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Scott A. Minder – Senior Vice President, Chief Financial Officer & Treasurer, Hyster-Yale Materials Handling, Inc.
Alfred M. Rankin, Jr – Executive Chairman, Hyster-Yale Materials Handling, Inc.

Other Participants

Ted Jackson – Analyst, Northland Securities, Inc.
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MANAGEMENT DISCUSSION SECTION

Operator: Good morning, ladies and gentlemen, and welcome to the Hyster-Yale Materials Handling Q4 and Full Year 2023 Earnings Analyst Conference Call. At this time, all lines are in a listen-only mode. Following the presentation, we will conduct a question-and-answer session. [Operator Instructions] This call is being recorded on Wednesday, February 28, 2024.

I would now like to turn the conference over to Ms. Christina Kmetko. Thank you. Please go ahead.

Christina Kmetko, Investor Relations Consultant, Hyster-Yale Materials Handling, Inc.

Thank you. Good morning, everyone, and thank you for joining us for Hyster-Yale 2023 fourth quarter earnings call. I'm Christina Kmetko and I'm responsible for Investor Relations.

Yesterday evening, we published our fourth quarter and full-year 2023 results and filed our 10-K. These documents are available on our Hyster-Yale website.

We are recording this webcast and a replay will be on our website later this afternoon. The replay will remain available for approximately 12 months.

I'd like to remind you that our remarks today, including answers to any questions will include comments related to expected future results of the company, and are therefore forward-looking statements.

Our actual results may differ materially from our forward-looking statements due to a wide range of risks and uncertainties that are described in our earnings release, 10-K and other SEC filings.

We may not update these forward-looking statements until our next quarterly earnings conference call. We will also be referencing numbers that may be considered non-GAAP. Those reconciliations are available in our earnings release on our website.

Our presenters today are Al Rankin, Executive Chairman; Rajiv Prasad, President and Chief Executive Officer; and Scott Minder, our Senior Vice President, Chief Financial Officer and Treasurer.

With the formalities out of the way, let me turn the call over to Rajiv to begin.

Rajiv K. Prasad, President, Chief Executive Officer & Director, Hyster-Yale Materials Handling, Inc.

Thanks, Christina, and good morning, everyone. We had an excellent fourth quarter. For the third consecutive quarter, we reported revenues of over $1 billion.

Fourth quarter operating profit improved 146% year-over-year, leading to a consolidated operating profit margin of 4.7%. This continued quarterly earnings growth led to full-year 2023 net income of $126 million, which is a $200 million increase over prior year.

And that was after an additional expense of $9.6 million or $0.47 per share related to the equity component of the company's fourth quarter stock price appreciation. And if we add that to our published performance, that would have been $1.90 a share for the quarter.

Our revenues grew modestly over both the previous quarter and the prior quarter, despite fourth quarter shipment decreasing compared to 2022 and third quarter 2023.

The year-over-year decline was mainly due to large decreases in EMEA and JAPIC shipments while few Americas shipment drove the sequential decrease.

The lower shipments were primarily due to the impact of product launch challenges and component supply issues, mainly in EMEA. The lower 2023 JAPIC shipments were largely due to strong prior-year deliveries. This led to regional dealer overstocking levels in Q4 of 2022.

Despite some specific production challenges, we still shipped approximately 102,200 units in the full year of 2022. This represents the highest number of units we've shipped in a given year and compares with approximately 100,800 units in 2022.

Ongoing skilled labor challenges in many of our factories impeded progress on planned production rate increases and shipments during both the quarter and the full year.

Our 2024 production and shipment rates are expected to improve in all regions compared to 2023. We anticipate an increased production cadence on new products and the lingering component and labor constraints to dissipate. We remain focused on maintaining a full production pipeline across our facilities.

In general, 2023's global economy outpaced market estimates from early last year. Our core lift truck market remained strong and above pre-pandemic levels in most regions.

However, external factors continue to create uncertainty in the global economic outlook. This includes ongoing geopolitical instability, most recently evidenced by tensions in the Middle East. These factors, coupled with robust industry volumes between 2020 and 2022 created a decline in global market activity across full-year 2023, particularly in EMEA.

The latest publicly available lift truck market data shows that global third quarter 2023 booking activities decreased compared with strong 2022 levels. Declines occurred in all major geographies except China and India.

Our internal estimates suggest that quarter four 2023 global lift truck market bookings also decreased compared with prior year. We estimate that the rate of decline slowed in EMEA but accelerated somewhat in Americas.

With the fourth quarter decline, full-year 2023 market estimates show a double-digit decrease from robust 2022 levels.

In 2024, the global lift truck market is expected to stabilize and be comparable to 2022 levels. Within 2024, market volumes should remain strong with the first half of booking – first-half booking decline offset by a second-half increase.

Looking at Hyster-Yale, we continued to prioritize orders with strong margins given our extended backlog position. This focus, combined with a broader decline in market demand, resulted in a 8% decrease in lift truck fourth quarter 2023 bookings compared with the third quarter bookings declined 20% from stronger prior year levels. These decreases were largely seen in the Americas market.

For 2024, we expect full-year bookings to increase versus 2023. Anticipated market share gains in each 2024 quarter are driving this improvement within the flat global market overall.

Market share gains are expected largely because of our emerging technology solutions for warehouse-related markets. Our technology solutions business had a very strong 2023 growth rates. We expect to build on that momentum in 2024.

As we head into 2024, we expect to be price competitive in the marketplace. We look to maintain targeted bookings margin as our backlog levels are reduced.

Reduced booking contributed to lower backlog levels in the fourth quarter. From year-end 2022, our extended backlog has decreased by 23% to its lowest level since early 2021.

