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Hyster-Yale Materials Handling, Inc. (HY)

Q1 2024 Earnings Call

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Alfred M. Rankin, Jr
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OTHER PARTICIPANTS

Chip Moore
Analyst, ROTH MKM

Ted Jackson
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MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon, ladies and gentlemen, and welcome to the Hyster-Yale Materials Handling First Quarter 2024 Earnings 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, May 8, 2024.

I would now like to turn the conference over to Christina Kmetko, Investor Relations. Please go ahead.

Christina Kmetko

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

Good afternoon and thank you for joining us for Hyster-Yale's 2024 first quarter earnings call. Christina Kmetko and I'm responsible for Investor Relations. Yesterday evening, we published our first quarter 2024 results and filed our 10-Q. These documents are available on the 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-Q and other SEC filings. We may not update these forward-looking statements until our next quarterly earnings conference call.

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, Christy, and good afternoon, everyone. I'll start by providing the operational perspective and some commentary on our markets. Scott, will follow with the detailed financial results and the outlook. Then I will share a few strategic project highlights. Al will close the call with his perspective and then we'll open it up to your questions.

First, I'll provide some highlights from our excellent quarter one 2024 financial results. 2023 was an outstanding year and we're continuing to build on those successes. For the fourth consecutive quarter, we have reported revenues of more than $1 billion. And this past quarter, we had the highest reported operating profit and profit margins in the company's history, achieving an operating profit margin above 7% for the first time.

Our quarterly highlights are all positive. Consolidated operating profit and net incomes are up significantly versus the prior year. We've improved operating profit margins and consolidated revenues as well. The global economy remains strong overall in the first quarter. However, political unrest around the world is causing lingering uncertainty. The latest publicly available Lift Truck market data indicates that Q4 2023 global bookings increased year-over-year, with stronger-than-expected year-end volumes in EMEA and JAPIC markets. Those higher bookings more than offset the Americas decline. However, we estimate that Q1 2024 global Lift Truck bookings moderated compared to relatively strong prior-year levels.

In Q1, we continued to work through our extended backlog and continued to focus on booking orders with strong overall margins. This, coupled with the year-over-year market decline, led to a moderate bookings decrease compared to prior year. Bookings increased 10% sequentially, led by a large order for Class 2 and Class 3 warehouse trucks in EMEA. In quarter one, 2024, average booking prices decreased compared to fourth quarter 2023 and prior year. This was largely due to a shift towards lower priced warehouse products predominantly in EMEA. In-line with our objective, backlog levels decreased compared to year-end 2023 levels.

Now, let's talk about the outlook for our business. Looking ahead, we expect competitive dynamics to become more prevalent again in our market, particularly on products with shorter lead times. As we reduce backlog levels and improve lead times, we're committed to maintaining our targeted booking margins through new model introductions and cost decreases. We predict an upward swing in quarter-over-quarter bookings throughout 2024. This is largely due to anticipated market share gains in the Americas and EMEA, and improving North American market conditions later in the year.

Our shipments are expected to increase in 2024 compared to 2023, due to higher production rates, continued supply chain improvements and the dissipation of lingering product launch issues. As production and shipment rates increase, we foresee backlog levels and lead times on many product lines reaching target levels by year-end. As expected, our $3.1 billion of backlog, which is equal to approximately nine months of production, combined with new unit bookings, is supporting the business through any near-term market weaknesses.

Now, I'll turn it over to Scott to provide some detailed financial results and outlook.

Scott A. Minder

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

Thanks, Rajiv. I'd like to emphasize that our strong Q1 2024 results, built on 2023 exceptional year-over-year improvements. The numbers speak for themselves. Consolidated revenue rose to $1.1 billion, up from just under $1 billion in Q1 2023. As Rajiv mentioned, this is the fourth consecutive quarter with revenues over $1 billion.

Consolidated operating profit increased to almost $84 million compared to $41 million in Q1 2023. Our operating profit margin of 7.9%, was up from 4.3% one year ago. Our Q1 2024 earnings per share increased by nearly 90% to $2.93.

