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Hyster-Yale Materials Handling, Inc. (HY)

Q1 2018 Earnings Call

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Kenneth C. Schilling
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Joe L. Mondillo
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Peter Ziel
Analyst, Robert W. Baird & Co., Inc.

Michael David Shlisky
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MANAGEMENT DISCUSSION SECTION

Operator: Good morning. My name is Dan and I will be your conference operator today. At this time, I would like to welcome everyone to the Hyster-Yale Materials Handling First Quarter Earnings Analyst Call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question-and-answer session. [Operator Instructions] Thank you.

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

Christina Kmetko
Owner, Evergreen Consulting & Associates, L.L.C.

Thank you, Dan. Good morning, everyone, and welcome to our 2018 first quarter earnings call. I'm Christina Kmetko and I'm responsible for Investor Relations at Hyster-Yale. Joining me on today's call are Al Rankin, Chairman, President and Chief Executive Officer of Hyster-Yale Materials Handling; Colin Wilson, President and Chief Executive Officer of Hyster-Yale Group; and Ken Schilling, our Senior Vice President and Chief Financial Officer.

Yesterday, we published our first quarter 2018 results and filed our 10-Q. Copies of the earnings release and 10-Q are available on our website. For anyone who is not able to listen to today's entire call, an archived version of this webcast will be on our website later this afternoon and available for approximately 12 months.

I would also like to remind participants that this conference call may contain certain forward-looking statements. These statements are subject to a number of risks and uncertainties that could cause actual results to differ materially from those expressed in the forward-looking statements made here today in either our prepared remarks or during the following question-and-answer session. We disclaim any obligation to update these

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forward-looking statements, which may not be updated until our next quarterly conference call, if at all. Additional information regarding these risks and uncertainties was set forth in our earnings release and in our 10-Q.

Also, certain amounts discussed during this call are considered non-GAAP. The non-GAAP reconciliations of these amounts are included in our earnings release and available on our website.

Before we discuss our results, I want to let you all know that I do not have much of an update on the Maximal acquisition other than to say the process is continuing to move along as expected. We expect the transaction to close during the second quarter of 2018, but it is subject to customary closing conditions and required regulatory approval and until all of those conditions have been achieved, we won't have much more information to provide. We anticipate that we will be able to provide more of an update at our Investor Day on May 24.

Now, let me discuss the results for the first quarter. I will discuss the highlights first and then get into the details. In the first quarter, the global lift truck market continued the double-digit growth trend that was seen throughout 2017, with double-digit increases in all of our geographic segments except for EMEA which grew 6% over a very strong 2017 first quarter.

In this strong market, we had a solid increase in our first quarter Lift Truck shipments and bookings and our ending backlog increased 12% over the prior year. We also experienced a substantial increase in our average unit backlog value as a result of the mix of products within backlog. We booked more higher-value units and fewer lower-value Class 3 products as a result of competitive pressures, most notably from Chinese produced Class 3 products.

On a consolidated basis, our revenues increased over 10% to $788.2 million, up from $713.1 million last year, driven by a 23% increase in Bolzoni's revenues and then almost 11% increase in the Lift Truck business revenues. Despite this revenue growth, our consolidated operating profit decreased 15% to $19.2 million from $22.6 million last year, primarily as a result of higher material and manufacturing costs, net of price increases, and higher operating expenses incurred to support our strategic initiatives. We reported net income of $14.9 million this quarter or $0.90 per share compared with $18.1 million or $1.10 per share in the prior year first quarter.

In our Lift Truck business, first quarter 2018 revenues went up almost 11% to $743.3 million from $672.2 million in the prior year, and our gross profit increased 2.8% but operating profit decreased 10.7% to $26.6 million this quarter compared with $29.8 million last year. Overall, benefits from higher shipments and parts revenue in all geographic segments and increased pricing in the Americas and EMEA as well favorable foreign currency movements in EMEA were more than offset by higher sales costs to support our strategic initiatives and material cost inflation. Those are the significant factors affecting our Lift Truck operating results.

Now, let me turn to the Lift Truck business outlook. I'm just going to discuss the high-level outlook. Details regarding the individual geographic segments are outlined in our earnings release. We continue to maintain our focus on a carefully paced ramp up in production and achievement of price goals through sales of a richer product mix while maintaining a healthy backlog to achieve production efficiencies.