Planned 2024 production increases, combined with an anticipated market decline in the first half of the year should allow us to further reduce extended lead times and backlog levels. This will help us bring our backlog closer to pre-pandemic levels in 2024.

Given current expectations, our lead times and backlogs will likely remain above optimal levels on certain product lines for an extended period. Some areas, such as our warehouse trucks, are expected to return to normal lead times and backlog levels within 2024.

At the end of the fourth quarter, our backlog value was approximately $3.3 billion. This represents approximately 10 month of revenue and should serve as a cushion for the business if bookings decline more than anticipated.

It's worth noting that global industry cancellations, which can impact backlog levels trended to modest – trended up modestly in 2023 than prior-year rates. However, our cancellation rate remains substantially below the industry average.

[indiscernible] (00:09:34) higher average unit prices and margins in our backlog continued in the fourth quarter. This was largely due to our focus on booking orders with strong margins and benefits from prior-year pricing initiatives to offset inflation.

Our average sales price per backlog unit increased 16% over the prior year and 2% over the third quarter. Q4 2023 average booking prices, on the other hand, decreased compared with third quarter 2023 and prior year as expected.

We continue to make progress on expanding our market share in the warehouse market. Warehouse trucks are generally lower priced and have shorter lead times. Additional sales in this market segment increased the opportunity to sell advanced technology solutions. This can greatly enhance the value of the truck for the customer and to Hyster-Yale.

We continue to balance our pricing and booking rates with production lead times on a line-by-line basis, maximizing profitable growth and free cash flow while we continue to make progress on our strategic objectives.

Material and freight cost projections are a significant factor for setting our backlog pricing. In 2023, material cost decreased modestly. In 2024, material costs are generally expected to stabilize, and labor costs are projected to increase moderately.

As a result of geopolitical unrest, we expect elevated freight costs throughout 2024, particularly in the first half of the year. In this context, our strong price-to-cost ratio is expected to continue in the first half of 2024 as we ship higher-priced backlog units.

This, combined with an anticipated increase in unit volumes, is expected to lead to higher gross margins and improved operating profit in the first half of the year compared with 2023.

Tariff exemptions are set to expire in late May 2024. This, combined with shipment of trucks ordered in 2024's more competitive pricing environment and the mix effect of increased warehouse products shipments are likely to temper unit margins in the second half of the year.

For the full year, gross profit margins should be comparable to 2023 levels. We'll work to reduce the impact from externally-driven factors through improved manufacturing productivity and ongoing expense control. We'll continue to monitor labor and material costs closely, as well as the impacts from tariffs and competition, and we'll adjust forward pricing accordingly.

Before I turn the call over to Scott, I'll comment on our working capital levels and cash flow. We continued to improve our cash flow throughout the year. We've made progress on reducing working capital, specifically our inventory levels.

However, our inventory levels remained higher than we would like, largely due to lingering production challenges I mentioned earlier.

We'll continue to focus on an efficient and consistent flow of material, building more units with on-hand inventory. These actions should significantly reduce excess inventory levels across 2024.

I'm pleased to report that we've already seen some additional progress in January 2024. We've made significant progress reducing potential supply chain and labor constraints that can still cause isolated production shortfalls and increase inventory.

Our efforts extend to our dealer partners who carefully balance order and delivery timing with their customers' needs. Together, we expect significant improvement throughout 2024.

We're committed to further cash flow improvements. This is a key deliverable for me and for all of our business leaders. It is also an area closely monitored by our board.

Now, I will turn the call over to Scott to cover our quarterly financials and 2024 outlook in more detail.

Scott A. Minder, Senior Vice President, Chief Financial Officer & Treasurer, Hyster-Yale Materials Handling, Inc.

Thanks, Rajiv. Good morning, everyone. I'll start by echoing Rajiv's positive comments around our strong fourth quarter and full-year results as well as the pace of improvement in our business.

Once again, our quarterly revenues topped $1 billion, increasing by 4% or $42 million versus the prior year. Consolidated revenue growth was mainly due to a 5% increase in lift truck sales due to the favorable effect of previously implemented price increases in all regions, a favorable sales mix shift toward higher priced, higher capacity trucks, increased parts sales used to service our growing installed unit base, and a favorable currency effect of $18 million, primarily in Europe. These benefits were partly offset by lower shipments in all three regions.

In Q4, we shipped 23,600 units, down 8% sequentially and 16% versus the prior year. Q4 unit bookings were 16,700 and were lower than both prior periods. These declines were within healthy, but lower markets in our major geographies.

As a result of solid production output and lower booking levels, our backlog decreased to 78,400 units with a value of roughly $3.3 billion. This decrease helps improve lead times and overall customer satisfaction.

For the full year, we reported revenue of $4.1 billion, marking a 16% improvement over 2022. All three businesses contributed to this increase. Overall, our year-over-year growth significantly outpaced global GDP growth.

Moving to earnings. Our consolidated fourth quarter operating profit increased by 146% to nearly $49 million. This resulted in a 4.7% operating profit margin and a nearly [ph] 70% (00:16:10) incremental margin, as our year-over-year operating profit improvement outpaced our quarterly revenue growth rate. Full year operating profit was $209 million, improving nearly $250 million versus the prior year. Operating profit margin for the full year was 5.1%.

Q4 net income was $25 million or $1.43 per share. This compares to prior year net income of roughly $8 million and $0.44 per share. Fourth quarter results included a $10 million, or approximately $8 million after tax of an additional incentive compensation expense related to the equity component of the company's fourth quarter stock price appreciation. This reduced our fourth quarter earnings per share by $0.47. For the full year, the company generated $7.24 of earnings per share compared to a loss in 2022. For some additional perspective, I'll discuss our results by business.