Let's dive into the results at our Lift Truck business. Lift Truck revenues grew 6% versus the prior year due to higher average sales prices and a favorable sales mix. These improvements were partially offset by lower unit and parts volumes. Due to previously implemented price increases, average Lift Truck sales prices increased by 17% year-over-year and 3% sequentially. Our sales mix improved versus the prior year, mainly due to increased sales of Class 4 and 5 internal combustion engine units in the Americas. These higher capacity Lift Trucks generally have higher selling prices.

Shipment volumes declined 8% versus prior year, driven by a 21% decline in EMEA, as a result of lower production rates. Americas shipments were lower, mostly due to reduced shipments in Brazil. In Q1 2024, Lift Truck operating profit of $89 million increased by 87% year-over-year. Operating margins were 8.9% in the quarter, improving by 390 basis points versus the prior year. This gain was driven by higher new unit margins due to favorable price and material costs.

Units sold in Q1 2024 were largely added to our backlog in late-2022 and in 2023. These units have higher prices and margins than trucks sold in Q1 2023. The latter of which entered the backlog before our price increases went into effect. Operating expenses increased in the quarter compared to prior year, mainly due to higher employee-related costs, including for incentive compensation. The Lift Truck team remains focused on growth with disciplined execution. As a result, the business generated a 71% year-over-year incremental margin in the first quarter.

Now, over to Bolzoni. Bolzoni's gross profit increased while revenues decreased as a result of the planned phase-out of low-margin legacy component sales. This phase-out will continue throughout 2024. The business maintained a strong price-to-cost ratio on its core attachment products. Bolzoni's Q1 2024 operating profit decreased due to higher operating expenses.

Moving to Nuvera, Nuvera's Q1 revenue decreased year-over-year due to fewer customer shipments. The first quarter's operating loss improved slightly as government funding to cover certain research and development expenses offset the impact from lower shipments. I will explain this government funding in more detail in a moment.

Before I move to our cash and balance sheet results, I'll outline the effects of taxes on our business. Our first quarter income before income taxes was $77 million, up 114% compared to the prior year. However, net income increased at a slower pace due to a significantly elevated income tax rate. The company's Q1 2024 effective income tax rate was 33%. This compared to a 24% rate in the prior-year quarter. This large tax rate increase is a result of the combination of the US government's current R&D capitalization requirements and the company's inability to put tax assets on its balance sheet given its US valuation allowance position. Businesses that invest in R&D activities are required to capitalize these expenses and recognize them over time. This effectively increases taxable income over 5 to 15 years, depending on the circumstance over which the R&D expenses are amortized. This reduces cash available to make further R&D and capital investments. We continue to work with industry groups and elected representatives to correct this situation and to restore the incentive for companies like Hyster-Yale to make future R&D investments.

Next, I'll turn to the balance sheet. Improvements in our financial results and cash generation were very significant in 2023. We expect increased momentum in this area as 2024 progresses. Given these broad business and financial improvements, our credit rating agencies, S&P and Moody's, upgraded our credit ratings in March and April respectively. Financial leverage continued to improve in the quarter, with a 4% debt reduction compared to December 31 levels. Our debt-to-total capital ratio of 53% improved by 200 basis points sequentially, as a result of higher earnings and lower debt. Additional cash generated from operations was used to reduce debt levels in the quarter.

Our unused borrowing capacity of $269 million was generally comparable to the December 31 level. Working capital improved modestly from Q4 2023 but remained above desired levels at 18.9% of sales. While we improved inventory efficiency as measured by days inventory outstanding, significant further working capital reductions largely from inventory, are expected across the remainder of 2024. On an absolute basis, Q1 2024 inventory increased compared to the prior year and prior quarter. This was largely due to a higher finished goods inventory driven by trucks completed but not shipped at quarter-end and extended transit times due to internal global production shipments.

