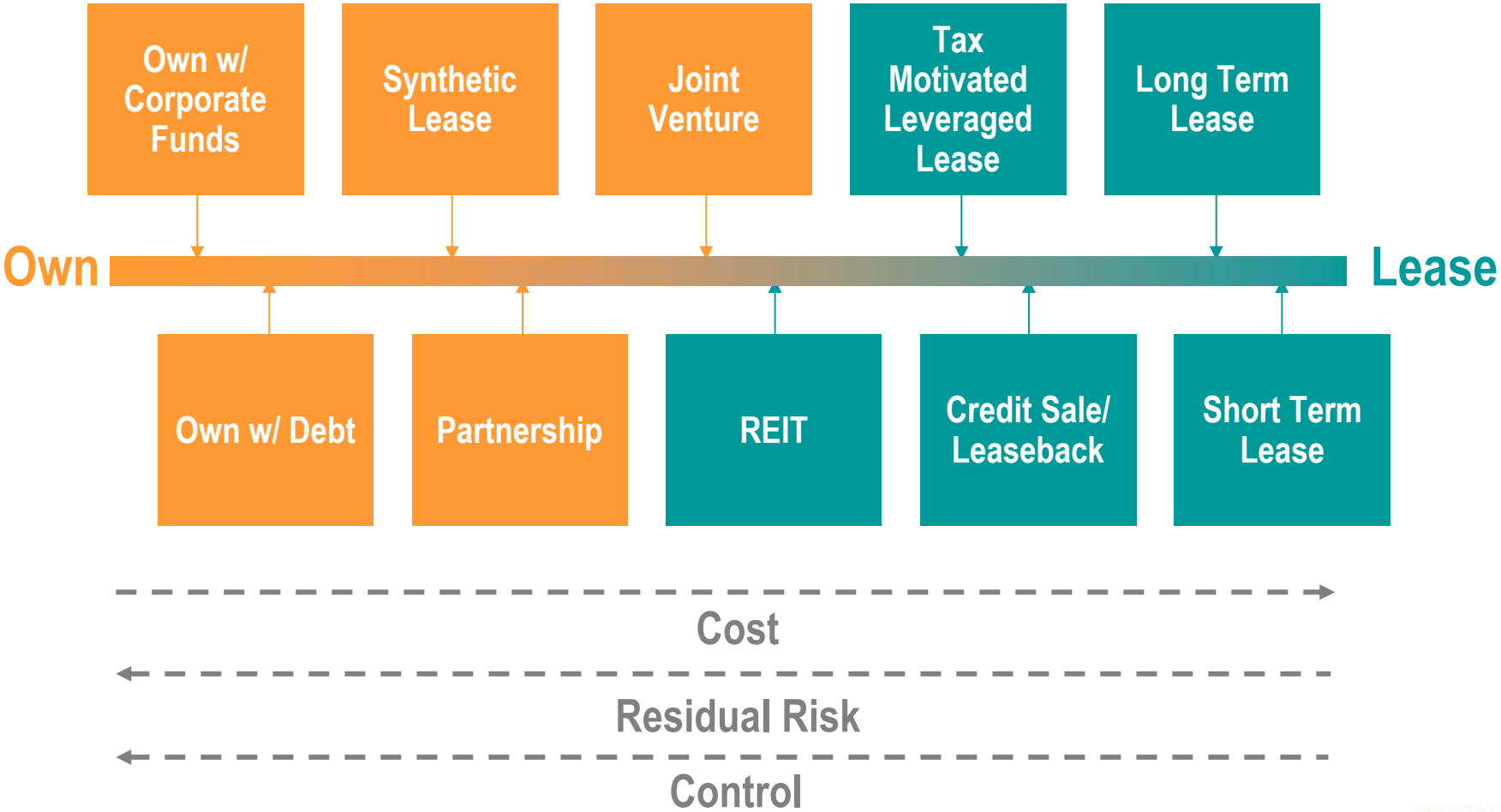
Alternative Control Structures



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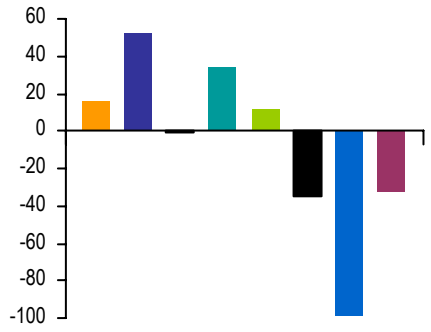
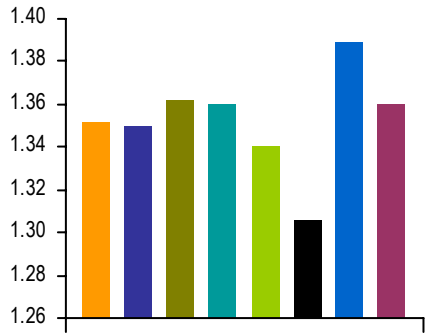
Relevant Corporate Metrics

Discounted After Tax Cash Flow NPV



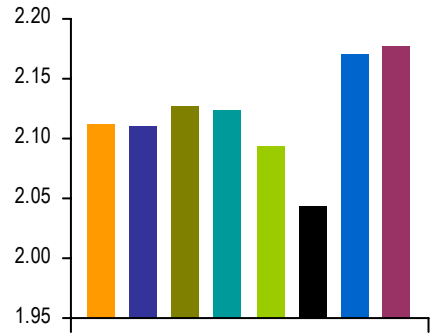
Delta = $155 million

External Reporting ROA



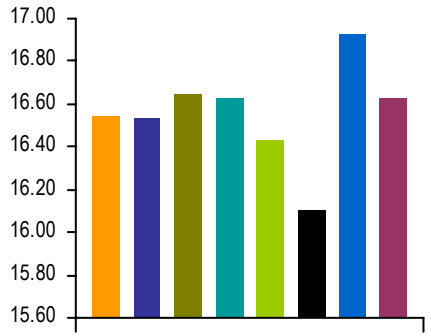
Delta = .08%

External Reporting EPS



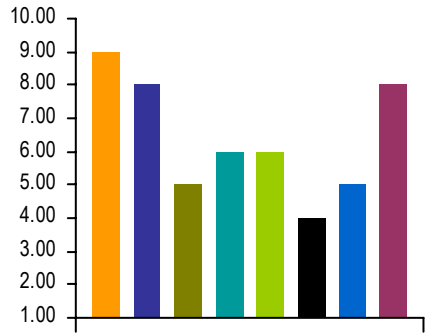
Delta = $0.13/Share

External Reporting ROE



Delta = 8 Basis Points

Control and Flexibility



- Own w/Corp Funds
- Debt
- Leaseback
- SL/Synthetic
- Trust
- UPREIT
- Lease
- Synthetic