The Lift Truck business generated $982 million of revenue in Q4, growing by $44 million year-over-year. Operating profit of $54 million expanded by $27 million over the same time period. The 62% incremental margin led to a 5.5% operating profit margin, demonstrating growth with disciplined execution. Significant product margin increases in the Americas and EMEA were the principal drivers. Product margins benefited from a favorable price-to-cost ratio, largely due to prior price increases implemented to offset inflation, along with more recently moderated material costs, as well as a favorable mix shift toward higher-margin products, mainly in the Americas, and a shift to higher-margin sales channels.

Lift Truck's Q4 profit growth was tempered by higher employee-related expenses, including elevated incentive compensation attributable to strong 2023 results and stock price appreciation. We remained vigilant over our day-to-day expenses and continue to seek more efficient ways to leverage our assets as the business grows.

Turning to Bolzoni. The business reported revenues of $87 million, $5 million lower than prior year. Operating profit increased to $2.6 million from $2.0 million in the prior year. 2022's operating profit included a $2.4 million loss on sale of a business. Excluding the effect of that sale, operating profit decreased year-over-year due to higher operating expenses, including incentive compensation, as the business continues to position itself for growth. Bolzoni's product margins improved over the prior year, while gross profit dollars were comparable. Price increases implemented in prior years, along with favorable currency movements, were offset by a mix shift to lower-margin products and reduced sales volumes.

At Nuvera, Q4 2023's operating loss was less than prior year, primarily due to lower product development costs as a result of receiving a new US government funding to support fuel cell R&D expenses. Fourth quarter revenue declined versus prior year due to fewer engine shipments.

Looking ahead to 2024, we expect Lift Truck revenue and operating profit to increase over 2023 levels. First half 2024 operating profit is projected to improve significantly over prior year, largely due to anticipated higher unit volumes and an ongoing favorable price-to-cost ratio, despite anticipated higher freight costs. Second half 2024 operating profit rates are expected to moderate compared to the first half, due to the anticipated expiration of Section 301 tariff exemptions and the mix effect from increased warehouse product volumes. The latter aligns with our strategy to increase market share in this important sales channel.

I'll take a moment to recap the tariff situation for context on how it applies to Hyster-Yale today. In 2018, the US government enacted tariffs on certain products imported from China. Subsequently, exemptions were applied for and provided for on some of these tariffs. These exemptions have been extended multiple times. It is expected that in May 2024, these exemptions will expire. If that occurs, the company will be required to pay full tariff immediately increasing our material costs. We continue to argue that these exemptions are warranted and should remain in place while we work to reduce their impact on our product margins over time.

Moving to Bolzoni. 2024 revenues are anticipated to increase modestly compared to 2023. Higher attachment volumes will be partially offset by lower legacy product sales to the Lift Truck business as they begin to phase out production of these components. Operating profit is expected to improve year-over-year as higher product margins and anticipated manufacturing efficiency gains should more than offset higher material and operating costs.

At Nuvera, we're focused on increasing customer product demonstrations and bookings in 2024, as well as expanding our presence in Europe and China. Orders from current customers are booked and are expected to result in higher year-over-year sales in 2024. These increased sales, coupled with higher development costs related largely to Nuvera's new, more powerful 125-kilowatt engine, should produce operating results comparable to 2023. Longer term, increasing engine demonstrations should significantly strengthen the foundation for continued fuel cell engine technology adoption and improved financial returns.

At the consolidated level, we expect 2024 operating profit to increase. We anticipate net income to be comparable to strong 2023 levels due to a higher projected income tax rate in 2024. The expected higher tax rate results from fully utilizing our US net operating losses in 2023, combined with the impact from ongoing capitalization of R&D costs for tax purposes in 2024. The US Congress is currently debating an important tax law change that could reverse the ruling to capitalize R&D costs, thus treating them as a period expense. If this occurs, the company's tax outlook would likely change materially.

Overall, we anticipate continued strong product margins to drive year-over-year profit growth in the first half of the year. This is due to shipments of fixed price backlog units, partially reduced by the impact from higher freight costs. The anticipated expiration of tariff exemptions and shipments of orders placed in 2024's more competitive pricing environment will likely temper second half results. We'll continue to focus on ways to efficiently manage our production levels, along with ongoing component, labor and overhead cost. We'll adjust as needed during the year.

In 2023, we made substantial progress toward our long-term goals. Our 16% year-over-year revenue growth rate significantly outpaced global GDP growth rates, and we achieved a greater than 20% ROTCE, or return on total capital employed. We also made significant progress toward our 7% operating profit margin goal. At our November 2023 Investor Day, we established a working capital target at 15% of sales. We improved our performance on this metric in 2023, but more work is required to achieve our long-term objective. We expect further progress on our financial goals in 2024, and we're working to make these results more sustainable over time.

We also made progress on another critical metric, cash generation. The company generated cash flow from operations of almost $46 million in Q4, and we used that cash to reduce net debt by $17 million, or 4% compared to third quarter levels. This increased cash comes from higher profits and our ongoing efforts to improve working capital efficiency. For the full year, we generated cash from operations of $151 million. This compares to $41 million in full year 2022.

We ended 2023 with $79 million of cash on hand and approximately $270 million of unused borrowing capacity. As a result of our significant profitability and lower debt balances, our financial leverage, as measured by debt to total capital, was 56%. This marks a 500-basis-point improvement versus Q3. As we generate additional cash, we expect further leverage reductions and opportunities for accretive capital deployment.

We continue to push for working capital reductions, specifically through lower inventories. Q4 2023 days inventory outstanding, or DIO, decreased by one day versus third quarter levels. We remain focused on improving inventory efficiency as production rates increase. We're deploying technology tools to help us maximize the use of on-hand inventory, ultimately reducing excess inventory levels. While supply and labor constraints can cause intermittent challenges, we anticipate significant inventory improvements in 2024.