We continue to achieve better pricing and we have seen greater demand for our higher-value internal combustion engine trucks, and we've realigned and increased the size of our sales and marketing teams to execute our specific industry strategies more effectively as a means to target sustainable share gains. We are focused on increasing our unit volumes and market share in 2018 and in future years through the continued implementation of our key strategic initiatives.

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While there are positive economic indicators in many of our industry segments, specifically in the Americas, we believe that some of the market growth we saw on the first quarter resulted from certain customers placing orders early in anticipation of increasing prices from material cost inflation and new tariffs. As a result, we expect the overall Lift Truck market growth rate to moderate from the first quarter growth rate and grow modestly during the rest of 2018 compared with 2017. However, we anticipate the benefits from expected unit and parts revenue increases driven by our continued investments in the strategic initiatives are expected to be mostly offset by material cost inflation and higher operating expenses, resulting in a modest increase in our 2018 operating profit compared with 2017. Nevertheless, our 2018 net income is expected to increase substantially over the last year as a result of the absence of the tax adjustments made in 2017 for U.S. tax reform.

We continue to monitor commodity costs closely as are all of our peers. We have been successful unlocking in certain material prices, but while these rates are lower than current market rates, they are still higher than our plan. We implemented pricing actions early in the first quarter and again in April 2018, specifically in the Americas to help recover anticipated material cost inflation. We anticipate that commodity costs will continue to increase as the year progresses and we expect to continue to implement pricing actions as needed. However, since the price increases do not apply to the current customer backlog, the offsetting impact is expected to be realized on a lag basis in the second half of the year.

Moving over to Bolzoni, Bolzoni reported net income of $1.9 million and revenues of $51.2 million for the first quarter of 2018 compared with net income of $1.5 million and revenues of $41.6 million in last year's first quarter. Bolzoni's revenue increase is driven primarily by $6.7 million of favorable foreign currency movements and higher sales volume.

Looking forward, as a result of anticipated growth in both the Americas and EMEA and the continued implementation of sales enhancement programs, Bolzoni expects revenues in 2018 to increase compared with last year. In addition to the anticipated increase in revenues and the expected operating leverage resulting from the sales growth, we expect the continued implementation of several key strategic programs to generate substantial growth in Bolzoni's 2018 operating profit and net income.

Finally at Nuvera, Nuvera reported an operating loss of $10 million and a net loss of $7.3 million in the first quarter of 2018 compared with an operating loss of $9.5 million and a net loss of $5.7 million a year ago. In the first quarter of 2018, Nuvera shipped 63 Nuvera battery box replacement units compared with 29 in the prior year quarter, but revenue on these units has been deferred until later period.

Nuvera's net loss increased primarily as a result of Nuvera realizing a smaller tax benefit on its pre-tax losses due to a lower effective income tax rate under the U.S. tax reform legislation. Due to the premium cost position and limited product range of our currently available battery box replacements, we are taking a measured approach for developing Nuvera's customer base by building relationships with customers who are willing to pay a premium for the high power density of the current Nuvera battery box solution and the product support now offered through the Lift Truck business.

The backlog for Nuvera units was just over 300 battery box replacements as of March 31. We expect demand to continue to increase for Nuvera's battery box replacement units throughout the year and for the cost base to fall due to substantial cost reductions already secured on future purchases of core components.

Nuvera expects to continue to leverage improved designs and higher volumes through its supply chain with further cost reductions expected in 2019. We expect production to begin at the Lift Truck business' manufacturing plant in Greenville, North Carolina in 2019, with a steady ramp up in demand anticipated.

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In addition, in that same timeframe, battery box replacement manufacturing at Nuvera's Billerica facility is expected to be phased out and transferred to the Lift Truck business. With the phase out of battery box replacement production in Billerica, Nuvera will focus on the design, manufacture and sales and marketing of fuel cell stacks and engines. In addition to growing demand for battery box replacement engines, Nuvera is experiencing significant interest for its stacks and fuel cell engines for applications outside of the battery box replacement market and believe this could be a significant and profitable growth opportunity.