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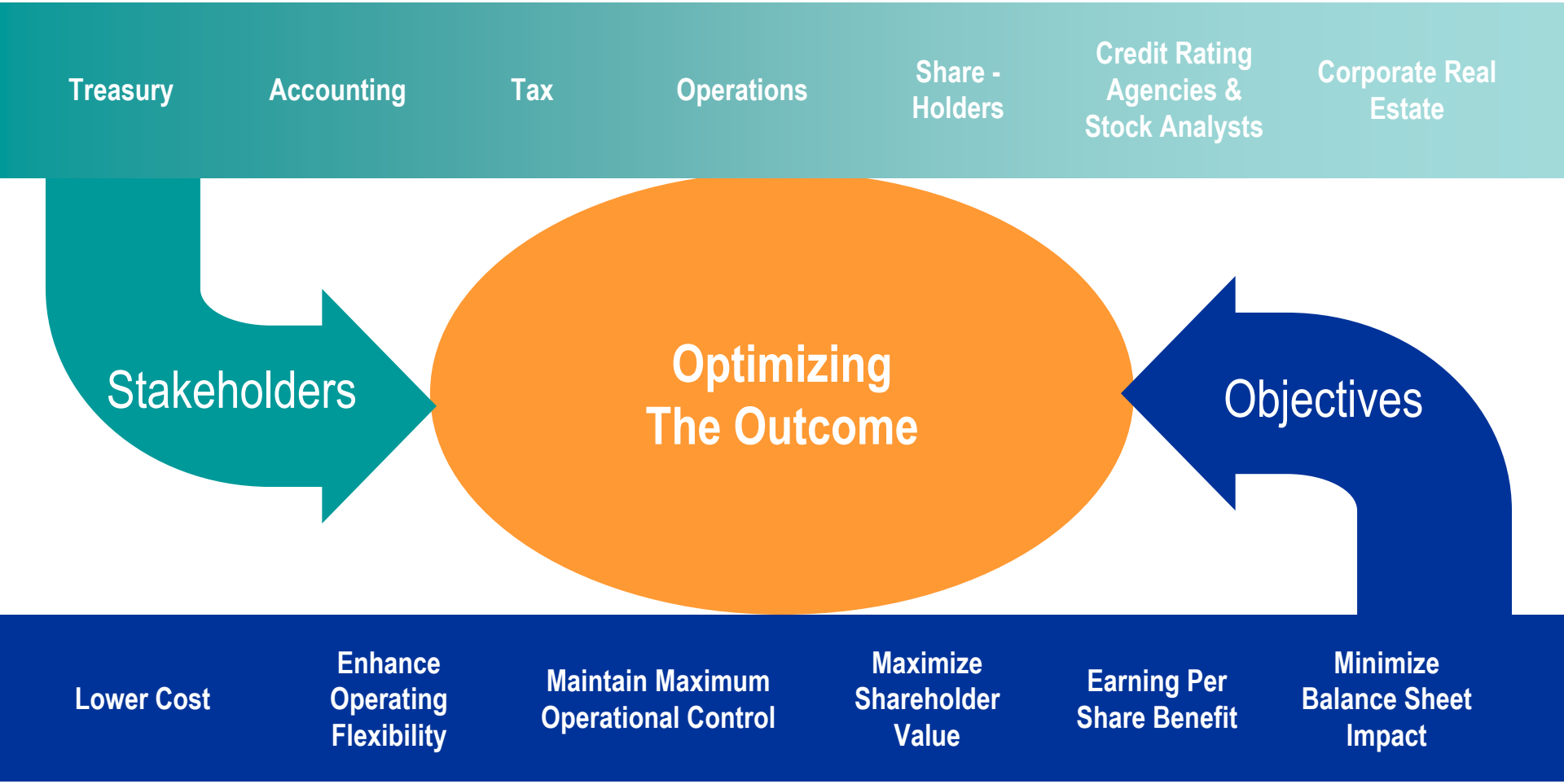
Corporate Financing Decision Drivers



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Traditional CRE Role

- Fragmented occupancy decisions
- Often not involved or equipped to advise on financing
- Not connected to the business strategy

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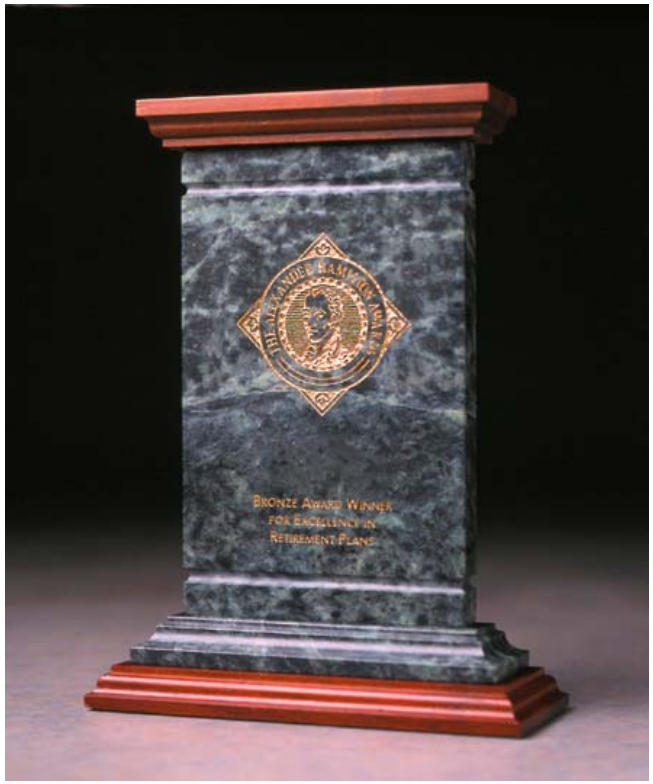
Financial Alignment and Optimization (FAO©)

FAO© is a **consistent** and **systematic**, **consensus** based decision making process for optimizing real estate financing options by integrating the objectives of senior management, shareholders, stock analysts and credit rating agencies



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Financial Alignment and Optimization

Operational

Strategic Alignment

Length of minimum commitment
Degree of customization
Flexibility
Control
Location

Investor

Property Factors

Facility size
Age
Design
Quality / specification
Location / access
Adaptability / divisibility

Market Factors

Market size / maturity
Supply / demand
Value and rent trends

Certainty of Income

Lessee credit quality
Length of term
Transaction structure

Financial

Cash Flow

Net cash flow (NCF)
Discount rates (WACC, Debt, ROE)
Net present value after-tax

P&L Impact

Earnings before interest and taxes (EBIT)
Earnings per share (EPS)

Credit Risk

Fixed charge coverage
NCF to total debt

Balance-Sheet Impact

Off-balance sheet treatment

Ratio Impact

ROE, ROA, EVA, etc.

FAO©

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Output – Decision Scorecard

Property Sale Leaseback Balanced Scorecard Summary – Sample

	Criteria	Measure / Key Considerations	Score	Weighting
Operational Needs	**Operational**		**Average (1 – 5)**	**33%**
	Strategic alignment	Alignment of lease and business need – length, requisite level of control and flexibility	4.50	1.50
Investor Requirements	**Investor**		**Average (1 – 5)**	**13%**
	Property factors	Excellent property characteristics, design quality and location, relative to market	4.50	0.60
	Investor		**Average (1 – 5)**	**13%**
	Market factors	Buoyant market but some oversupply	3.00	0.40
	Investor		**Average (1 – 5)**	**13%**
	Certainty of income	Long, secure income stream, based on lessee's strength of credit	4.50	0.60
Financial Requirements	**Financial**		**Average (1 – 5)**	**6%**
	Cashflow	Significant cashflow generation resulting in NPV savings	4.10	0.23
	Financial		**Average (1 – 5)**	**6%**
	P&L Impact	Long, secure income stream, based on lessee's strength of credit	4.00	0.22
	Financial		**Average (1 – 5)**	**6%**
	Credit risk	Significant cashflow generation, resulting in favorable impact to FFO interest coverage	3.00	0.17
	Financial		**Average (1 – 5)**	**6%**
	Balance sheet impact	Lease structure qualifies for off-balance sheet treatment	5.00	0.28
	Financial		**Average (1 – 5)**	**6%**
	Ratio impact	Marginal impact on Return on Capital	2.00	0.11
	Financial		**Average (1 – 5)**	**6%**
	Other considerations	No regulatory accounting impacts	4.00	0.22

		Target	Actual
Results	**Operational Needs – 33%**	**1.67**	**1.50**
	Investor Requirements – 33%	**1.67**	**1.60**
	Financial Implications – 33%	**1.67**	**1.23**
	Total	**5.00**	**4.33**

Output – Financial Implications

Sale Leaseback Analysis – Accounting Output **Completed for:** Whirlpool

	Ownership (Existing – Do Nothing)	Sale Leaseback 15 Year 9% Cap Rate	Sale Leaseback 15 Year 9.5% Cap Rate
Cash Flows *(in thousands)*			
Capital Requirement	$0	$0	$0
1st Year Impact on After Tax Cash Flow	($1,781)	($1,568)	($1,568)
Balance Sheet Impact			
Total Debt to Capital	0%	0.174%	0.165%
P&L Cost Impact			
1st Year Impact on Operating Income	($478)	($1,568)	($1,568)
1st Year Impact on Net Income (Loss)	($1,656)	$1,432	$1,264
15 Year Cumulative Impact on Net Income (Loss)	($22,519)	($14,124)	($14,900)
Credit Risk			
EBIT Interest Coverage	0.05916 x	0.00876 x	0.00876
EBITDA Interest Coverage	0.025426 x	0.00876 x	0.00876
Free Cash Flows	($1,781)	($1,568)	($1,568)
Free Cash Flows to Total Debt	0.00045 x	0.00040 x	0.00040
Funds from operations to Total Debt	0.00045 x	0.00040 x	0.00040
Profitability Ratios			
Earnings per share – diluted	($0.0016)	$0.0014	$0.0012
Operating Income/Net Sales (Operating Margin)	0.015%	0.050%	0.050%
Net Income/Net Sales (Net Profit Margin)	0.052%	0.045%	0.040%
Return on Assets	0.014%	0.012%	0.011%
Return on Equity	0.035%	0.035%	0.027%
Return on Total Capital	0.014%	0.012%	0.011%
Financial Covenants			
Maximum Debt Ratio (Total Debt/Total Capital) = 0.60	0.59	0.59	0.59