2023 capital expenditures were $35 million compared to an initial projection of $65 million. We maintained strict capital discipline in 2023 due to ongoing economic uncertainty. Capital expenditures are anticipated to rise to $87 million in 2024. This significant increase compares to restrained 2023 levels and includes a return to investing for business growth and network efficiency. Similar to 2023, we'll keep a close eye on economic conditions and adjust our spending accordingly.

In summary, we're making solid progress in our objective. Our financial results clearly show it. We'll continue to focus on things we can control and leverage our process discipline to effectively work through the things that are beyond our control.

Now, I'll turn the call back to Rajiv to discuss the progress we've made on our core strategies and programs. Rajiv?

Rajiv K. Prasad, President, Chief Executive Officer & Director, Hyster-Yale Materials Handling, Inc.

Thanks, Scott. We held our Investor Day this past November, where I explained our vision is to transform the way material moves from port to home. We plan to do this through two customer promises. First, by providing optimized product solutions. And second, by providing exceptional customer care. Our strategic initiatives and supporting key projects will drive success on these two promises.

In 2024, we'll invest in and execute on our core strategies that support long-term profitable growth and sustainable cash generation. I'll provide a few updates on these key projects at each business.

The Lift Truck business primary strategic focus remains on launching its modular and scalable products globally. This business is also working on several other key projects to increase and enhance Lift Truck electrification, increase the adoption rate for our advanced lift truck technologies, and expand global sourcing options for our container handlers using both our Nijmegen, the Netherlands; and Fuyang, China production facilities.

We're making solid progress on these programs. Over the last two years, we launched our modular, scalable 2- to 3-ton internal combustion engine lift trucks in EMEA and Americas market. Production of these key products is accelerating and we expect to launch these products in the JAPIC market during the first quarter of 2024. We are making similar enhancements to the 2- to 3-ton electric truck platforms and expect these products to launch globally over 2024 and 2025.

The modular, scalable product platform is expected to enhance the business in several ways. First, by reducing cost and working capital level, as our supply chain shrink and move closer to our core factories. Second, by helping to optimize our worldwide manufacturing footprint. And finally, by increasing sales volume by providing customers with a more customizable product that better meets their needs.

On electrification, we now have two big truck electric, big truck in third-party testing as fuel cell Container Handler currently operating at the Port of Los Angeles and a fuel cell Reach Stacker in the Port of Valencia, Spain. We anticipate delivering two new electrified fuel cell products at Terminal Tractor and an Empty Container Handler to a customer in Hamburg, Germany in 2024.

Our Big Truck group is also actively exploring additional electrification projects within the European Union and the United States. In Lift Truck business, the Lift Truck business has key projects focused on increasing demand for our on-truck technologies by applying next-generation advancements to operator assist systems and automated lift truck solutions.

During the third quarter, we entered into a joint development agreement with a leading technology service provider to enhance our robotic software technology for vehicle automation.

Finally, dual-source production and supply chain for our container handlers will help the company better meet the needs of the global market. This should provide customers with time-efficient delivery for our economically viable trucks.

Bolzoni continues to work on streamlining and strengthening its operations as a single integrated operating entity. The company is focused on increasing its Americas attachment business, while also strengthening its ability to serve key industries and customers across global markets. As part of this effort, Bolzoni is working to expand its broad industry sales coverage, breaking into new markets and regions. They're currently expanding their product offerings and support capabilities for the recycling and port-related areas.

Nuvera continues to focus on placing 45- and 60-kilowatt fuel cell production engines for demonstrations into niche, heavy-duty vehicle applications, where battery-only electrification does not fully meet the market's need. These applications are more likely to have near-term fuel cell adoption potential.

Nuvera is also developing a new, larger 125-kilowatt fuel cell engine for even heavier-duty applications, which is projected to be available in 2025. We've announced several projects with various third parties to test Nuvera engines in targeted applications beyond the Hyster port equipment I covered earlier.

In January, Nuvera announced a joint project with Alamo Energy for maritime's zero-emission energy solutions. Nuvera also expects to have additional products in test application in China, India and in Germany by mid-2024. Additionally, Nuvera is working with customers to launch modular fuel cell power generators for stationary and mobile applications over the next two years. These initiatives are top priorities, and I'm pleased with the progress we have seen so far.

Now, I'll turn the call over to Al for closing remarks. Al?

Alfred M. Rankin, Jr, Executive Chairman, Hyster-Yale Materials Handling, Inc.

Thanks, Rajiv. In closing, I'd like to note that the company's significantly improved 2023 results are due not only to our global team's ongoing execution of its strategic initiatives, but also the actions taken to offset external headwinds and improve business resiliency. Our results continue to reflect a healthy backlog and demand for our products and solutions. These actions should better position our company for a substantial profitable growth over the longer term. Our mature Lift Truck and Bolzoni businesses are the foundation for a strong, profitable business. While we believe that the Nuvera fuel cell business has substantial growth prospects in future years.

I want to emphasize a point that Rajiv made earlier. Our 2023 full year net income is $200 million higher than a year ago. The team has done an outstanding job moving the business forward and laying the foundation for sustainable profitability over the long term.

As customer demand and supply chains return to pre-pandemic norms, we are likely to experience short-term cyclicality in our markets. However, I'm confident that we have a sound plan for long-term growth, profitability and cash generation in our core businesses. In addition, we expect that the Nuvera fuel cell business in the longer term will be a major growth contributor for Hyster-Yale.

I firmly believe we have the right team and business structure in place to execute our strategic programs, to deliver strong 2024 performance, to achieve our long-term financial goals, and to provide differentiated total shareholder returns over time.

