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Hyster-Yale Materials Handling, Inc. (HY)

Q3 2018 Earnings Call

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OTHER PARTICIPANTS

Joseph Mondillo
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MANAGEMENT DISCUSSION SECTION

Operator: Good morning. My name is Chris and I will be your conference operator today. At this time, I would like to welcome everyone to the Hyster-Yale Materials Handling Q3 2018 Conference 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.

Christina Kmetko, you may begin your conference.

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

Thank you. Good morning, everyone, and welcome to our 2018 third quarter earnings call. I'm Christina Kmetko and I'm responsible for Investor Relations of 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 evening, we published our third 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 For anyone who is not able to listen to today's entire call, an archived version of this webcast will be on our website later this afternoon and available for approximately 12 months.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 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.

Now, let me discuss our third quarter results and activities. I will discuss the highlights first and then get into the details. In the third quarter, the global Lift Truck market remained strong. And in this strong market, we had a solid increase in our third quarter Lift Truck shipments and our ending backlog increased 20.5% over the prior year. Our average sales price per unit in backlog increased over the 2017 third quarter, but was comparable to the second quarter. This is because in the third quarter the company shipped more lower priced units while shipments of higher priced units including big trucks were lower primarily as a result of supplier shortages.

On a consolidated basis, our revenues increased over 13.3% to $782.9 million, up from $691.1 million last year, driven by a 13.6% increase in the Lift Truck business revenues and a 5% increase in Bolzoni's revenues. The Lift Truck revenues included $19 million on shipments of 1,400 units from our Maximal subsidiary, which was acquired in June 2018. Despite this revenue growth, our consolidated operating profit decreased 32.6% to $12.2 million from $18.1 million last year, which included decreases at all operating segments.

However, I would like to note that the 2018 third quarter operating profit includes $4 million of one-time Hyster-Yale Maximal purchase accounting adjustments and $2 million of post-acquisition expenses. Excluding the one-time adjustments and despite the effect of import tariff, our third quarter operating profit was broadly in line with our expectations. We reported net income of $15.4 million this quarter or $0.93 per share compared with $16.5 million or $1 per share in the prior year.

In our Lift Truck business, third quarter 2018 revenues went up 13.6% to $740.8 million from $652.3 million in the prior year, but operating profit decreased 20.2% to $19.4 million from $24.3 million in 2017. Overall benefits from increased shipments and parts revenues were more than offset by higher material costs, net of price increases, the one-time unfavorable purchase accounting adjustment of $4 million and manufacturing inefficiencies caused by supplier parts shortages. Those were the significant factors affecting our Lift Truck operating results.

Now, let me turn to the outlook for the consolidated Lift Truck business. We continue to be focused on increasing our unit volumes and market share over the remainder of 2018 and in future years with the continued implementation of our key strategic initiatives. We have realigned our sales and marketing teams and increased our sales and marketing resources to execute our specific industry strategies more effectively as a means to target sustainable share gains.

This is one of the main reasons our operating expenses have increased throughout 2018. The overall global Lift Truck market remained strong throughout the first three quarters of 2018 and is expected to grow only modestly in the fourth quarter of this year. We expect unit shipments and unit and parts revenues to increase during the fourth quarter compared with last year.

Despite benefits from expected increases in unit and parts sales as well as the anticipated benefits from favorable currency, we expect the Lift Truck business gross profit to decrease significantly in the fourth quarter of 2018 compared with last year. And the explanations for the third quarter results hold for the fourth quarter outlook. Benefits from anticipated higher unit and parts volume and price increases are expected to be more than offset by the effects of material cost inflation and import tariffs, the shift in mix to lower margin products primarily because big truck shipments are expected to continue to be impacted by supplier constraints. And we expect to continue to experience increased manufacturing inefficiencies caused by supplier parts shortages.

These challenges combined with an expected increase in operating expenses, particularly higher cost to increase our sales and marketing team as well as increased product development cost and Maximal integration costs are also expected to result in a substantial decrease in operating profit.