As we execute our strategic initiatives, we're utilizing our global production system's flexibility to manufacture trucks efficiently. Therefore, trucks coming to the US from our non-US facilities take longer to receive. We expect finished goods inventory to decrease in the second quarter as the Q1 shipment days are cleared. Positively, raw material and component parts inventory improved compared to the previous quarter and to Q1 2023.

Looking ahead, the outlook for full-year 2024 remains favorable and better than we anticipated last quarter. For the Lift Truck business, we expect continued revenue and operating profit growth in Q2 compared to the prior year. This growth is driven by an increase in expected shipments of higher-priced, higher-margin backlog units. We anticipate the potential expiration of tariff exemptions in late-May 2024 to modestly temper Q2 results compared to Q1 levels. The company is actively working with federal regulators to have these exemptions extended.

Full-year 2024 Lift Truck revenues and operating profit are anticipated to increase over 2023. Our Q1 results were higher-than-expected, largely due to continued strong unit margins. We anticipate our strong margin trend to continue for the balance of 2024. As a result, we expect higher full-year revenue and profit in the Lift Truck business compared to our prior guidance.

For Bolzoni, we anticipate 2024 revenues to be comparable to 2023. Bolzoni will continue to focus on increasing production of higher-margin attachments, while it executes the planned phase-out of legacy components sales to the Lift Truck business. As a result, the operating profit is expected to increase modestly year-over-year, leading to higher gross profits, partly offset by increased operating expenses.

To increase sales, Nuvera is focused on more global customer product demonstrations and expanding its presence in Europe and China. Booked orders from current customers are expected to boost 2024 sales above last year's levels. The benefit from these higher sales will likely be offset by increased development costs, leading to comparable year-over-year operating results. Fuel cell customer adoption has a long sales cycle, therefore we expect increased 2024 demonstrations to support fuel cell engine technology adoption and revenue growth over time. To offset manufacturing costs, Nuvera was granted up to $30 million in matching funds from the US Department of Energy in April. This is part of a $750 million federal government investment in dozens of hydrogen projects as part of the National Clean Hydrogen Strategy.

Also in early April, Nuvera was awarded up to $14 million of investment tax credits from the US Internal Revenue Service based on future spending levels. This is part of the Qualifying Advanced Energy Project Tax Credit (sic) [Qualifying Advanced Energy Project Credit] (00:16:04) initiative funded by the Inflation Reduction Act. This program, which provides up to a 30% investment tax credit for selected clean energy manufacturing projects is designed to support secure and resilient domestic clean energy supply chains. Nuvera anticipates using the tax credits to expand fuel cell production capacity at its Billerica, Massachusetts headquarters.

At the Hyster-Yale consolidated level, we expect increased full-year revenue, operating profit and net income compared to prior-year levels. As I said earlier, this outlook builds on a strong 2023 year. Due to the better-than-expected Q1 2024 results and anticipated forecast improvements in the following quarters, full-year 2024 results should improve compared to our prior full-year guidance. In the second quarter, we anticipate continued strong product margins from shipments of higher-margin backlog units to drive year-over-year profit growth. Q2 profits are expected to increase significantly versus prior-year levels but be modestly lower than Q1 results. This decrease is largely due to the anticipated expiration of Section 301 tariff exemptions on May 31.

For the full-year 2024, we expect continued progress toward our 7% operating profit goal in our core Lift Truck and Attachment businesses. We started the year off with first quarter margins of 8.9% in our Lift Truck business and 7.9% for the consolidated company. These were well-ahead of our previously expected level. We anticipate operating profit margins to moderate somewhat over the remaining 2024 quarters because of increased material costs. This is partly due to the assumed tariff exemption expiration I mentioned earlier. We remain committed to systematic and sustainable progress toward our financial goals over time.

We remain focused on improving operating cash flows by decreasing working capital through improved inventory efficiency and strong production rates. As a result, inventory levels are expected to decrease substantially in 2024. Consolidated 2024 capital expenditures are estimated to be $84 million, down modestly from our initial projection of $87 million. While we anticipate substantial investments in our business, maintaining adequate liquidity remains a priority. As a result of our efforts, we expect a significant increase in free cash flow in 2024 compared with the prior year. This would enable further financial leverage reductions.