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Key Benefits of FAO©

- **Informed decisions** on consistent and confident basis worldwide
- **Alignment** of financing decisions to strategic business objectives and strategies
- **Results** benchmarked against wide array of financial performance metrics, non-financial factors and mutually agreed-upon priorities
- **Cost Savings**

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The GAPT Process

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GAPT's Value Proposition

- Quantifies occupancy strategies and impact on key financial metrics
- Assesses potential investor interest
- Short and long-term occupancy scenarios
- Identifies alternative financial structures and measures their tax implications
- Provides comprehensive property and market information
- Supports corporate objectives:
  - Maximize after-tax cash flows
  - Minimize cost of capital
  - Reduce occupancy costs

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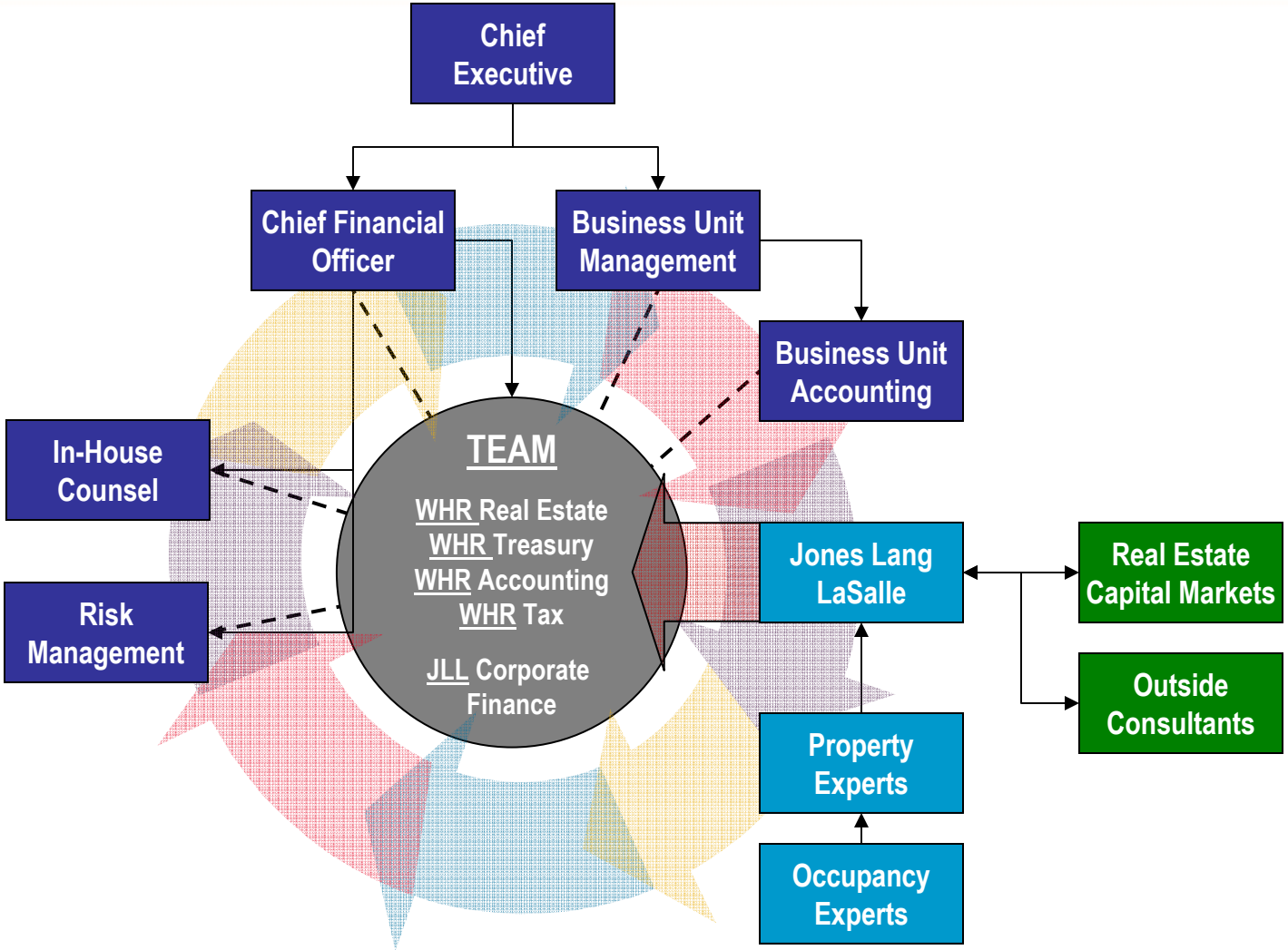
The Project Team and Stakeholder Input



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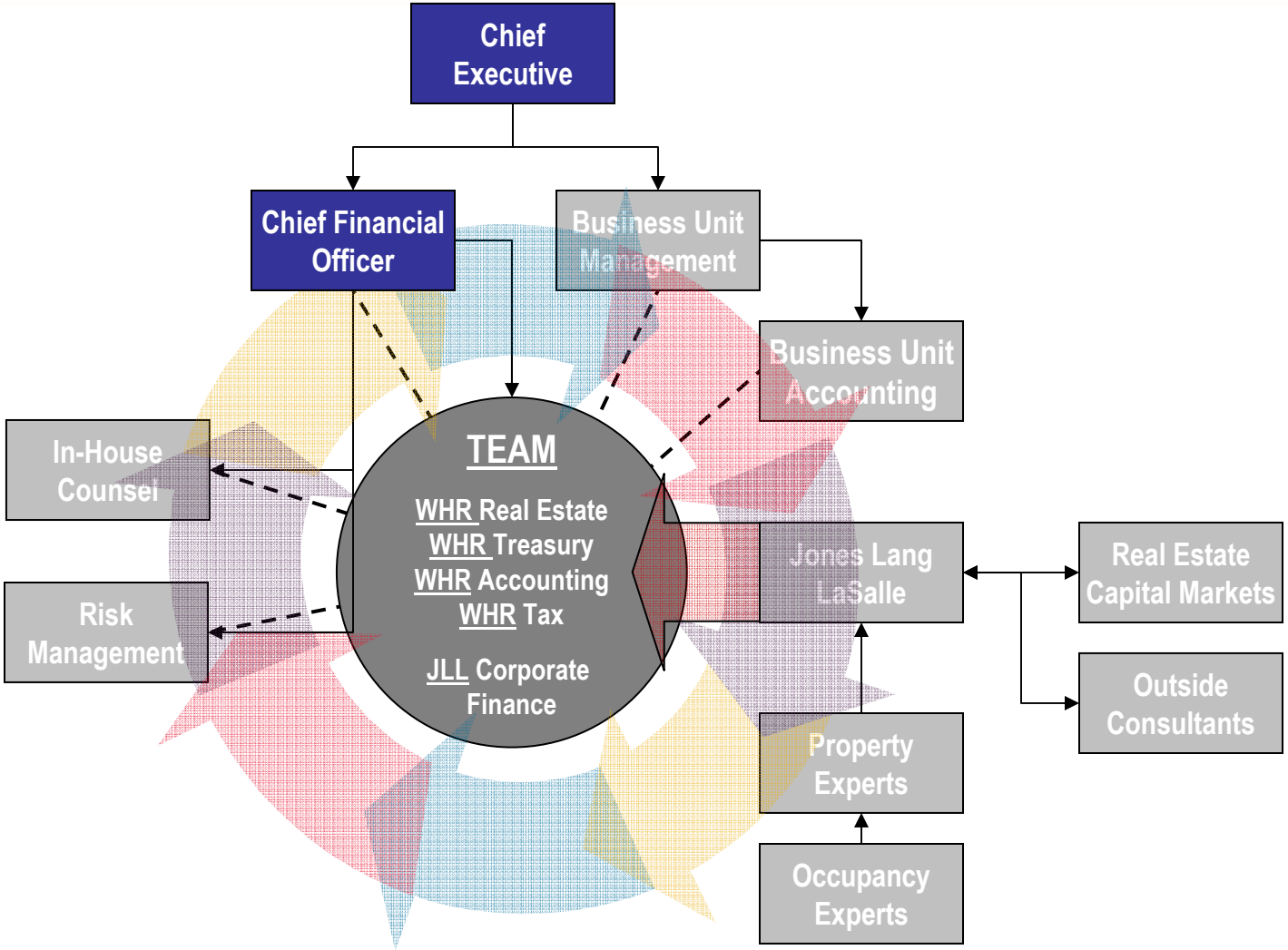