We covered all of this in detail during our November 2023 Investor Day. If you haven't had an opportunity to view those materials, I'd encourage you to listen to the replay or review the event transcript, both of which are available on our website.

We'll now turn to any questions you may have.

QUESTION AND ANSWER SECTION

Operator: Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. [Operator Instructions] Your first question comes from the line of Ted Jackson from Northland. Please go ahead.

<Q – Ted Jackson – Northland Securities, Inc.>: Hi. Good morning and congratulations on a fabulous fiscal 2023. I have a really long list of questions, so I'm just going to ask a few of them. But before I get into my questions, one thing, just clarity. What did you say your CapEx forecast was for 2024?

<A – Scott Minder – Hyster-Yale Materials Handling, Inc.>: Ted, we said that would be $87 million.

<Q – Ted Jackson – Northland Securities, Inc.>: $87 million. That's a tremendous jump. I mean, can you kind of walk through what's pushing that to be up so much. And is that like the normal level on a longer-term basis?

<A – Rajiv Prasad – Hyster-Yale Materials Handling, Inc.>: Yes, I'll take that. So, if you look at our – typically, if you look at our average expense in capital projects, if you go back a few years, it's been running around between $40 million and $50 million. But over the last two or three years, while we've had this spike in working capital and we needed to moderate our expenditures, we also moderated both our CapEx and OpEx that continued through 2023. But there are projects – significant project as part of our growth strategy that have been held back a little bit. And so, over the next two years, we want to catch up on that. So that is the main driver for the additional CapEx. It's around product development and also improving our operational footprint.

<A – Al Rankin – Hyster-Yale Materials Handling, Inc.>: Yeah. Let me pick up on the last and just say that there are some things that are not at all backward-looking. They are very forward-looking in terms of improving the performance of the business. And there are some programs that we think can have a major impact on our future profitability, which are going to be, we think, probably timely to really undertake at some point during 2024. So, there are some special things in there that are likely to evolve and lead to that number at this point.

<Q – Ted Jackson – Northland Securities, Inc.>: So you said this, call it, $80 million to $90 million that will go forward at least through 2025.

<A – Rajiv Prasad – Hyster-Yale Materials Handling, Inc.>: Yeah. I think it'll be in that sort of neighborhood for two years and then will come down to more normal kind of run rate. And it's really making up for the deficits over the last three years.

<Q – Ted Jackson – Northland Securities, Inc.>: Okay. And then with all the changes with regards to taxes and stuff, given the current guidance, what do you see as your kind of pro forma normalized tax rate for 2024 and beyond?

<A – Scott Minder – Hyster-Yale Materials Handling, Inc.>: So, Ted, I can take that. I think, looking ahead, we expect our tax rate to be higher in 2024, primarily because we used up our net operating losses in 2023. And if the current R&D capitalization tax law remains in effect, we're going to see a negative impact from that. So, we haven't quantified that yet. It's really going to depend on our R&D spend, but we do expect it to be higher than what I would call normalized. And given the countries that we operate in, we would expect somewhere between a 25% to 27% tax rate. But that's going to be negatively impacted at least in 2024 due to R&D capitalization.

<A – Al Rankin – Hyster-Yale Materials Handling, Inc.>: [audio gap] (00:39:46) expand a little bit on that.

<Q – Ted Jackson – Northland Securities, Inc.>: [indiscernible] (00:39:47)

<A – Al Rankin – Hyster-Yale Materials Handling, Inc.>: I want to make sure that everybody understands what's really happening there. Scott indicated we used tax loss carryforwards, so that was a product of the past. This program is one that was put in place and tax changes that were made in relatively recent times. And the capitalization of research and development expenditures, which has never really been part of taxation of corporations ever until this time, began and what happens is, instead of expensing it, as we would normally do. For five years, you keep putting it on the books and you get a very large amount and then you can start depreciating it. So, there's a five-year period under this tax law which was probably put in not because it was the right thing to do, but as a so-called pay-for in order to get others' spending programs through Congress.

So our hope is, and there is a bill that is currently circulating, and our hope is that this is going to go back to the way it's always been. I think that's pretty much an accurate way to put it, isn't it, Scott?

<A – Scott Minder – Hyster-Yale Materials Handling, Inc.>: I would agree with that, Al.

<A – Al Rankin – Hyster-Yale Materials Handling, Inc.>: Yeah.

<Q – Ted Jackson – Northland Securities, Inc.>: But if it doesn't – so if it goes back, then we're talking...

<A – Al Rankin – Hyster-Yale Materials Handling, Inc.>: This is a very punitive law, I guess, for a capital-intensive – all capital-intensive industries in the country. This is a unique situation for heavy industry.

<Q – Ted Jackson – Northland Securities, Inc.>: Well, I can't believe they did this because, I mean, Congress is such a thoughtful and well-ran organization.

<A – Al Rankin – Hyster-Yale Materials Handling, Inc.>: Absolutely. I agree with you.

<Q – Ted Jackson – Northland Securities, Inc.>: But – so just to make sure I understand. If the law is corrected, let's use that word, the tax rate would be 25% to 27%. But if it's not, it's going to be higher than that. But you can't give any kind of guidance to how high it would be?

<A – Scott Minder – Hyster-Yale Materials Handling, Inc.>: Well – yeah, Ted, what I would point you to is, if you look at our R&D spend over the last couple of years and divide that into your forecast to pre-tax earnings, I mean, you can kind of back into what that would do to increase our tax rate. And so, I would just point you to that, those disclosures and that would help you inform your estimate.