Nevertheless, we anticipate 2018 fourth quarter net income will increase substantially over last year's fourth quarter as a result of the absence of the tax adjustments made in 2017 with U.S. tax reform litigation. We anticipate that commodity costs will continue to increase in the last quarter of this year, although these costs remain volatile and sensitive to changes in the global economy and to tariff. We announced a tariff surcharge and we'll continue to monitor these costs closely and adjust pricing accordingly.

Moving to Bolzoni, Bolzoni reported net income of $1.4 million and revenues of $46.6 million for the third quarter compared with net income of $1.9 million and revenues of $44.3 million in last year's third quarter. Bolzoni's revenue increase was primarily due to higher volumes in the EMEA market. Bolzoni's operating profit decreased mainly because of higher operating expenses due to the continued implementation of Bolzoni's strategic programs specifically to increase its presence in North America.

Looking forward, as a result of anticipated growth in the EMEA market and the continued implementation of sales enhancement programs, we expect Bolzoni's fourth quarter revenues to increase significantly compared with the prior year fourth quarter. 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 operating profit and net income in the fourth quarter compared with last year.

Finally, in our Nuvera segment, Nuvera reported revenues of $1 million and operating loss of $9 million and a net loss of $6.4 million in the third quarter of 2018 compared with revenues of $300,000 and operating loss of $8.1 million and a net loss of $4.9 million a year ago. The revenue decrease was the result of an increase in sales associated with Nuvera's hydrogen power generation units compared with the prior year.

Also during the quarter, Nuvera shipped 56 battery box replacement units compared with 13 in the prior year. Revenues on these shipped units, as well as other shipments throughout 2018 has been deferred because these units are new technology and the design of the product continues to evolve. Currently, we do not have sufficient data available to be able to reasonably estimate all of the future costs related to the sale of battery box replacement units such as warranty costs. When we are able to reasonably estimate the total future costs related to these sales, we will be able to appropriately recognize the revenue and warranty reserve.

Nuvera's operating loss increased in the third quarter of 2018 compared with the prior year mainly as a result of higher product development and productions startup costs related to fuel cell stacks and engines. For the fourth quarter of 2018, we expect battery box replacement unit bookings and shipments to increase. In addition to the new projects, Nuvera expects [indiscernible] (09:25) operating and net losses in the fourth quarter of 2018.

During our second quarter call, I spoke about the new agreement with Runfeng that was signed earlier in the third quarter. In addition to that agreement Nuvera is working with a second significant Chinese company and has a signed agreement for the development of a fuel cell system for use in their internally developed electric powertrain. Nuvera expects significant near-term payments which will be amortized into income over the remainder of 2018 and 2019 as the development work is completed.

This agreement is an extension of an initial proof of performance review that was completed during the third quarter. During 2019, this contract is expected to generate substantial income. Additional phases, if successful, would be completed over the next four years and would result in commercial production and the non-exclusive use of Nuvera fuel cell stacks by the partner with Nuvera retaining rights to use the stacks globally.

So to summarize our consolidated fourth quarter outlook, we expect our consolidated operating profit to decrease compared with the 2017 fourth quarter as anticipated fourth quarter improvements at Nuvera and Bolzoni are not expected to offset the anticipated decrease in the fourth quarter operating profit of the Lift Truck business which is expected to be lower primarily as a result of the timing of price realization and the resulting cost price differential as well as manufacturing inefficiencies. However, consolidated 2018 fourth quarter net income is expected to increase significantly due to the absence of unfavorable tax adjustments of $18.4 million made in the fourth quarter of last year and the lower effective income tax rate as a result of U.S. tax reform legislation.

Now, let me provide a high level perspective of what we expect for 2019. However, I'd like to point out that we are still going through our detailed annual planning process and we will provide more color on 2019 with our year-end earnings once that process has been completed. Within the Lift Truck business, we expect global markets in 2019 to be comparable to 2018. Based on our preliminary 2019 plan, we expect the benefits from anticipated unit and parts revenue increases will be partially offset by higher operating expenses and material cost inflation net of price increases and tariff surcharges. This is expected to result in an increase in both operating profit and net income in 2019 compared with 2018.

However, we have a number of opportunities and challenges that have not yet been fully factored into our operating plan due to uncertainties in the general market environment. At present, our biggest concern is the effective tariffs on our operations. But the component shortages I spoke of caused by supplier constraints appear likely to become a more serious challenge through anticipated increase in volumes in 2019.