Nuvera and the Lift Truck business were selected to partner with the Center for Transportation and the Environment, which has received a preliminary award from the California Air Resources Board to demonstrate operations of a Hyster 1150 Container Handler Top Loader Big Truck using an electrified powertrain and a Nuvera Orion-based fuel cell engine for the Port of Los Angeles. The contract has been finalized and is expected to be executed shortly. This will be the first demonstration of Nuvera's plan to develop easily integrated, high-power fuel cell engines for use in OEM products.

We are currently targeting Nuvera to achieve breakeven by late 2019, although this target could be achieved earlier or later depending on sales volumes for fuel cell-powered lift trucks, execution of our significant cost reduction efforts as well as engine sales for other markets. The operating loss in 2018 is expected to decrease compared with 2017, especially in the fourth quarter and moderate more substantially over 2019. The net loss in 2018 is expected to be comparable to 2017 because a smaller tax benefit is expected to be realized on Nuvera's losses due to a lower effective income tax rate under the U.S. tax reform legislation.

So, to summarize, on a consolidated basis, we expect our consolidated operating profit to be substantially higher for the 2019 full year due to, one, an expected improvement in Bolzoni's operating profit attributable to anticipated higher sales volumes; two, a lower operating loss at Nuvera, primarily in the fourth quarter of 2018 from an expected reduction in component costs; and three, a modest improvement in operating profit at our Lift Truck business as benefits from anticipated higher unit and parts revenues are expected to be largely offset by material cost inflation and higher operating expenses as we continue to invest in our strategic growth initiatives. Our consolidated net income is also expected to increase substantially due to the absence of net tax adjustments of $18.4 million made in 2017 for the U.S. tax reform legislation.

Before I open up the call for questions, I wanted to make a comment about our cash position and cash flow expectations. Our cash position at March 31 was $228.1 million compared with $220.1 million at the end of 2017. Our debt balance was $283.4 million, down from $290.7 million at year end. Also, as a result of an unplanned acceleration of payments in December 2016, we experienced higher than normal cash benefits from the restoration of accounts payable levels in the first quarter of last year. Excluding the favorable effect of payments made on 2017, we expect our consolidated cash flow before financing activities to increase significantly in 2018 compared with 2017, primarily due to the cash dividend received to this past first quarter from our financing joint venture as a result of the U.S. tax reform legislation.

That concludes our prepared remarks. I will now open up the call for your questions.

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QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Your first question comes from the line of Joe Mondillo with Sidoti & Company. Please go ahead.

Joe L. Mondillo
Analyst, Sidoti & Co. LLC

Q

Hi, good morning, everyone.

Christina Kmetko
Owner, Evergreen Consulting & Associates, L.L.C.

A

Good morning, Joe.

Joe L. Mondillo
Analyst, Sidoti & Co. LLC

Q

In this environment of inflation that we're starting to see, I was wondering how pricing is around the industry. Are competitors being rational? You obviously have seen two price increases already this year. I think you mentioned just wondering what the rest of the space is doing in terms of price.

Colin Wilson
President & Chief Executive Officer, Hyster-Yale Group, Hyster-Yale Materials Handling, Inc.

A

I mean, it's obviously not uniform across the board, but I think we've seen all of our main competitors move pricing. I think the inflation pressures we're seeing are very consistent across the industry. Clearly, the magnitude of those prices increases that we're seeing, some are little bit higher and some are little bit lower and [indiscernible] (00:14:25) affect exactly at the same time. But I think it's a fair summary to say that the industry is behaving rationally and moving prices for the lift trucks in concert with the rise in material costs.

Joe L. Mondillo
Analyst, Sidoti & Co. LLC

Q

And just to get a little more idea of what you were instating, there was a full price increase across the board in January and then also [indiscernible] (00:14:53) and then frankly raw material prices just increased so fast that you decided to go another round in April, is that essentially in a basic way, is that what happened?

Colin Wilson
President & Chief Executive Officer, Hyster-Yale Group, Hyster-Yale Materials Handling, Inc.

A

Well, I've always thought of tweaks as we do price increases, saw that very rarely general across the board. I would say the one in January was more – it was selective. Some [indiscernible] (00:15:18), some are a little bit less, some are a little bit more, and the one in April was really an across the board increase.

Joe L. Mondillo
Analyst, Sidoti & Co. LLC

Q

Okay. And it sounds like – I mean, it seems like your order trends and backlog trends are tracking pretty well. Do you have any sense of or caution or fear that higher prices will end up resulting in slower demand?