Now, I'll turn the call back to Rajiv, to discuss our strategic initiatives and recent progress.

Rajiv K. Prasad

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

Thanks, Scott. Our vision is to transform the way the world moves material from Port to Home, by promising customers optimized product solutions and exceptional care. To fulfill these promises and achieve long-term growth rates, all product segments are executing established strategic initiatives and key projects. I'll share some highlights here, but you can learn more about additional strategic projects in the Q1 2024 news release and in our shortly to be released investor presentation.

The Lift Truck business have three core strategies to transform our competitiveness, market position and economic performance over time. The first strategy is to provide products that increase customer productivity at the lowest cost of ownership. At the heart of this initiatives are our award-winning, modular, scalable lift trucks. With a March 2024 launch of the full 2- to 3-ton internal combustion modular, scalable product line in JAPIC, these products are now produced and available in each of our major geographies that can be configured as value, standard and premium trucks to fit the customer's exact specific needs. For Hyster-Yale, this modular, scalable product platform enhances multiple areas of the business, including reducing supply chain costs, improving working capital levels and providing customers with customizable solutions. Bookings and shipments of these trucks are accelerating in EMEA and Americas markets, where they were first launched in 2022 and 2023.

We continue to capitalize on advancements in electric powertrains for our applications now, dominated by internal combustion engine trucks. As a result, an electrified fuel cell container handler is now operating at the Port of Los Angeles and an electrified fuel cell ReachStacker is operating at the Port of Valencia in Spain.

In March 2024, we agreed to supply 10 zero emission battery-powered terminal tractors to APM Terminals at the Port of Mobile in Alabama. This was part of an electrification pilot supporting port equipment decarbonization. The Lift Truck business is also focused on applying technology advancements to operator-assist and automated product options. In March 2024, we began our first test of an internally developed automated truck at a customer location. This builds on our prior offering using third-party software.

At the recent MODEX Material Handling Trade Show, we announced the standalone availability of our Advanced Dynamic Stability technology or ADS. ADS helps to maintain overall vehicle stability and minimizes the potential for Lift Truck tip-overs, thus addressing a key industry risk factor. The even more powerful Yale Reliant operator assist technology which helps forklift operators avoid potential hazards, receive global recognition by earning an honorable mention in Fast Company Magazine's Innovation by Design Awards.

Bolzoni's core strategy is to be the leader in the attachment business. They continued that journey in Q1 2024. The new Home Appliance Telescopic Clamp for lift trucks designed to easily handle home appliances and palletless load in confined spaces was introduced in March. In addition, Bolzoni launched its Easy-Connect Product range in February. These products feature technology to collect and analyze truck performance data. This allows customers to optimize their material handling process, including maximizing warehouse space and reducing handling times.

Nuvera's core strategy is to be a leader in the heavy-duty fuel cell market. Using the funds granted by the DOE and its own funding, Nuvera will develop high-volume production processes needed to scale up its next-generation fuel cell stack technology for heavy-duty vehicles.

Now, I'll turn the call over to our Executive Chairman, Al Rankin.

Alfred M. Rankin, Jr

Executive Chairman, Hyster-Yale Materials Handling, Inc.

Thanks, Rajiv. Building on a robust 2023 financial results, our results were obviously very strong in the first quarter. This reflects sound performance in our core Lift Truck and Attachment businesses and continued progress at Nuvera. To better reflect our company's business activity focus, last month we announced new names for some of our businesses.

As of May 31, the public company will be known as Hyster-Yale, Inc. The Lift Truck business will then take on the Hyster-Yale Materials Handling, Inc. in order to better align its name with its broad material handling capabilities, which have evolved beyond its core Lift Truck products. The names of the other two Hyster-Yale strategic business units, Bolzoni and Nuvera, will remain the same. We believe these changes give more clarity to our company's future evolution as three distinct but interrelated businesses with lift trucks at the core.