On the other hand, we also have a number of cost saving opportunities that we are reviewing but the effect of these opportunities have not been fully calibrated at this time. At Bolzoni, we expect revenues to remain strong, but the growth rate is expected to moderate from the double digit growth experienced in 2018. We expect both operating profit and net income will increase next year compared with this year on improved margins. Bolzoni is a significant opportunity to grow in the Americas market where it has a lower market position than in EMEA and this will be a major focus in 2019 and beyond.

At Nuvera, we expect demand for fuel cell stacks and systems as well as battery box replacements used on Lift Trucks to increase significantly in 2019. We are also encouraged by the amount of interest from third parties particularly in China, wanting to partner with Nuvera through various types of arrangements.

Nuvera believes this interest can be a significant and profitable near-term growth opportunity. We anticipate Nuvera's cost base to decrease, but we will continue to watch how recently implemented tariffs on imported components will affect them and adjust accordingly.

Also during 2019, the production of battery box replacements and Nuvera's Massachusetts facility will be phased out and transferred to the Lift Truck business. With the phase out of this production, Nuvera will focus on the design, manufacturing and sales and marketing of fuel cell stacks and engines. As Nuvera ramps up production of fuel cell stacks and engines and leverages the partnership opportunities, we expect Nuvera's losses to moderate substantially during 2019 especially in the second half of the year.

As we've noted previously, we have had a target to achieve breakeven by late 2019. In light of the additional business opportunities in China, within the non-forklift truck market, as well as additional costs that are expected to be incurred associated with these opportunities. We are currently assessing the appropriateness of this target.

Overall, on a consolidated basis, as a preliminary baseline, we expect 2019 revenues, operating profit and net income to improve over 2018.

Before I open up the call for questions, I want to make a comment about our cash position and cash flow expectations. Our cash position at September 30 was $121.9 million compared with $220.1 million at the end of 2017. Our debt balance was $296.5 million, up modestly from $290.7 million at year-end. The decrease in cash and modest increase in debt were primarily driven by the acquisition of Maximal in the second quarter of 2018.

We expect our consolidated cash flow before [ph] financing (14:51) activities will be a significant use of cash in the fourth quarter, primarily due to anticipated increased working capital and higher capital expenditures.

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

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Your first question comes from Joe Mondillo of Sidoti Company (sic) [Sidoti & Company] (15:16). Your line is open.

Joseph Mondillo
Analyst, Sidoti & Company, LLC

Q

Hi, everyone. Good morning.

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

A

Good morning, Joe.

A

Good morning, Joe.

Joseph Mondillo
Analyst, Sidoti & Company, LLC

Q

I wanted to ask about sort of the two, I think, most significant headwinds that you're sort of facing and being challenging, which is the tariffs dealing with the higher costs and price and then also the supply chain constraints which seem to be a little more of a headwind than previous in the year. You can comment on that if you want, but I'm just sort of curious on both of them sort of how do you see them playing out as we go through the first half of 2019? Does it sort of start to subside or just walk through sort of both of those and I'm sure they're both different, but how you sort of see them playing out? On the tariff side, we think you're catching up at some point in time with price, but supply chain seems like it's sort of a new type of thing. If you can comment on both of those, that would be helpful.

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

A

I mean on the price side, Joe, this is Colin Wilson, we are basically recovering in the prices that we're selling at now, the material inflation that we've seen, significant material inflation that we've seen in 2018. But clearly, what we're putting in the backlog is not going to get shipped until 2019. We get a lot better in the fourth quarter and we progressively get better as we move through 2019. But specifically in the Americas where we've had the biggest amount of or the largest amount of inflation where we're covering general material inflation as well as the impact of 232 and 301 tariffs. So that situation will ease as we go into – it'll ease in the fourth quarter and will ease more significantly in 2019 unless we see another round of tariffs.