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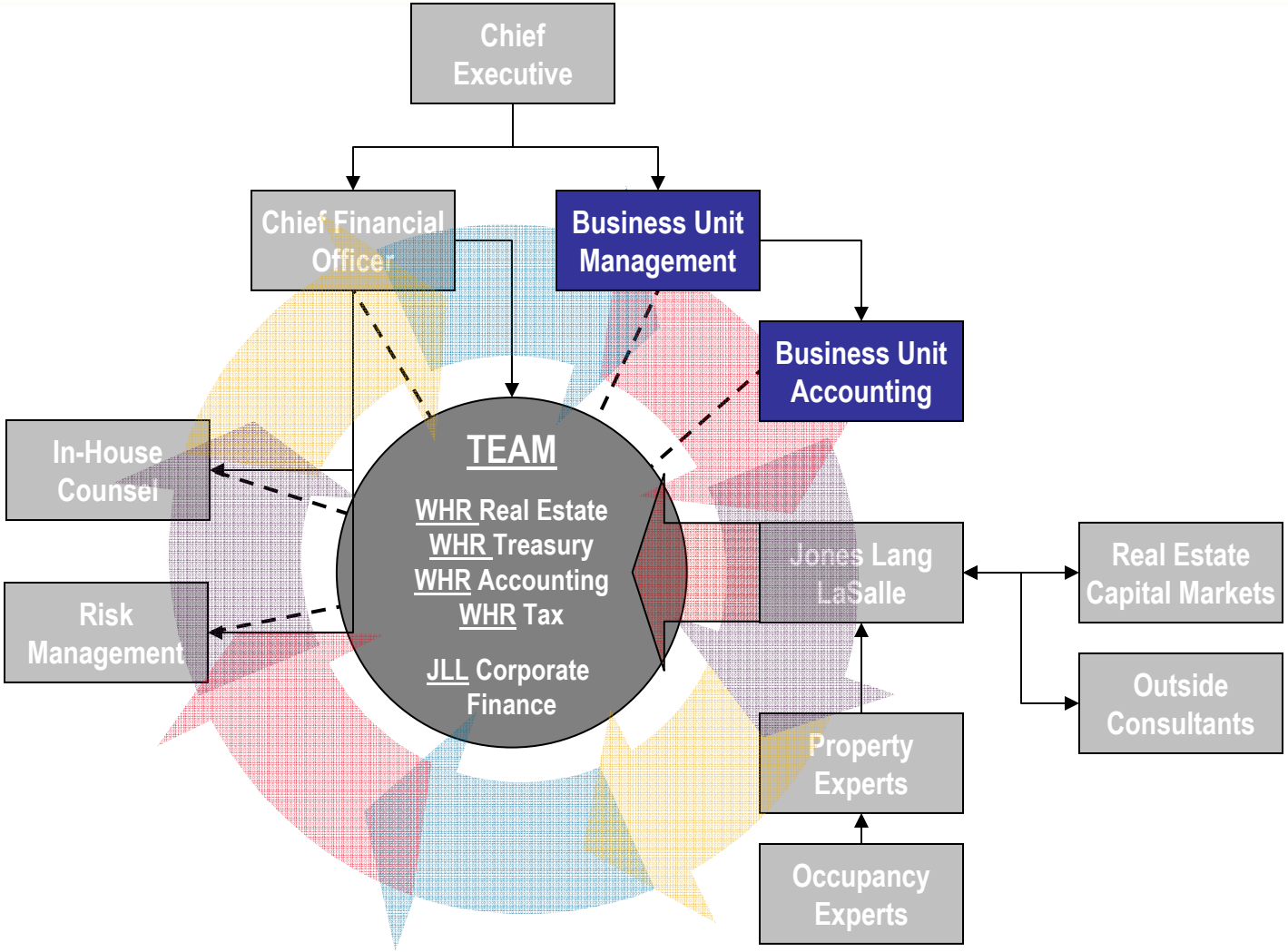

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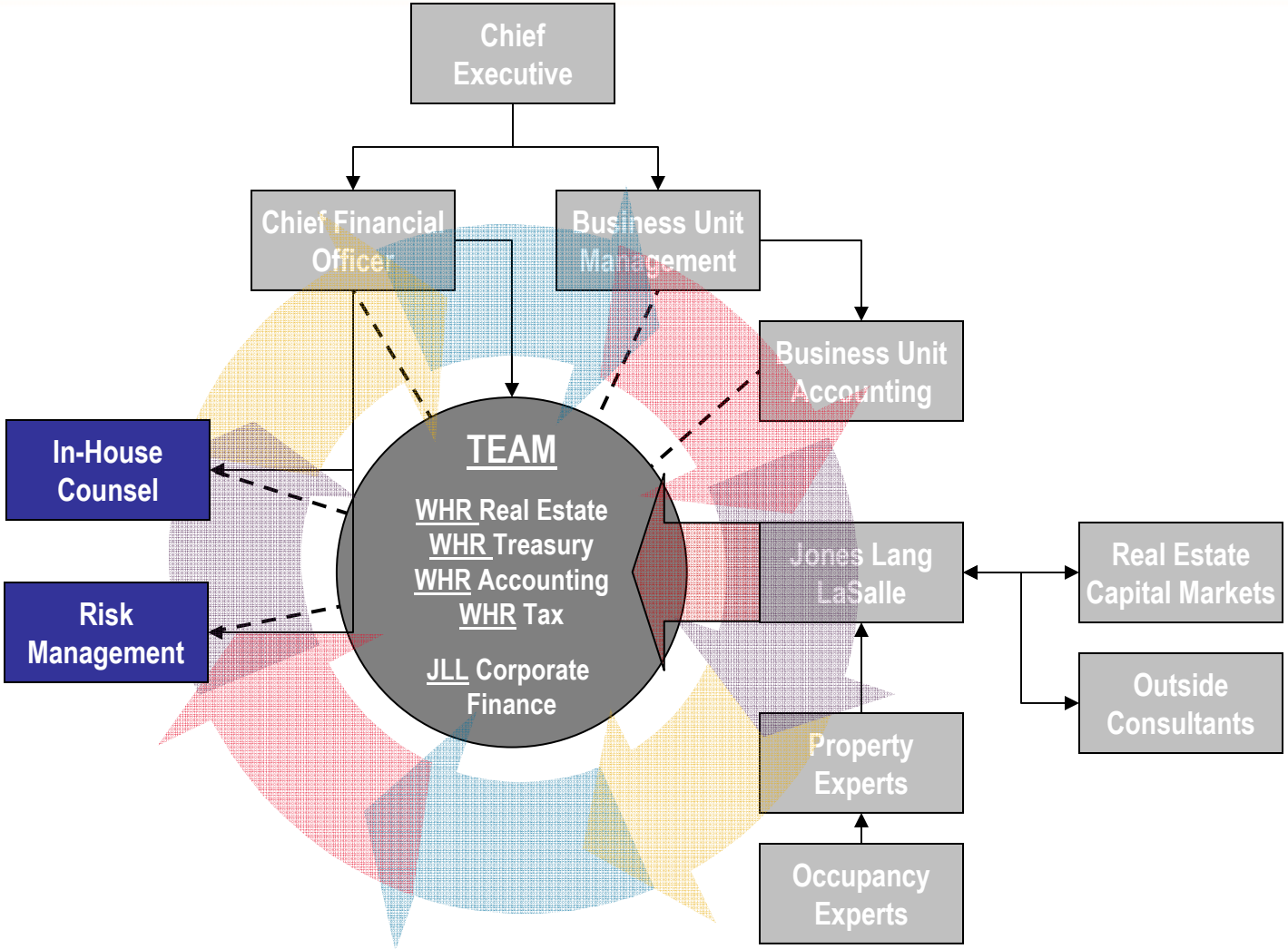