The strategic business unit names also help underscore our commitment to each brand. Under the umbrella of Hyster-Yale, Inc., these business segments are positioned to deliver on the promises of their key brands, Hyster, Yale, Bolzoni and Nuvera, to provide optimal solutions and exceptional customer care in their areas of business focus.

As I reflect on our business performance and outlook, I believe our future prospects are excellent. We're in the midst of a fundamental redesign of our vehicle architecture, which is off to a strong start. Our new modular and scalable designs will help us meet customer needs more effectively, operate more consistently at target margins, improve manufacturing and also lower inventory levels. We're a leader in on-vehicle technologies with our dynamic stability, operator-assist systems and fully automated trucks. Similarly, our initiatives at Bolzoni and Nuvera are expected to continue to position those businesses as leaders in their industries.

In closing, I also note that while economic activity will vary globally and by quarter, our businesses should be stronger and better able to deal with whatever volatility occurs.

Now, I'd like to open the floor to questions.

QUESTION AND ANSWER SECTION

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

Chip Moore
Analyst, ROTH MKM

Q

Hey, everybody. Thanks for taking the question. Congrats on a strong quarter. I wanted to ask first, last quarter, I think we talked about maybe some larger accounts that had maybe over-ordered and deferred some of their orders. Can you just give us an update there? Have you continued to see that evolve? Has that normalized or how are those trends?

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

A

Yeah, Chip. This is Rajiv. I think those have generally normalized. We haven't seen any out-of-the-ordinary cancellations during last quarter. So I think those have gone back. I think it was one or two key customers that had delays and so either deferred or canceled. So...

Chip Moore
Analyst, ROTH MKM

Q

Got it. Thanks. Thanks, Rajiv. And then on the margin side, I think you talked about in the prepared remarks, strong margin trends continuing for the balance of the year. I think it was – maybe just expand on that, help us to think about for the near-term mix impacts? Obviously this quarter, skewing towards larger trucks, it sounds like maybe next quarter as well. Just to help us think about that and lead times as well?

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

A

Yeah. So, as we have worked through our backlog, well, the dynamic that we have experienced is that the – so, typically our dealers order these, let's say, simple configuration trucks and we've been able to build those much more easily because they use more standard components. So, those we built and shipped kind of in 2022 or 2023. And now as we deplete our backlog, what's left are these high-priced, complex trucks, which have a lot of special engineering in them and those are more difficult to build. To give you an idea, let's say, if typically you would have for each of our manufacturing stations, you'd have a certain takt time. But, let's say, 20 minutes per station. These trucks maybe are taking 50% more time to get through some of the stations and that's reducing the amount of volume throughput we can get.

But at the same time, the value is much higher. So, that's why you've seen the dynamic this quarter where the although the number of units was lower, the actual revenue was pretty good, and that's why that's happened. Now, these trucks also have good margin. As we get into the second-half of the year, we'll see. We plan to build these mostly in the first – early first-half of the year, and second-half we'll get back to more normal mix. Does that...?

Chip Moore
Analyst, ROTH MKM

Q

Got it. Yes.

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

A

Okay.

Chip Moore
Analyst, ROTH MKM

Q

That's very helpful. And maybe if I could ask another one on the modular and scalable, how that process has gone? I guess what you've learned so far from the rollout on some of those products, have you – some of those hiccups. Do you think things get a bit smoother as you rollout the new Lift Truck classes and then maybe with supply chain? If that helps, I'm not sure. But just give us a little bit more of an update there.

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

A

Yeah. Sure. I mean, the primary hiccup was some technical issues on the rollout of those trucks, mostly software. We've got majority of that behind us. The trucks are ramping up nicely. We are adding models. So, today, what we have in production is 2- to 3-ton pneumatics, and then over the next few quarters we'll add the cushion trucks, 2-to-3-ton, and then 1- to-2 ton pneumatic and then 1- to 2-ton cushions in our Craigavon and Berea plant.