<Q – Ted Jackson – Northland Securities, Inc.>: Okay. And then I'm going to just ask one more question. I have many more, but I'll step out of the line and let other people get in. Just kind of going back into the quarter and kind of thinking about 2024. If I look at your unit shipments in the fourth quarter, they were down sequentially. It's the first time you've seen units down in the fourth quarter since 2015, and that it would be only the second time you've ever seen it happen, at least in the data that is available on your site, which is extensive and very, very helpful. That was driven by Americas and [ph] EMA (00:42:57). And I guess what I'm asking is, kind of given the kind of seasonal nature, if you would, of your business with fourth quarter typically being stronger, as well as the strength in your backlog, kind of what drove the unit decline in the fourth quarter? And given that first quarter is typically a pretty weak quarter for you on a unit perspective, do we expect to see seasonal weakness on a unit shipment level in the first quarter that is normal?

<A – Rajiv Prasad – Hyster-Yale Materials Handling, Inc.>: No, I think what happened was, as we've stated in our release, is we were in the middle of a number of product launches and some late issues happened particularly related to software on some of those launches. So trucks were on wheels, but we couldn't ship them because we had to correct these issues. So that happened towards the second half of the quarter. And as we sit here today, we've now mostly cleared all those trucks. So, those were shipped. Instead of in December, they were shipped in January and early February.

<A – Al Rankin – Hyster-Yale Materials Handling, Inc.>: So, let me just elaborate on the point that underlies Rajiv's comment. We had a mighty good, from our point of view, mighty good fourth quarter. If we'd shipped those units in the fourth quarter, that only would have made them better. I suppose, that would have been nice, but it certainly extends our backlog out. And if there is any kind of downturn in the market, we just got that much more coverage in the backlog to cover the very last couple of months of 2024 where we don't have bookings and to build further in our backlogs for 2025. So, there is a sort of a silver lining in all that, and it is more of a timing issue from our point of view. So...

<A – Rajiv Prasad – Hyster-Yale Materials Handling, Inc.>: But as we – as we have guided, we expect strong first half of the year.

<Q – Ted Jackson – Northland Securities, Inc.>: Okay. And I am going to sneak in one more then I'm going to get out of the line because it's very similar to this – because it's a similar question with regards to aftermarket sales. Again, kind of down in fourth quarter, typically a stronger quarter. What kind of made that happen and how do we think about that as it relates to first quarter in FY 2024?

<A – Rajiv Prasad – Hyster-Yale Materials Handling, Inc.>: Well, maybe I'll have a – kind of I'll answer part of it and then maybe Scott can step in. But we – as we've said, we started to see a bit of a slowdown in the market. And this is what – this is the trend we see that as the market slows down a little bit, and again, it's coming from pretty high levels, then we see that reflected in the run times of the trucks. So, the hours per week the trucks are being used and then that proportionately impacts the amount of servicing they need to be – that needs to be done, and therefore the past consumption. I think we expect to see, as we've said, a little bit of a slower first half from just economic – some economic slowdown around the world and – but then we expect that to return in the second half of the year.

<Q – Ted Jackson – Northland Securities, Inc.>: Okay. Thanks. I'll [indiscernible] (00:46:44) out of the line and...

<A – Al Rankin – Hyster-Yale Materials Handling, Inc.>: I'm not sure that was a hugely significant drop in any event. Scott, do you [indiscernible] (00:46:51)

<A – Rajiv Prasad – Hyster-Yale Materials Handling, Inc.>: [indiscernible] (00:46:54) particularly large.

<A – Scott Minder – Hyster-Yale Materials Handling, Inc.>: The only thing I would add to it is we've really done well on parts sales the last couple of years. So, it's a drop versus pretty significant volumes.

<A – Rajiv Prasad – Hyster-Yale Materials Handling, Inc.>: Yeah.

<A – Al Rankin – Hyster-Yale Materials Handling, Inc.>: Yeah. That's a good point, Scott.

<A – Rajiv Prasad – Hyster-Yale Materials Handling, Inc.>: Mainly in Europe, I believe.

<A – Al Rankin – Hyster-Yale Materials Handling, Inc.>: Yeah.

<A – Scott Minder – Hyster-Yale Materials Handling, Inc.>: Yeah.

<A – Rajiv Prasad – Hyster-Yale Materials Handling, Inc.>: One thing to look at is how much Germany slows down and that they're a big part consumer for us. So...

Operator: Thank you. And your next question comes from the line of Chip Moore from ROTH MKM. Please proceed.

<Q – Chip Moore – ROTH MKM>: Good morning, everybody. Thanks for taking the question.

<A – Rajiv Prasad – Hyster-Yale Materials Handling, Inc.>: Hi, Chip.

<A – Christy Kmetko – Hyster-Yale Materials Handling, Inc.>: Hi.

<Q – Chip Moore – ROTH MKM>: Hey, Scott. You talked about being more competitive on pricing as backlog starts to come down. And, Al, you talked about some potential for short-term cyclicality maybe to come up. Maybe expand on that. Any implications for margins into next year? How should we think about the potential for some of these new modular and scalable platforms to help there? And then back to the CapEx increase, how should we think about those benefits rolling through?

[indiscernible] (00:48:00)

<A – Al Rankin – Hyster-Yale Materials Handling, Inc.>: ... Rajiv on the price cost relationships.

<A – Rajiv Prasad – Hyster-Yale Materials Handling, Inc.>: Sure. So, I think if you look at our business, we are very strong on the counterbalanced side of the business and Big Truck. And our product range still needs to fill out on the – using the scalable modular on the warehouse side.

So, we do expect some of the warehouse where our lead times now are the shortest. And so, we are being more competitive in the marketplace, so, some margin compression on our warehouse business.

But one thing we're seeing is the modular scalable for, I'm thinking about more 2025, 2026 and going forward, is a mechanism for us to have elevated margins because we're able to really tune the trucks in with the right cost of the – and the right price for the customer, and therefore make our target margins all better. So, we think that longer term, that strategy is really starting to work.