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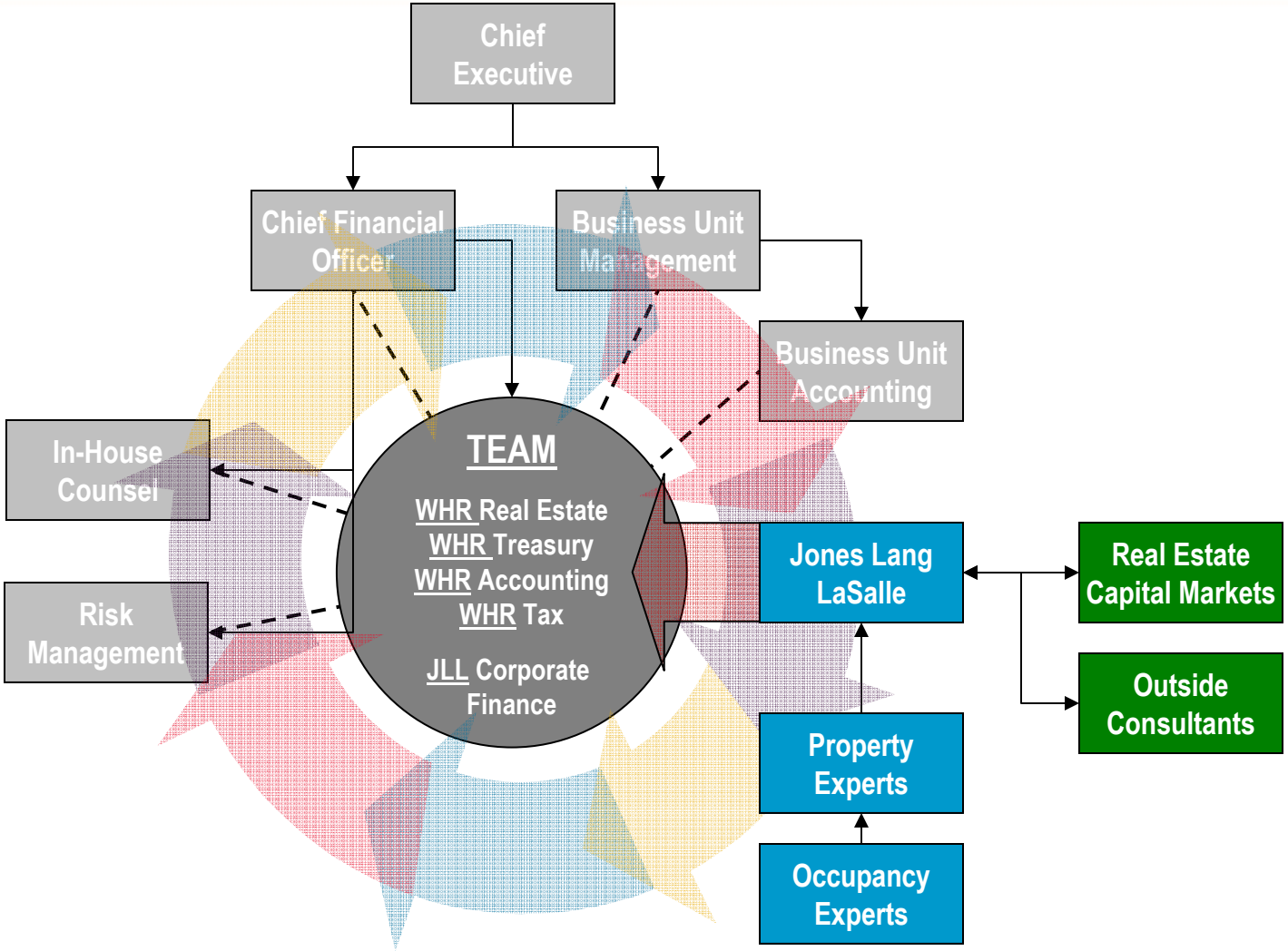

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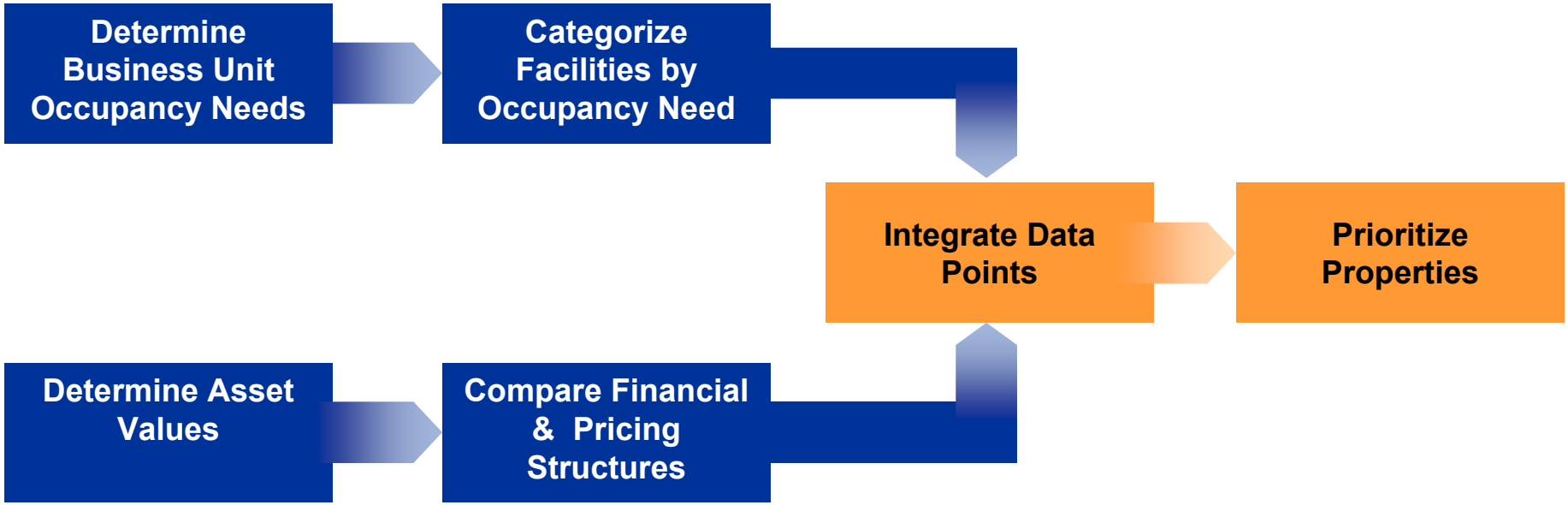
Six Steps to Using GAPT



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Determine Business Operational Needs

Globalization

Supply Chain Efficiency

Expanding Markets

Shrinking Margins

Technology Advances

Labor Dynamics

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Categorize Facilities by Operational Need

Property Description Overview

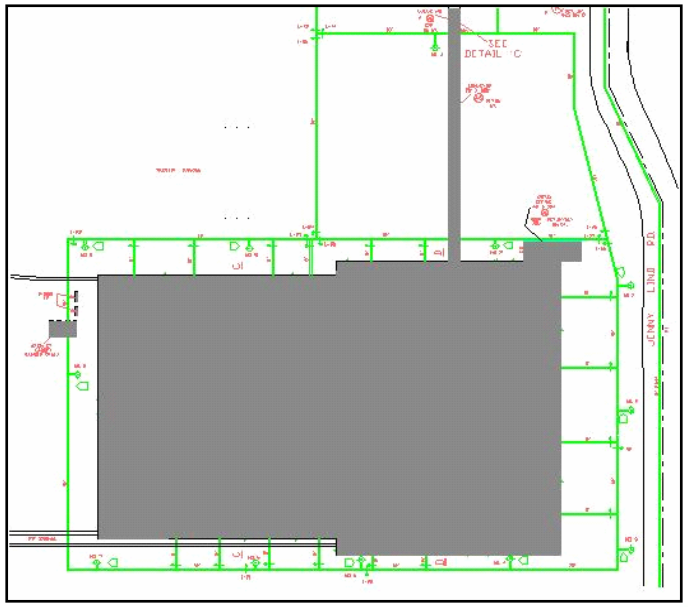
The facility is a 615,800 square foot, one story distribution warehouse with original construction in the year 1974 and a major addition in 1976. The site is an industrial park within the city limits. There are no external exposures.