And then we'll also start manufacturing the value and the standard platform – value, standard platform in our Fuyang plant. It's already started for the [ph] APIC (00:31:44) part of the market. The rest of the world will come online in the third quarter. So, there's still quite a bit of phasing-in of all the different models that we sell off that platform. And that will happen through the rest of this year.

Chip Moore
Analyst, ROTH MKM

Q

Great. And sorry. If I can – one last one maybe for you, Scott, on the balance sheet. The inventory position, I think you called out just the larger finished goods position. It sounds like maybe that unwinds fairly near-term but just how to think about inventories. And obviously that working capital is key to free cash flow here. Just thoughts on how that plays out this year? Thanks.

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

A

Sure, Chip. Yes. I think what we saw was a slower unwind of the inventory in Q1, largely in finished goods. Raw materials did come down as expected. So, we expect to pick up the pace on the inventory reductions and make good progress on our long-term goal of 15% working capital as a percent of sales, across 2024 and into 2025. So, I think it's a good positive yet to come for the business and that will translate into increased free cash flows.

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

Yeah. Maybe I could just provide a little bit more color to that. So, as you know, one of the plants that was – had the longest backlogs were our big truck plant in Nijmegen and those guys are making some really good progress now. Also, Fuyang is now starting to build trucks for the other regions. So, what that does it puts a lot of trucks on the water and that goes into our marketing inventory as trucks that are in the shipping process. So that happened. It was better than we expected but that does trap trucks in that category. And now, of course, as soon as they arrive, they are sent to their customers and invoiced. So, we think it will transition into receivables fairly quickly.

Chip Moore
Analyst, ROTH MKM
Q

All right. I appreciate all the color. I'll hop back in queue. Thanks.

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

Thank you, Chip.

Operator: Our next question comes from the line of Ted Jackson. Your line is open.

Ted Jackson
Analyst, Northland Securities, Inc.
Q

Thanks. Congrats on the quarter. It's days like this that make me sad that sell-side analysts aren't allowed to own their own coverage anymore.

Ted Jackson
Analyst, Northland Securities, Inc.
Q

Thanks, Ted.

Ted Jackson
Analyst, Northland Securities, Inc.
Q

I have a few questions. I think some of them even touched on actually in the last dialogue but let's get into them. So, talking about production issues, it sounds like most of the production issues were – I mean, am I correct, they were around the modular stuff and that is now fading out? I mean, when do we see these production issues fully resolved?

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

Yeah. So...

Ted Jackson
Analyst, Northland Securities, Inc.

Q

And then, I mean, I'll stop at that right now.

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

A

Yeah, Ted. So, I think I want to – I think generally the [ph] ANN (00:35:07), the new platform was okay. The majority of the issues we had were around our 4- to 7-ton truck and also some big trucks. And the issue, as I said to Chip was really around the throughput we can achieve because of the complexity of the design that's in our backlog now that we are building. These are major account trucks with quite a lot of additional content. And so that's kind of restricting the throughput we can achieve.

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

A

I think another factor that you might want to think some more about is that units aren't necessarily the best indicator of what's going on in the plant. I mean, in another way, that's what Rajiv just said. And if you have fewer units going through but they have higher revenue and very good margins, that's a full utilization of the line.

And so we're tending much more as time goes on to think of revenue throughput than individual units. Because remember in the backlog, we have trucks that ranged from what-to-what, Rajiv?

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

A

3,000 to 500,000.

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

A

So it really – to look at the single numbers in the backlog in terms of units is probably not as helpful as understanding and focusing on the revenues. That's something we've got to think about it as well as you all and we are. Yeah.

Ted Jackson
Analyst, Northland Securities, Inc.

Q

So taking those answers then in the dialogue with and commentary with regards to guidance, that it sounds to me like the production issues which are related to the bigger trucks really will be resolved as we get out of the second quarter and you deliver those, we should see...