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Alfred M. Rankin, Jr.
Chairman, President, Chief Executive Officer & Chairman-Hyster-Yale Group, Inc., Hyster-Yale Materials Handling, Inc. A

I'd just say that to me, it's not so much a worry about higher prices. I think that there's probably fairly broad recognition that higher prices for certain kinds of commodities and raw materials are going to be broadly affecting economies around the world. So, I think the bigger issue is the continued momentum of the upturn in business around the world. And if I had any concern at all, it's that in both Europe and to some degree in the Americas in recent quarters have been pretty substantial increases. For several years, quarter-on-quarter, their growth have been at reasonable and moderate levels. And the industry has been jumping up quite a bit more rapidly.

On the one hand, that's good because order books go up and maybe there was some pent-up demand that is surfacing and capacity constraints that are surfacing. The other side of it is that this is an industry that has seen over-exuberance on a regular basis and my hope is that these upturns are related to the former and not the latter. But that's what we're watching very, very carefully. And we do it, really especially in North America but in a more general way in Europe industry-by-industry. So, we're watching the trends in industry growth and monitoring those very carefully. So that's a bigger concern in my mind than the price.

Joe L. Mondillo
Analyst, Sidoti & Co. LLC Q

Okay. In terms of the backlog in dollars when comparing it to a year ago, how much is that boosted by currency? Do you have that number?

Colin Wilson
President & Chief Executive Officer, Hyster-Yale Group, Hyster-Yale Materials Handling, Inc. A

We don't split that out, but I would say the vast majority of the increase in the dollar value of the backlog is based on product mix. We just hold a richer mix of trucks.

Alfred M. Rankin, Jr.
Chairman, President, Chief Executive Officer & Chairman-Hyster-Yale Group, Inc., Hyster-Yale Materials Handling, Inc. A

But it is certainly true that we have a substantial currency increase in our revenues this quarter and that relates to the translation of the euro basically into dollar. And of course, that flows through not only on revenues, but on costs and you do get an improvement in whatever the net profit is, but obviously that's not incremental revenue in the same sense that real physical volume is. So, in the backlog, there is undoubtedly some impact of currency, but if you look at the units, I think what we would tell you is that the unit mix is a richer mix. There are fewer Class 3 trucks and more Class – particularly Class 5 trucks, including big trucks.

Joe L. Mondillo
Analyst, Sidoti & Co. LLC Q

Right. I was just trying to get more of an idea of the backlog on a per-unit, per-dollar basis, trying to exclude currency and see how that's [indiscernible] (00:19:58).

Alfred M. Rankin, Jr.
Chairman, President, Chief Executive Officer & Chairman-Hyster-Yale Group, Inc., Hyster-Yale Materials Handling, Inc. A

We don't track that number and it would be hard for us to give it to you.

Colin Wilson
President & Chief Executive Officer, Hyster-Yale Group, Hyster-Yale Materials Handling, Inc. A

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I mean, roughly speaking, two-thirds of the revenue is dollar revenue anyway.

Alfred M. Rankin, Jr.
Chairman, President, Chief Executive Officer & Chairman-Hyster-Yale Group, Inc., Hyster-Yale Materials Handling, Inc.
A

Right.

Joe L. Mondillo
Analyst, Sidoti & Co. LLC
Q

Okay.

Kenneth C. Schilling
Chief Financial Officer & Senior Vice President, Hyster-Yale Materials Handling, Inc.
A

That's probably the best way [indiscernible] (00:20:16), Joe, is to look at it and say, a third of the backlog is non-U.S. dollar based and it would have seen the uptick in the depreciation of the dollar compared to those currencies there, currency basket. But to Al and Colin's point, the big driver is that mix shift up into higher capacity Class 5 products and fewer Class 3 products that's driving the average sales value per unit up.

Joe L. Mondillo
Analyst, Sidoti & Co. LLC
Q

Okay. When looking at the backlog and the pricing [indiscernible] (00:20:45), I guess the backlog doesn't see the price increases but in terms of the backlog, that's really just like a quarter or two of lead time, is that correct?

Kenneth C. Schilling
Chief Financial Officer & Senior Vice President, Hyster-Yale Materials Handling, Inc.
A

Those orders stretch out, it depends on the actual customer order, it could be a year allotment from a customer. We typically look at it in kind of month increments. [indiscernible] (00:21:09) in the first month of a quarter based on backlog and then that percentage declines as we go through the successive months. So that when we get to the third month, it's a percent that isn't at the highest levels. We would have 30%, 40% to fill in the backlog that would have to come from current orders.