Property Details

Property Type:	Warehouse
Tenure:	Owned
Owner:	Whirlpool
Net Book Value (12/31/2001):	$2,521,000
Occupier:	Whirlpool
No. of Subtenants:	–
Total Subtenant Income:	–
Subtenant Lease Expiry:	–
Property Specifications	
• Type of Construction	Concrete and corrugated steel construction
• Estimated Age:	1974 and 1976 (addition)
• Ceiling Height (ft):	35 ft
• No. Loading Docks	30 – 40
• Site Cover:	29%
Products Mfg in Facility	Distribution Center
Site Area (Acres)	48.00 Acres; 153 acres total w/h & mfg.
Total Floor Area (S.F.)	Lease Harbor
Environmental Issues:	Limited information. Best and worst case estimates of $0.1 - $1.9M, with $0.3M likely for both mfg & wh

Key Features Summary

Positive:	For its age, the facility is of good quality with opportunity to subdivide
Negative:	Located in a tertiary market. Capital expenditure required for corrugated steel wall replacement. Condition of roof unknown - capex may be required



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Determine Asset Value

Property A

Property Description Overview

This factory is located on a spacious 168,000m2 site in a rural location 5km from the town of Chierri and 25km from the city of Torino. There are no building nearby to create external exposures.

Property Details

Property Type:	Manufacturing
Tenure:	Owned
Owner:	Whirlpool
Net book value:	EUR 29,241,536.4
Occupier:	Whirlpool
No. of Subtenents:	0
Total subtenant income	EUR 0
Subtenant lease expiry	
Property specifications	
• Type of construction	Reinforced concrete walls
• Estimated age	
• Ceiling height	
• No. of loading docks	
• Site cover	
• Services	
Site area	

Building, Location and Site Assessment

Location
- Description
- Infrastructure and access
- Accessibility

Site Quality
- Accessibility
- Preeminence

Building Quality
- Functionality
- External general condition
- Internal general condition
- Capital expenditure requirement

Building Flexibility
- Ability to subdivide

Notes / Comments

Key Features Summary

Description of Market
Major Industries
Adjacent Users
Competing Supply
- No. of buildings
- Total size (s.f.)

Market Health
Recent Transactions / Comparable Evidence
- Rental
- Investment

Investment Characteristics

Investor demand:
Investor type / sector:
Liquidity – Vacant possession:
Minimum leaseback term:
Estimated time to achieve:
Alternative occupancy opportunities:

Indicative Pricing Range

Estimated vacant possession Pricing range ($):
Single lot
Subdivided (if applicable)
Estimated sale leaseback value pricing range ($):
Single lot
Subdivided (if applicable)
Notes / comments:

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Compare Financial and Pricing Structures

Comparison of Occupancy Strategies – Estimated Mid-Point Selling Price

Vacant	Property #1					
	On-going costs	Year 1	Year 2	Year 3	Year 4	Year 5	**Total**
	Depreciation	(160)	(156)	(140)	0	0	(456)
	Plant closure						
	Holding costs	0	0	0	(781)	0	(781)
	Net proceeds from sale	0	0	0	8,497	0	8,497
	Net book value	0	0	0	1,808	0	1,808

5 year Sale Leaseback	Property #1						
	On-going costs	Year 1	Year 2	Year 3	Year 4	Year 5	**Total**
	Rent	(1,850)	(1,850)	(1,850)	(1,850)	(1,850)	(9,250)
	Depreciation	0	0	0	0	0	0
	Plant closure						
	Holding costs	0	0	0	(781)	0	(781)
	Net proceeds from sale	12,428	0	0	0	0	12,428
	Net book value	2,264	0	0	0	0	2,264
	Gain (Loss) on sale	2,032	2,032	2,032	2,032	2,032	10,160
	Pre tax earnings (Loss)	**182**	**182**	**182**	**182**	**(599)**	**129**
	Real cash flow impact	**10,578**	**(1,850)**	**(1,850)**	**(1,850)**	**(2,631)**	**2,397**
						NPV	**3,375**
						Impact on EVA on year of transaction	**(932)**

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Compare Financial and Pricing Structures

GAPT – Comparative Analysis of Structures

Income Statement (in thousands) – FY 2003	**Property #1**			
Balance Sheet (in thousands) – FY 2003	**Property #1**			
ASSETS	Scenario I Continued Ownership	Scenario II Ownership – Mortgage Debt	Scenario III 5 Yr S/L – 9%	Scenario IV 3 Yr S/L – 9.5%
Cash	($1,781)	($330)	($1,568)	($1,568)
Property and equipment, net				
Land	$0	$0	($1,184)	($1,184)
Buildings	$0	$0	($14,346)	(($14,346)
Accumulated depreciation	($478)	($483)	$3,254	$3,254
Total property and equipment, net	($478)	($483)	($12,276)	($12,276)
TOTAL ASSETS	**($2,259)**	**($814)**	**($13,844)**	**($13,844)**
LIABILITIES AND SHAREHOLDERS' EQUITY				
Unearned Revenue	$0	$0	$4,269	$3,440
Deferred Income Taxes	($791)	$213	$684	$604
Long-term Debt	$0	($1,423)	($20,067)	($19,008)
TOTAL LIABILITIES	**($791)**	**($1,210)**	**($15,114)**	**($14,965)**
Current Portion of Long-term Debt	*$0*	*$1,118*	*$0*	*$0*
Retained Earnings	**($1,468)**	**$396**	**$1,270**	**$1,121**
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY	**($2,259)**	**($814)**	**($13,844)**	**($13,844)**

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Integrate Financial and Occupancy Data

A. Recommended Occupancy Strategy — **Manufacturing: USA – Owned**

B. Financial Results (000's)

Based on Mid Point Sale Price of $3.05M

	Year 1	Year 2	Year 3	Year 4	Year 5	**Total**	**Sensitivity**	
						Mid Range	Worst Case	Best Case
Plant Closure						$3.05M	$2.7M	$3.42M
Holding Costs	0	0	0	(1,346)	0	(1,346)	(1,346)	(1,346)
Net Proceeds from Sale	0	0	0	2,798	0	2,798	2,473	3,142
Net Book Value	0	0	0	9,126	0	9,126	9,126	9,126
Gain (Loss) on Sale	0	0	0	(6,328)	0	(6,328)	(6,653)	(5,984)
Pre Tax Earnings (Loss)	0	0	0	(7,674)	0	(7,674)	(7,999)	(7,330)
Real Cash Flow Impact	0	0	0	1,452	0	1,452	1,127	1,796
					NPV	1,310	1,017	1,620
					Impact on EVA on Yr of Transaction:	(3,302)	(3,497)	(3,096)

C. SWOT Analysis

Strengths

- Good quality facility for age

Weaknesses

- Mezzanines compromise lettable area – cost deducted from sale price for roof replacement

Opportunities

- Potential to subdivide – increasing investor appeal

Threats

- Tertiary property market – would directly compete with Tulsa facility

D. Upside / Downside Analysis

Upside

- None

Downside

- If marketing time exceeds estimate, holding costs on vacant plant are approx. **$2.7 million per annum**
- Best to worst case estimates for environmental remediation are $0.1-$1.9 million ($0.3 million likely) **for both manufacturing and warehouse**

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Prioritize Properties by Opportunity Level