We do – our warehouse trucks with the same modular design with scalability will come out more in 2025 and 2026. So, we'll see the same impact then. But in the meantime, we have to get through the period with the current set of products.

<A – Al Rankin – Hyster-Yale Materials Handling, Inc.>: Couple of things there I think are worth keeping in mind, too. We are seeing improvements on the cost side. It's hard to say how much they may go up and where, but we've had some fairly substantial cost reductions from the time in the last few months and we're hopeful that some of those will continue.

The second thing is that our customers, or our competitors, in many cases, didn't move as rapidly to address increasing costs as we did, but increasingly they've caught up.

So, a lot is going to depend on what they decide to do in the marketplace as well. And I think we just want to be careful and thoughtful, but we're going to work very hard to keep our margins at very healthy levels. They've really, in some ways, been above our targets in recent times.

And so, we're talking about coming down to our target margins in certain cases rather than having our margins decrease below what we think they ought to be in the long term.

<A – Rajiv Prasad – Hyster-Yale Materials Handling, Inc.>: But the key thing to take away from this discussion is that we feel that the modular, scalable design and our focus on our customers, giving them the right solution has the potential to – for us to perform consistently above our target margin as the program matures over the next few years.

<Q – Chip Moore – ROTH MKM>: Got it. That's helpful color. And maybe a follow-up on mixed shift and ASPs. I think maybe there's been some unique dynamics around post-pandemic volumes for rental and heavy duty, for example. It looks like warehouse is increasing in mix as you take some share. Any way to think about 2025 mix? Should that be more normalized or just how to think about a more normalized mix?

<A – Al Rankin – Hyster-Yale Materials Handling, Inc.>: I think one thing you – we feel we're likely to see is enhanced Big Truck volumes. There have been supplier difficulties and in some ways were more significant than our Big Truck business and some of the other businesses. And our bookings have really been pretty strong recently in the Big Truck area. So, that's a positive sign for next as we look forward.

<A – Rajiv Prasad – Hyster-Yale Materials Handling, Inc.>: Yeah. And then we...

<A – Al Rankin – Hyster-Yale Materials Handling, Inc.>: It's going to be a mixture of things.

<A – Rajiv Prasad – Hyster-Yale Materials Handling, Inc.>: We haven't talked about 2025 yet, but we – if we think about it, we expect some of that second half of 2024 to continue, but then start to rise as we get into the rest of the year. But again, we're in the middle of modeling our financials for 2025, and I think we'll have a better idea of that at the next quarter.

<Q – Chip Moore – ROTH MKM>: Understood, that's very helpful. And if I could ask another, on cancellations, you had some commentary there. I think you have some protective measures in place on the dealer side, maybe just expand on what you're seeing there and touch on that.

<A – Rajiv Prasad – Hyster-Yale Materials Handling, Inc.>: Yeah. Majority of the cancellations we're seeing are from our major accounts and really what it is, is there was very bullish infrastructure build-out by a number of our suppliers and as things have slowed down, they've also slowed down the opening of new facilities or expansion of facilities.

And so, that's what's been driving our cancellations and it's really a mixture of small amount of cancellation, mostly deferrals to future time as they delayed some of their projects.

<Q – Chip Moore – ROTH MKM>: Very helpful. Appreciate it. If I could just sneak one last one in on the Section 301 tariffs. Is there a way to think about how big that impact is? If we get another exemption, what kind of benefit you could see there? Thanks.

<A – Rajiv Prasad – Hyster-Yale Materials Handling, Inc.>: Yeah. I mean, our – just think about it as about $2 million a month.

<Q – Chip Moore – ROTH MKM>: Perfect. Okay. I'll hop back in queue. Thanks.

Operator: Thank you. And your next question comes from the line of Brian Sponheimer from Gabelli. Please proceed.

<Q – Brian Sponheimer – Gabelli Funds LLC>: Hi. Good morning, everyone. Just to – I don't know if I heard that correctly. Did you say $10 million per month or $2 million per month on the Section 301?

<A – Rajiv Prasad – Hyster-Yale Materials Handling, Inc.>: $2 million.

<Q – Brian Sponheimer – Gabelli Funds LLC>: Okay. Yeah. If I'm thinking about the backlog and your ability to price, I mean, clearly it would appear that what you have flowing through to sales in the first half of the year is priced differently than what's going to be coming through in the back.

Can you maybe talk about what you're anticipating there just from a pricing dynamic? And does this take into account Section 301 where you're going to potentially have to – have some more negative pricing there?

<A – Al Rankin – Hyster-Yale Materials Handling, Inc.>: I think we should be careful how you phrase it and how you talk about it. When we're talking about pricing, we're talking about the bookings that we book this year. Many of those would be – the majority of this would be for 2025.

<A – Rajiv Prasad – Hyster-Yale Materials Handling, Inc.>: Yeah. So, I think that's...

<A – Al Rankin – Hyster-Yale Materials Handling, Inc.>: We already have the price...

<A – Rajiv Prasad – Hyster-Yale Materials Handling, Inc.>: 10 months. 10 months of orders already for 2024 and our backlog is about $3.3 billion. And if you look at what we did in 2023, it was $4.1 billion.

So, really, the way I would characterize it is that both for our Big Trucks and our counterbalance, trucks will continue to have good pricing because we have long lead times still on those products.

And on the warehouse side, we will be more around that target margin to ensure that those lines, those production lines have the orders to support their production rates.

<Q – Brian Sponheimer – Gabelli Funds LLC>: If I'm thinking about this just from a competitive standpoint, what does Section 301 impact more? Is that the warehouse side or is it on the Big Trucks?

<A – Al Rankin – Hyster-Yale Materials Handling, Inc.>: No. It's actually mostly counterbalance.