Alfred M. Rankin, Jr.
Chairman, President, Chief Executive Officer & Chairman-Hyster-Yale Group, Inc., Hyster-Yale Materials Handling, Inc.
A

And more important thing perhaps to bear in mind is that if we have an unanticipated spike in supplier costs, in general, absent very special circumstances, those prices are pretty much committed to the customer at the time of the order. And therefore, if we have not been as accurate as we would like to be or try to be in forecasting the costs of our product as much as six or eight months out into the future, which we actually do do from a mechanical point of view, so that when we set a price for an order that's going to be delivered in six months, we try to understand what sort of inflation we're going to face between now and six months from now because that's when we deliver it and that's when the revenue is fixed and the cost is fixed.

On the other hand, as we've suggested to you, we've seen a more rapid increase in supplier costs than we think anyone was quite projecting, including us, and therefore we've got a catch-up period to go through before we realize the benefit of the price increase on a full basis based on the type of schedule that Ken just outlined for you.

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Colin Wilson
President & Chief Executive Officer, Hyster-Yale Group, Hyster-Yale Materials Handling, Inc.

A

I mean, we have between four and five months of backlog if you look at it on a pure numerical basis. The majority of that is sort of scheduled like best available slot for the customer, but some of that backlog as Ken said is scheduled out throughout the year, but that's a small part of the backlog. And if the backlog gets too long and then we start running into trouble with letting our customers down. The customers won't wait 20, 24 weeks for a standard product when they expect to get a product in 12 to 16 weeks roughly speaking and so we'll try to manage our production and we try to manage capital balancing out with pricing, but we try not to let our backlog stretch out too long.

On the other hand, we've tried not to have too thinner backlog because then we run into problems in terms of filling slots and assessing opportunities to production and that's when we start getting to – once the lead times get short, then we start running into manufacturing inefficiencies.

Alfred M. Rankin, Jr.
Chairman, President, Chief Executive Officer & Chairman-Hyster-Yale Group, Inc., Hyster-Yale Materials Handling, Inc.

A

But let me just emphasize that from a philosophical point of view, we are unlikely to chase production to meet the levels that are being booked, we'd much rather extend the backlog out away, have the revenues come later. And then if business does drop off either temporarily or more fundamentally, we haven't increased our production rates, hired lot of people, have to cut back on the supply chain process and create a lot of inefficiencies. So, we try to be very careful and thoughtful about managing the backlog and its relationship to shipments.

Joe L. Mondillo
Analyst, Sidoti & Co. LLC

Q

Okay. And just lastly the tax rate for the core Lift Truck business, it seems like it was around 25% in the first quarter. I know that probably fluctuates a little bit just given the international revenue versus U.S. revenue. But is that sort of – if there wasn't anything unusual in there, is that sort of a good sort of tax rate to sort of use for the rest of the year?

Kenneth C. Schilling
Chief Financial Officer & Senior Vice President, Hyster-Yale Materials Handling, Inc.

A

Yes. We were 24.7%. When you think about it, 21% is the new Fed rate. You add 3% or 3.5% for state, you're at 24.5%. We've got some mix issues between international being lower and some of the new tax provisions being a little bit higher. So 25% is probably a good bogey for now and that would be indicative based upon the effective rate we used throughout the quarter.

Joe L. Mondillo
Analyst, Sidoti & Co. LLC

Q

Okay. Thanks.

Operator: Your next question comes from the line of Mig Dobre with Baird. Please go ahead.

Peter Ziel
Analyst, Robert W. Baird & Co., Inc.

Q

Hey. Good morning, guys. This is Peter Ziel on for Mig.

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Alfred M. Rankin, Jr.
Chairman, President, Chief Executive Officer & Chairman-Hyster-Yale Group, Inc., Hyster-Yale Materials Handling, Inc. A

Good morning.

Christina Kmetko
Owner, Evergreen Consulting & Associates, L.L.C. A

Good morning.