Criteria		Property #1	Property #2	Property #3	Property #4	Property #5
Operational	Operational Needs / Strategic Alignment					
	Restrictions					
Investor	Property Factors					
	Real Estate Market Factors					
	Certainty of Income (Strategic Asset?)					
Financial	Estimated P&L Impact(2)	$10.9 m	$5.1 m	$5.2 m	$1.4 m	$0.5 m
	Estimated EPS Impact "One Time"	$0.0352	$0.0000	$0.0000	$0.0000	$0.0000
	Estimated EPS Impact "Quarterly"	$0.0061	$0.0037	$0.0038	$0.0010	$0.0003
Results	Sale Leaseback Attractiveness	Low	Medium / High	Low	Low	Medium / High
	Weighted Score	3.88	3.93	3.20	3.00	3.43

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Program Benefits

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Impact on Whirlpool

- 2003 Financial Results
  - $0.12 EPS (2%)
  - $65 million cash proceeds
  - Converted approximately 2 million SF of owned properties to leased properties
- Supports 2004 investment commitment in new and upgraded facilities
  - U.S. $100 million
  - Mexico $80 million
  - Euro land $100 million
- Identify key strategies
  - Relocation
  - Reinvestment
  - Status Quo
  - Disposition

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Overall Benefits of Enterprise Process

- Raises CRE profile
- Enhances occupancy flexibility
- Better discipline in capital planning
- Generates positive earnings per share impact
- Lowers long-term occupancy costs on core facilities
- Raises capital for redeployment in core businesses

The Next Frontier

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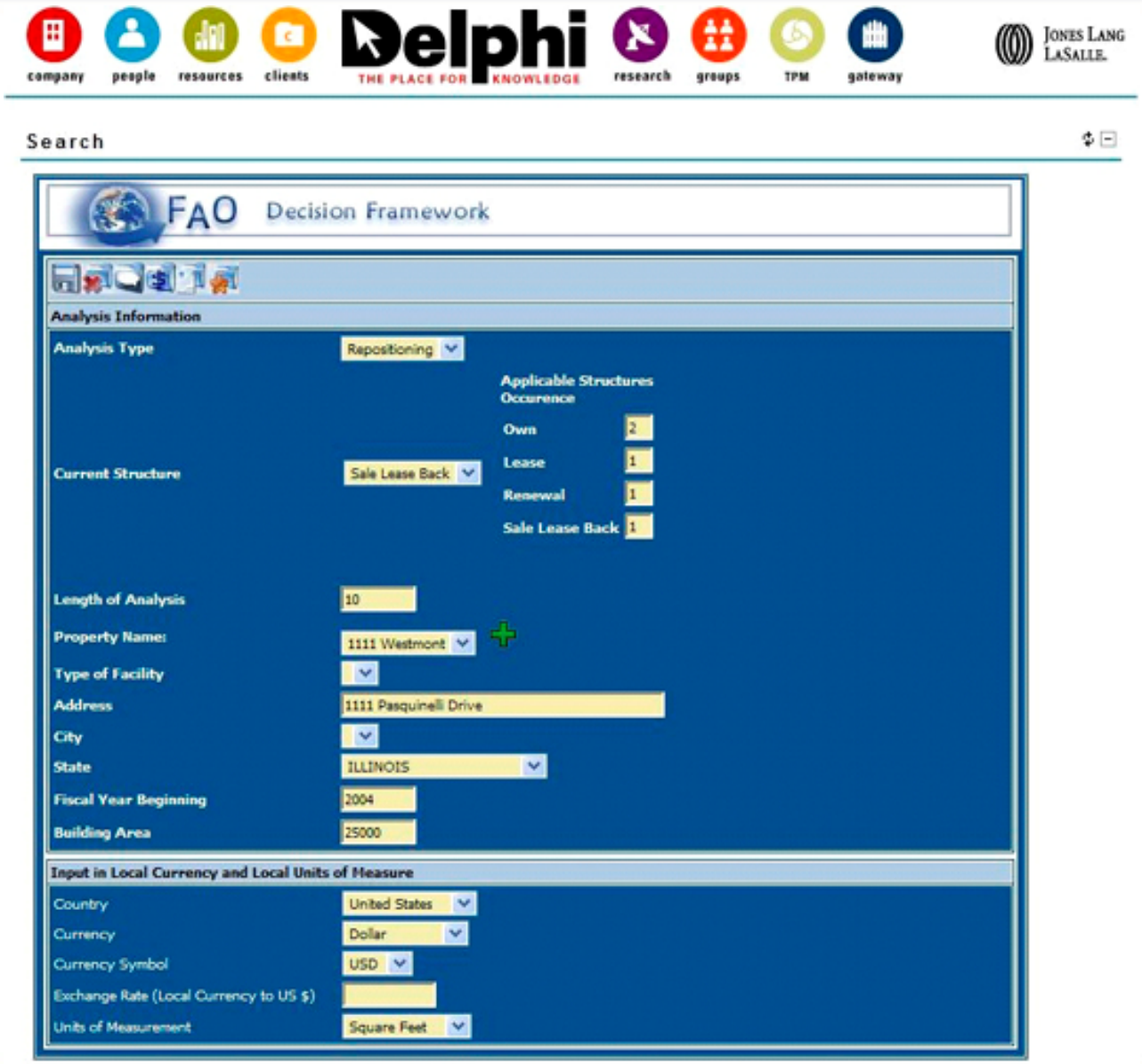
Web Enabled FAO© – Fully Integrated Systems



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Capturing Business Trend Data

BusinessWeek

"Corporate America's Silent Partner: India"

CNN INTERNATIONAL .com

"Exporting America"

FINANCIAL TIMES

"There's no place like home"

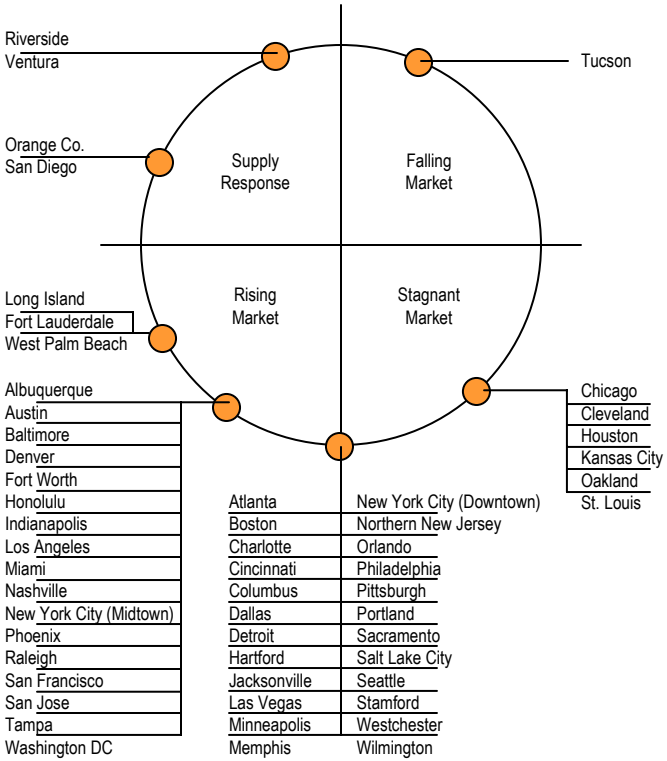
the ENGINEER

"Offshoring: China Syndrome?"