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

A

Again, I just want to be careful about the issues.

Ted Jackson
Analyst, Northland Securities, Inc.

Q

It's okay. [indiscernible] (00:37:18)

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

These trucks that have to be produced, they're very good trucks and we want to produce them and we want to take the time that it takes to make them.

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

Yeah.

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

It just – Rajiv used the right word. There's less throughput in terms of units but the dollars throughput is pretty darn good.

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

Very good.

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

So [indiscernible] (00:37:35)

Ted Jackson
Analyst, Northland Securities, Inc.
Q

I understand. I understand. I'm just trying to get but let me get to my question because my question...

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

Yeah. Sure.

Ted Jackson
Analyst, Northland Securities, Inc.
Q

...is really – it's not about terminology. It's – tying into that is, as you deliver that backlog that we will see a gross margin and a Lift Truck business comparable to the first quarter and the second quarter. And then because the mix of your production changes, the unit volume will go up, the ASP will go down and we will see a – for lack of a better term, a contraction in gross margin in the second-half? It's just kind of where I'm going. Just kind of a cadence of kind of how your backlog is going to be going through your financial statements and how I see it. That's what I'm asking.

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

Yeah. I mean, I think the way that we're thinking about it right now is we think the second quarter is going to be like the first quarter. The second half, we are still doing a lot of work to figure out how exactly to execute the second quarter because...

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

...to execute the second-half...

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

The second-half. Sorry. It's – and part of it is our customers are concerned about getting some of these trucks. So I'll just give you, for instance, for the second-half we're considering and we're exploring getting EMEA to build some of the trucks for North America because they have caught up in a much better way – their lead times now are lower than the Americas, so we feel that could build some trucks for Americas. So that's where, the second-half is still something that we're in the middle of planning. So, it's really difficult to comment on that.

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

I think another way to think about it is if the backlog, which is – really takes us largely through the year...

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

Yeah.

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

Has pretty darn good margins.

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

Yeah.

Ted Jackson
Analyst, Northland Securities, Inc.
Q

[ph] We could show that (00:39:48)

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

We did call out the negative, which of course, is the likelihood as we see it now that the tariff exclusions will not be kept up. That will be a headwind...

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

Right.

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

...for us in the second-half. And so it's more of those kinds of things.

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

Yeah. And I guess the other headwind we're going to get down with is the shipment cost and logistic costs because of the Red Sea issues that we've had. And it's a longer trip, more expensive trip for our material and trucks coming out of Asia to our plants. So those two are headwinds. And we're trying to figure out what is the right way to – and where to some of the trucks as well.

So, I know there's a fair bit of complexity and we're trying to manage that ourselves, trying to figure out the best way to get through the situation we find ourselves in because we are getting increasingly more pressure from customers to get these trucks, which are really production-oriented trucks. They're really a core part. If you think about automotive, think about paper industry, steel industry, these trucks aren't support trucks. They're integral part of the production system.

Ted Jackson
Analyst, Northland Securities, Inc.
Q

Yes. And it's the case. I know. I'm going to beat the unit thing one more time and then I've got another question behind that. So when I think about the last call, there was, for lack of a better term, like a shortfall in terms of deliveries and they got delivered in the first quarter. And, honestly, I was kind of expecting to see growth in units, at least on a sequential basis. And I did not. And so I want to go into units. And why I want to is because if we're going to see units grow in fiscal 2024 relative to fiscal 2023, given where you started the first quarter, will we see meaningful unit growth in the second quarter? And because I'm trying to understand, again kind of the cadence of this as we roll through the fiscal year? So that's kind of where I'm going with it is just kind of like how do I think about second quarter? And then I do actually have a much more fun question after this.

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

Okay. So, the way I would think about it is second quarter is going to be similar to first. And then the second-half, I think we'll do better on the build rates.