Peter Ziel
Analyst, Robert W. Baird & Co., Inc. Q

Good morning. Starting with a few questions on Lift Truck. So in Americas specifically, it sounds like the market maybe improved a little bit more year-over-year than you were guys anticipating coming into the year related to a demand pull forward. Could you quantify kind of what the impact from any demand pull forward was or of course, if that's made of just...

Colin Wilson
President & Chief Executive Officer, Hyster-Yale Group, Hyster-Yale Materials Handling, Inc. A

I'm not sure what you mean demand pull forward.

Alfred M. Rankin, Jr.
Chairman, President, Chief Executive Officer & Chairman-Hyster-Yale Group, Inc., Hyster-Yale Materials Handling, Inc. A

Yeah. I think anecdotally, we do signal that we had some customers who we believe were buying ahead in anticipation of rising prices. And so, anecdotally, I think we put that into the release and that's what we need to prove out by seeing the actual order book that comes in the second quarter.

Colin Wilson
President & Chief Executive Officer, Hyster-Yale Group, Hyster-Yale Materials Handling, Inc. A

That's an order question, not a shipments question.

Peter Ziel
Analyst, Robert W. Baird & Co., Inc. Q

Right.

Colin Wilson
President & Chief Executive Officer, Hyster-Yale Group, Hyster-Yale Materials Handling, Inc. A

I guess, because it doesn't affect the shipments.

Peter Ziel
Analyst, Robert W. Baird & Co., Inc. Q

Right. Okay. So, the orders came in higher than expected maybe just as customers tried to get in ahead of some price increases. Well, then maybe tailing off that with the January and April price increases in place, do you guys think that the prices are where they need to be given the current commodity prices, or are there more price increases planned just with where we are now, what's the [indiscernible] (00:27:48) commodity prices?

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Alfred M. Rankin, Jr.
Chairman, President, Chief Executive Officer & Chairman-Hyster-Yale Group, Inc., Hyster-Yale Materials Handling, Inc.

A

Anytime we make a price increase, we try to cover what we anticipate will be the conditions that we will face as we look to the future, to some degree for the full year, certainly for six months or eight months. It doesn't mean that they will in fact be that way, but the answer to your question is that we fuel the price increases we need as we see the situation at the moment are at the right levels.

What I would remind you or just emphasize, however, is that there is this lag process of realizing price increases because the backlog prices don't increase with the price increase and therefore, it gets phased in into the degree that we've had a sharper, quicker upturn in cost than we anticipated, that's going to take us a while to work through that process. And so, you may see some impact in the next couple of quarters before you see the full impact of these price increases.

Peter Ziel
Analyst, Robert W. Baird & Co., Inc.

Q

Okay. And on that note, I guess, I want to make sure that I'm interpreting the guidance correctly. So, it sounds like maybe the top line expectations for Lift Truck increase as maybe the market develops better than expected for 2018, but then given some of these unexpected material manufacturing cost increases, the margins maybe softer than what was contemplated in the last guidance, is that in line with what you guys are thinking?

Alfred M. Rankin, Jr.
Chairman, President, Chief Executive Officer & Chairman-Hyster-Yale Group, Inc., Hyster-Yale Materials Handling, Inc.

A

Well, I'd just be a little more time specific and say that the revenues are coming along in a good solid way that they certainly support the shipment plan that we have for the year. We haven't really varied that shipment plan in a significant way. And there may be a couple of quarters where there are some unrecovered cost increases – some portion of the cost increases are not recovered before we get full recovery. So I think if you look at it on a quarter-by-quarter basis in fourth quarter, I think we should be back in balance and [ph] Alan (00:30:28), hopefully some other things will happen that will affect us positively, it's just there are a lot of variables but I think our description of the pricing increase and supplier cost impact timing is probably what you want to focus on.

Peter Ziel
Analyst, Robert W. Baird & Co., Inc.

Q

Okay. So if I'm recalling correctly, the prior guidance did also expect the first half operating income for Lift Truck lower than 1H 2017 and then offset by increases in the second half. Is it fair to say that this is more pronounced in the current guidance given the steep ramp in the input costs? Okay. All right.

Alfred M. Rankin, Jr.
Chairman, President, Chief Executive Officer & Chairman-Hyster-Yale Group, Inc., Hyster-Yale Materials Handling, Inc.

A

Yeah, I think that's [ph] probably right (00:31:09).

Colin Wilson
President & Chief Executive Officer, Hyster-Yale Group, Hyster-Yale Materials Handling, Inc.