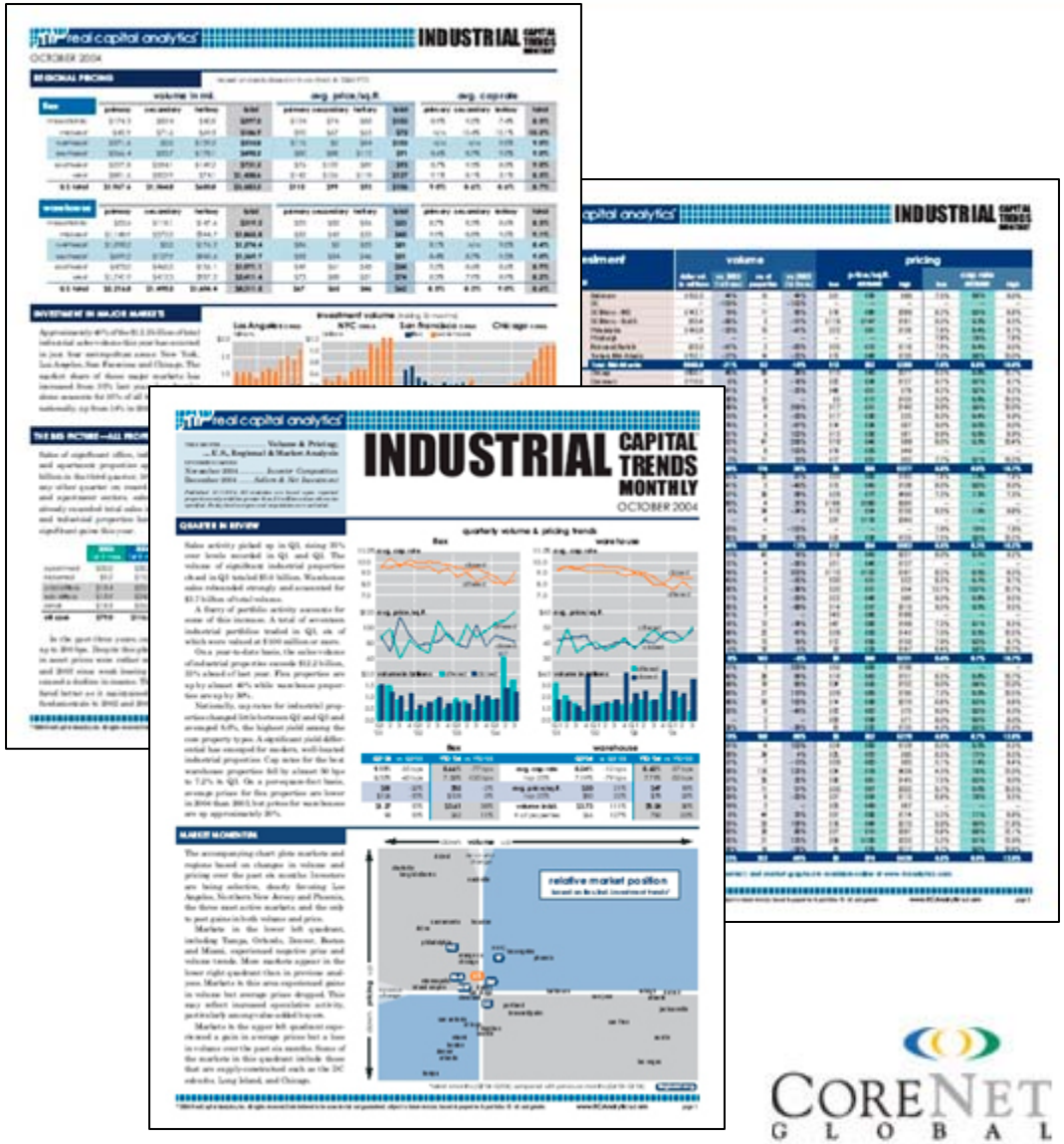
CORENET GLOBAL
CORPORATE REAL ESTATE NETWORK

Integrating Real Estate Trend Data

US Property Clock by Metro
Second Quarter 2004



Source: Jones Lang LaSalle



Source: Real Capital Analytics

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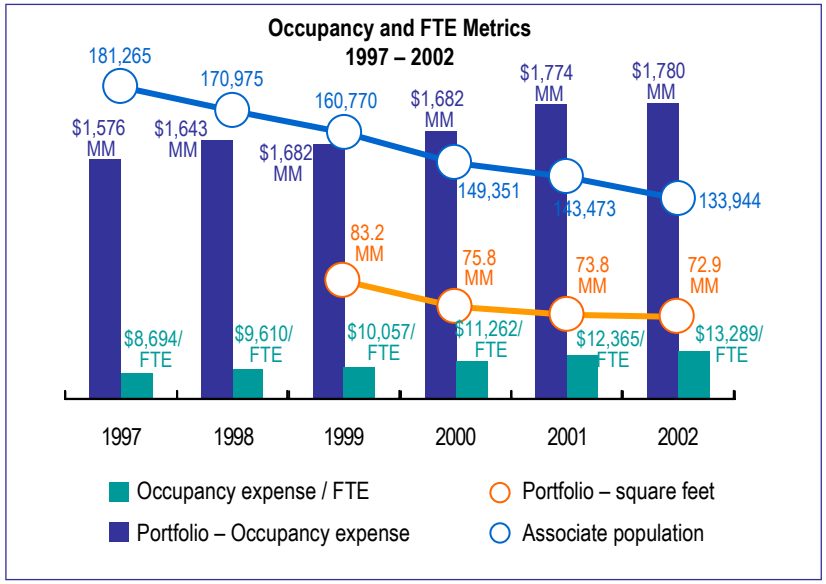
Measuring and Communicating Success

Key Measures: Historical Framework and CRE Benchmarking



Domestic Portfolio

Total	69.6 million s.f.	61% leased
Retail	22.6 million s.f.	44% leased
Office / Ops / Data Ctrs	47.0 million s.f.	69% leased
Non customer facing	36.4 million s.f.	68% leased

Average lease expires in 8+ years

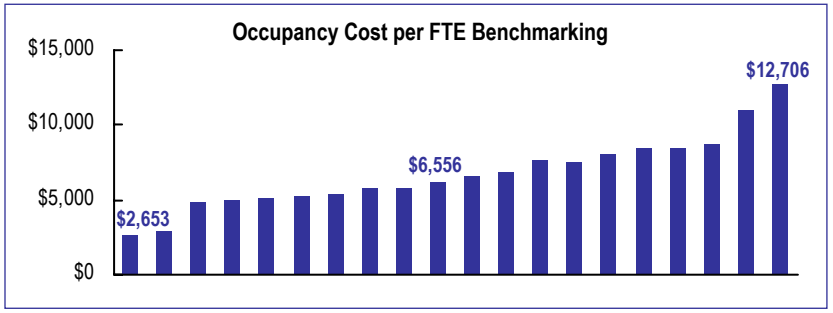
Activity

1999 – 2002
Net portfolio reduced by 10.3 million s.f.

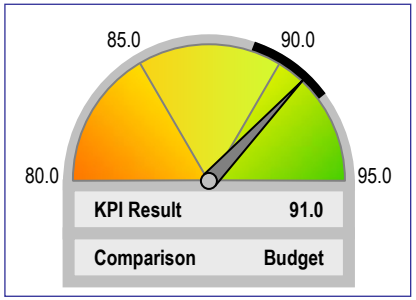
2000 – 2002
8.3 million s.f. disposed

2000 – 2002
3.8 million s.f. added

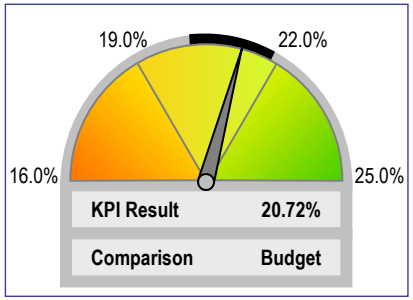
Data as of 3/1/03 unless noted



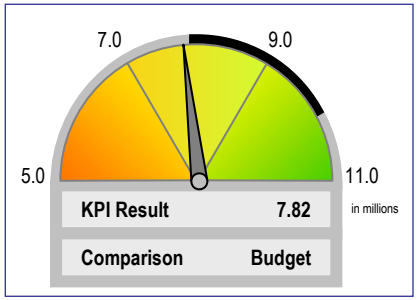
Occupancy (Percentage)



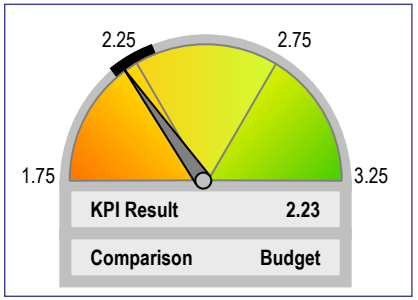
Return on Common Equity



Funds from Operations



Funds from Operations (Share)



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Application to Your World

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“I have been impressed with
the urgency of doing.

Knowing is not enough;
we must apply.

Being willing is not enough;
we must do.”

– Leonardo da Vinci

Q & A Session

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Moderator's Summary

- Know your properties
- Know the marketplace-manage its fluctuations
- Know the alternatives
- Know your Treasury partners
- Know your Business partners
- Deliver results

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