<Q – Brian Sponheimer – Gabelli Funds LLC>: Oh, really, okay. Okay, just one last one for me, on Nuvera, obviously, you did a good job in your Analyst Day or Investor Day talking about the potential for that business.

Since then, any changes to the excitement from the marketplace? Any changes to how maybe the market is thinking about conventional expectation as it relates to some of your end markets?

<A – Rajiv Prasad – Hyster-Yale Materials Handling, Inc.>: Yeah. So, we're obviously very focused on what market dynamics are taking place. The first thing I would say is hydrogen continues to be an issue. The availability of hydrogen as the fuel.

With the trucks we are running at the ports, for instance, there's intermittent outage of hydrogen and the teams working very closely with hydrogen producers to find the right solutions. But then we've also seen increased in interest both by end users and also by integrators of both stationary and mobile chargers as our electricity network kind of – certainly at times, has hit its capacity. And as you've seen, there have been some outages. There's more surge for what a green backup power solution looks like.

And actually some of the generator solutions that are being developed is actually [ph] for charging (00:58:26) battery electric trucks, which is strange, but also for backup power for kind of remote work, but also backup power, for instance, data centers, etcetera.

So, that's been increasing and we've seen much more interest on the marine side. And then we continue, port equipment is going to be very important because the ports are under a lot of pressure to decarbonize.

And then I think we'll see slower progress on the on road solutions. So I think initially they're focused with medium-duty trucks and batteries. I mean, we feel for at least a third of those solutions which are power hungry, which have auxiliary kind of devices that need to be powered while the truck is stationary, like a garbage disposal truck, they'll probably [indiscernible] (00:59:30) good enough, we think longer term they're going to need fuel cells.

So, I think those markets probably are a little slower than we expected. But on the other hand, the generator market and the marine market and port are still very, very active.

<A – Al Rankin – Hyster-Yale Materials Handling, Inc.>: So, we have very programs in all of those areas to have marketable products and we'll be seeing quite a bit more of those – about those very soon.

<Q – Brian Sponheimer – Gabelli Funds LLC>: Okay. Thank you very much.

Operator: Thank you. We have time for only one more question and your last question from the line of Ted Jackson from Northland. Please go ahead.

<A – Christy Kmetko – Hyster-Yale Materials Handling, Inc.>: Are you there, Ted?

<A – Al Rankin – Hyster-Yale Materials Handling, Inc.>: Hello?

<A – Christy Kmetko – Hyster-Yale Materials Handling, Inc.>: Yes, we can hear you.

<Q – Ted Jackson – Northland Securities, Inc.>: Sorry. I was on mute. Can we talk a little bit more about bookings and backlog? I mean, so the company understandably so, given supply constraints and everything else under the sun has had this huge backlog that it's working down, so the book-to-bill has been below 1 for a long time.

But when I listen to you and I talk about guidance, is it fair to assume that we'll be moving back towards, say, a book-to-bill at, call it, 1 in the second half of 2024? Is that something that you see at this point?

<A – Rajiv Prasad – Hyster-Yale Materials Handling, Inc.>: We don't see a decrease in volume. We just see a bit of margin compression on the warehouse products. That's the only thing.

<A – Al Rankin – Hyster-Yale Materials Handling, Inc.>: Yeah. We're looking at greater volume of bookings in 2024 than in 2023.

<A – Rajiv Prasad – Hyster-Yale Materials Handling, Inc.>: Yes.

<Q – Ted Jackson – Northland Securities, Inc.>: Right. With that strengthening in the back half, correct?

<A – Scott Minder – Hyster-Yale Materials Handling, Inc.>: That's right, Ted.

<Q – Ted Jackson – Northland Securities, Inc.>: Right. And so, when [indiscernible] (01:01:31)

[indiscernible] (01:01:32)

<Q – Ted Jackson – Northland Securities, Inc.>: ...so it would be in the second half of the year, then we would be able to see kind of a book-to-bill number that would at least get back to 1 to where you're essentially, you know I'm saying, like, you're not eating through sort of on a general holistic level. You won't be eating through backlog anymore. Your backlog will be trending at kind of, say...

<A – Rajiv Prasad – Hyster-Yale Materials Handling, Inc.>: Yeah. I think if we achieve our booking target in 2024, our backlog ending 2024 will still be well above our desired levels.

We don't – on some of our most important lines, like the Big Trucks and the larger counterbalanced trucks and even our smaller counterbalanced trucks, we don't see normalization of backlog until early 2026. So, there'll still be over optimal backlog until then. Does that help?

<Q – Ted Jackson – Northland Securities, Inc.>: Okay. Yeah, that does. And then a final question because I know we're out of time [ph] whole bunch was (01:02:53) written down, and now I lost what it was I was going to ask you.

<A – Christy Kmetko – Hyster-Yale Materials Handling, Inc.>: We're going need to warp up.

<Q – Ted Jackson – Northland Securities, Inc.>: I can pick it up at another time. So, anyway, thanks again.

<A – Scott Minder – Hyster-Yale Materials Handling, Inc.>: Thanks, Ted.

<A – Al Rankin – Hyster-Yale Materials Handling, Inc.>: Thank you.

Christina Kmetko, Investor Relations Consultant, Hyster-Yale Materials Handling, Inc.

Okay. With that, we'll conclude our Q&A session. We thank you for participating. A replay of the call will be available later this morning. We'll also post a transcript on our website when it becomes available.

If you have any questions, please feel free to reach out to me. My information is on the press release and I hope you enjoy the rest of the day. I'll now turn it back to our operator to conclude the call. Thank you.

Operator: Thank you. Ladies and gentlemen, that does conclude our conference for today. Thank you, all, for participating. You may all disconnect.