Ted Jackson
Analyst, Northland Securities, Inc.
Q

Okay. That was actually easy. Okay. Now, here's my more fun question for you. You ready? So, you commented in the press release and in your presentation about the success you had in EMEA with warehouse truck orders. I know from your Investor Day that you have highlighted the warehouse market as an important opportunity for longer-term growth because you are underrepresented market share in that vertical. So, when I hear that, my question is, is the success that you had in the first quarter of 2024 an early indication of success and taking market share in that segment? And what will that success, as you progress through it, mean to your margin structure over time?

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

Yeah. So, let's just think about share as two components; it's participation and close rates. And so where we are very, very focused right now Ted is increasing our participation and there's huge amount of work going on in every region for us to increase our participation in warehouse in a very significant way. Now, with some engagements back and turned into orders fairly quickly and that's been the case in – with a couple of major account customers in EMEA. With others it takes a – it's a longer lead time to turn those into – to get the close and turn those into orders.

So – but I would just talk about our focus is to increase participation. And as we start to participate, we'll get a sense for what we need to do to improve our close rates, as we start to get feedback from customers on our initial quotes. So, that's the way we are kind of trying to serve the market. Does that make sense in terms of the process and how we're going after it?

Ted Jackson
Analyst, Northland Securities, Inc.

Q

Yeah. You're learning. Well, you have to understand what the market wants so that you can deliver it and [indiscernible] (00:44:45)

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

A

Yeah.

Ted Jackson
Analyst, Northland Securities, Inc.

Q

...it's – you need the experience.

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

A

Yeah.

Ted Jackson
Analyst, Northland Securities, Inc.

Q

Okay. I have a couple other questions but I'll step out of line since I've been on for a while. Thanks.

Operator: There are no further question at this time. I would like to turn the call back to Christina Kmetko, please go ahead.

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

A

[indiscernible] (00:45:14), if you've got some more questions, please go ahead.

Operator: Okay [indiscernible] (00:45:18). Yeah. All right. I will now open the line of Ted Jackson. Please go ahead.

Ted Jackson
Analyst, Northland Securities, Inc.

Q

Yeah. Sorry. I just didn't want to hog up the call. So I want to talk then about kind of the SG&A line, particularly in Lift Trucks. It was heavy in both Americas and EMEA. And I'm just kind of curious into what drove – I mean, relative to my expectations, I should caveat that. And so my question is just kind of what drove the increases? Should I view that as kind a new baseline going forward?

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

A

I think there are two key elements: The first one is something that we have been saying for a while that we want to find a way to invest on some of our strategic initiatives. So, we are increasing our head count a little bit. But the big, big element of it was actually incentive comp, which was incentive compensation, which was paid in March of this year.

And two things drove that: Firstly, our performance for 2023, it was better than we expected, so the incentive comp program paid out better than we had planned. The other piece was our share price appreciated and that has an impact on the equity part of our long-term incentive. So, both of those elements were actually the larger element and that is done for 2023 now. Now, we are kind of accruing for 2024 at the normal rate.

Ted Jackson
Analyst, Northland Securities, Inc.

Q

Okay. So, we could actually see that line item pop down in the second quarter. And, hopefully, given the trajectory you're on and what you're doing have the problem of seeing it pop up again as we get to the end of the year?

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

A

Yeah. Yeah.

Ted Jackson
Analyst, Northland Securities, Inc.

Q

Okay. I'm going to leave it at that. Congrats on the quarter. It was really, really super. Thanks.

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

A

Thank you for your questions. We appreciate it.

Operator: There are no question at this time. Please continue.

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

Okay. With that, we'll conclude our Q&A session. We do thank you for participating. A replay of our call will be available later this afternoon. We'll also post a transcript on the Investor Relations website when it becomes available. If you have any follow-up questions, please reach out to me. My information is on the press release and I hope you enjoy the rest of your day. Now, I'll turn it back to Chloe, to conclude the call.

Operator: Ladies and gentlemen, this concludes today's conference call. Thank you for your participation. A replay of this call will be available at 188-866-06-345 and the passcode will be 72173. You may now disconnect. Thank you.