A

Some of the same factors apply, I mean when we gave our prior guidance, we were putting out price increases in January. We started to see the inflation hitting us in the back half of 2017 into 2018. So when we gave our guidance three months ago, we were basically expecting a lag benefit from the January price increases and so

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now we're expecting – that guidance hasn't changed. But what has changed is the new material inflation we're seeing and the new price increases and the lag benefit we'll get on the new increases.

Peter Ziel
Analyst, Robert W. Baird & Co., Inc.

Q

Okay. And then I guess just maybe lastly, stepping back a little bit and looking at a little bit longer term or medium term outlook for North America, specifically looking through the investor presentation and some of the market numbers we've seen in North America, retail is above prior peak for Lift Trucks. And I guess against the backdrop of some of the PMI for example moderating a little bit, I guess, how do you view the late 2018 and the 2019 demand environment for North America Lift Trucks?

Alfred M. Rankin, Jr.
Chairman, President, Chief Executive Officer & Chairman-Hyster-Yale Group, Inc., Hyster-Yale Materials Handling, Inc.

A

What I'd say is that for our planning purposes, we, at this point in the cycle, we want to be very conservative and if it turns out better, that's terrific. That's in terms of market size. On the other hand, we see the impact of our strategic programs that influence our market share position, particularly in terms of the industry focus and the sales investment that we're making in enhanced coverage having an increasing impact. So, our objective is to work through downturns in the marketplace at the same time that we're getting share increases and to have a good solid situation prospectively.

Peter Ziel
Analyst, Robert W. Baird & Co., Inc.

Q

Okay. Thank you. I'll leave it there.

Operator: [Operator Instructions] Your next question comes from the line of Mike Shlisky with Seaport Global. Please go ahead.

Michael David Shlisky
Analyst, Seaport Global Securities LLC

Q

Good morning, everybody.

Christina Kmetko
Owner, Evergreen Consulting & Associates, L.L.C.

A

Good morning.

Alfred M. Rankin, Jr.
Chairman, President, Chief Executive Officer & Chairman-Hyster-Yale Group, Inc., Hyster-Yale Materials Handling, Inc.

A

Good morning, Mike.

Michael David Shlisky
Analyst, Seaport Global Securities LLC

Q

So want to start off with a couple of quick Nuvera questions. First, you mentioned you had shipped 63 BBR units in the quarter, but the sales were deferred on your books. I was wondering if you could [ph] just put some (00:34:00) kind of color as to what that's all about and is there a risk of those being returned back to you for some reason, is that why you can't book it?

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Alfred M. Rankin, Jr.
Chairman, President, Chief Executive Officer & Chairman-Hyster-Yale Group, Inc., Hyster-Yale Materials Handling, Inc.

A

No. It's not so much the risk of them being returned, it's the timing of customer acceptance and the revenue will be earned over a period of time, Mike.

Michael David Shlisky
Analyst, Seaport Global Securities LLC

Q

Are you saying except as far as the performance or [ph] as they're lowering dock and they (00:34:29) open the box, is there...

Alfred M. Rankin, Jr.
Chairman, President, Chief Executive Officer & Chairman-Hyster-Yale Group, Inc., Hyster-Yale Materials Handling, Inc.

A

It's related to the nature of the contract. So, these are unlike our regular forklift truck business, most of those have kind of specialized contracts and it's related to the revenue recognition rules that are in place now that being that a shipment doesn't necessarily trigger the revenue recognition. And I think Ken described the fact that there are other triggers that cause the revenue to be recognized periodically as we move forward.

Kenneth C. Schilling
Chief Financial Officer & Senior Vice President, Hyster-Yale Materials Handling, Inc.

A

Yeah. The shipments have all occurred to the customer at a point in time. When we have a product that meets shipment terms when it goes to the customer, we can't get revenue recognition. On this product line, we have to be able to identify all the costs involved, Mike, and until we are able to, we will continue to pick up revenue as it's received in cash.

Michael David Shlisky
Analyst, Seaport Global Securities LLC

Q

Okay. Okay. And then the backlog there, it looks like [indiscernible] (00:35:32) a little higher than that here in this quarter, but it didn't change much from last quarter if I recall from last quarter's numbers. Is there a reason why it didn't change much and are you confident that you'll have some growth for the rest of the year?

Alfred M. Rankin, Jr.
Chairman, President, Chief Executive Officer & Chairman-Hyster-Yale Group, Inc., Hyster-Yale Materials Handling, Inc.

A

Well, my recollection and I'm going to look at my colleagues here, but my recollection is that there was some change in the mix in the backlog and we had some deferral of shipments out into 2019 and so there are some increased orders in the net is not all that different. And so in terms of the perspective we have, I don't know that it's changed a whole lot.

The other thing I would tell you is that perhaps more important is that given the backlog we're not at this point in any hurry to add backlog and shipments that would need to be made this year. We want to phase up at a very careful way. We have significant cost reduction programs that are coming that are part of the plan that moves us to breakeven towards the end of 2019 and we want to ramp up the manufacturing capabilities in a highly orderly fashion. And we also want to focus on business that we think is less price sensitive than some of the business that is being done in the marketplace today, particularly where the particular technology that we use has its greatest impact in providing value for the customer.

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And so it's just part of us – of orderly ramp up. I do feel that we feel quite positive about the opportunities for enhanced bookings as soon as we're feeling that it's the right time to go forward and aggressively solicit them in the marketplace. So, this is not necessarily about demand in the normal sense of are there orders for us out there. It's about what we choose to pick and the timing in which we choose to pick it that is really the gating set of factors right at the moment.

Michael David Shlisky
Analyst, Seaport Global Securities LLC

Q

Okay. Okay. I got it. And then I kind of want to maybe kind of like summing up here between Lift Trucks and Bolzoni, I mean, there were a lot of the same words in the press release and your comments today as far as the exact phrasing of things, but is it fair to say that you've gotten a little bit less positive on the operating income growth in Lift Trucks, but perhaps more positive on Belzoni. Net-net, things don't seem all that different though from a dollar perspective for operating profit outside Nuvera since we spoke last quarter.

Alfred M. Rankin, Jr.
Chairman, President, Chief Executive Officer & Chairman-Hyster-Yale Group, Inc., Hyster-Yale Materials Handling, Inc.

A

Well, we've already had a discussion of the sequence of price and cost increases in HYG. And I'd say that things are going very well in Bolzoni, but keep in mind that we do benefit from currency, I don't believe we've called it out in the release, but the majority of Bolzoni's business is in euros. And so they're both enhanced physical volume and enhanced translation that are helping us with Bolzoni. I think we're very pleased with the situation with Bolzoni overall and we expect that the numbers will continue to move in a positive direction.

Colin Wilson
President & Chief Executive Officer, Hyster-Yale Group, Hyster-Yale Materials Handling, Inc.

A

I'd say I mean it's implied but the revenue is in euros because most of that business is in Europe and we haven't seen the same level of material inflation, we've had material inflation in Europe, but nowhere near to the magnitude that we're seeing in the U.S. So they're not being hit by those same factors, but just generally speaking, as Al said, the business is doing well.

Kenneth C. Schilling
Chief Financial Officer & Senior Vice President, Hyster-Yale Materials Handling, Inc.

A

Yeah. Of the $9.6 million revenue growth, $6.7 million was driven by currency. So we did very well on the incremental non-currency related sales.

Michael David Shlisky
Analyst, Seaport Global Securities LLC

Q

Okay, I got it, perfect. Thank you so much, guys.

Operator: And we have no further questions in the queue at this time. I would now like to turn the call back over to Ms. Kmetko.

Christina Kmetko
Owner, Evergreen Consulting & Associates, L.L.C.

Thank you. Any wrap up comments?

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Alfred M. Rankin, Jr.

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

No, I don't think so.

Christina Kmetko

Owner, Evergreen Consulting & Associates, L.L.C.

All right. Well, thank you very much for joining us today. If you do have any follow-up questions, you can reach me at 440-229-5168. That ends it for us. Thank you.

Operator: Thank you for participating in today's Hyster-Yale Materials Handling first quarter earnings conference call. This call will be available for replay beginning at 2:00 PM Eastern Standard Time today through 11:59 PM Eastern Standard Time on May 9, 2018. The conference ID number for the replay is 3072129. Again the conference ID number for the replay is 3072129. The numbers to dial-in for the replay are 800-585-8367, 855-859-2056 or 404-537-3406. This will conclude today's conference call and you may now disconnect.

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