As far as the supply shortages are concerned, they've been brewing for some time. They particularly affect our plant in Nijmegen on the big truck side and they've been brewing I would say for about a year, but we've been able to get by, but we've sort of reached a tipping point and had to take some units out of our schedules in order to catch up on customer commitments. So our lead times are sort of in the 22-week to 30-week range right now. We have diverted some resources into our supply chain group to work with the suppliers, our key suppliers that were [ph] amassing (18:07) parts as well as to do some expediting. We do see that situation.

We are projecting it will ease as we go through the first half, I think we'll still see some challenges in the first quarter and then we're projecting that those pressures will abate as we move into the second quarter of 2019. Ad it's not that they're not providing us with the volumes that they committed originally, it's just that the inability to ramp up their volumes to meet our ramp up in schedules.

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

A

Yeah. I'd just like to emphasize that point because it's not that we're constrained at the volume levels that we had, as Colin indicated we kind of worked our way through that and with the normal expediting processes we were able to get the components. The problem is that the volumes are going up in many markets around the world and many different industries and in the heavy industry area we have common suppliers with other people and we're competing for their machine time. And so, it's made the ramp up to respond more difficult.

I suppose if there is any attractive element to it or compensating element to it is that we don't really see this affecting our ability to book trucks in any significant degree. At least we haven't seen that at this point. So, it means that the backlog will be increasing and the lead times extending out and at such time as the market does weaken, it means we have a more protective backlog to continue at our levels of production. So, to some degree, it would be our expectation, this is a timing matter rather than a fundamental matter for us.

On the other hand, it is even at current levels that we have now causing disruption in the plants as Colin indicated that leads to some manufacturing variances due to productivity difficulties.

Joseph Mondillo
Analyst, Sidoti & Company, LLC

Q

All right. So, to follow up on that, the orders in dollars that you put in the press release, the year-over-year growth rates seem to have slowed compared to the last couple of quarters in terms of the rates that you...

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

A

I don't think you can compare quarters to quarters. The third quarter to the -- I think what you really need to do is to compare the third quarter of this year to the third quarter last year. The third quarter, particularly in Europe is a slow quarter. People have vacations, the activity levels just aren't there. So, I don't think it's realistic to compare the third quarter to the second quarter. I think it's realistic to compare the third quarter this year to the third quarter of last year.

Joseph Mondillo
Analyst, Sidoti & Company, LLC

Q

Yeah. Actually what I meant was the year-over-year growth compared to last year. You saw 8% growth this year or this quarter. That growth has sequentially slowed compared to the last few quarters. So I'm comparing it year-over-year. I understand the seasonality.

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

A

I'd be a little careful though. We have enough bookings of very large orders that it can distort those numbers. And I guess my point of view would be that 8% growth is a very, very healthy. So, in the second quarter, I don't remember specifically but we had some large orders from big customers in there and it kind of distorts the numbers a little bit. We're more inclined to look at it in terms of kind of a run rate over the course of the year.

Joseph Mondillo
Analyst, Sidoti & Company, LLC

Q

Okay. Could you talk maybe in general just in terms of the overall markets then it seems like you sort of pointed out that you anticipate the global Lift Truck market as a whole to sort of be comparable to 2018 after 2018 was up over 2017? So, it seems like regardless you're still suggesting that the market is potentially will slow, even though you are anticipating growth still in 2019. Could you just talk about sort of just the overall market and what you're seeing and you know?

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

A

You know, I guess I'd say it's my fervent hope that the markets will not grow more rapidly than we expect because the last thing we want in our kind of industry is to have overheating. As you point out properly, the growth rates have exceeded our expectations and we worry that the levels are more frothy than we would like. So, stabilizing at these levels we would consider pretty positive development in that sense, because we think that that gives a greater chance of extending the duration of the upturn than if they continued to grow rapidly.

The other side of your question is, well, Colin can comment more on this, but we certainly expect over the course of 2019 and 2020 to have an increasing impact from the significant investments we are making and the combination of sales – sales manpower additions and product development activity increases in the form of increased market share coming from some combination of new products and greater ability to meet the needs of our customers industry by industry and customer by customer. As we deploy the field capabilities in combination with the new products, it's kind of the way I'd summarize it. Colin, you want to add anything to that?

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

A

I mean, the third quarter global markets were up. What we started to do Joe is really look at the market in two ways. The total market and then the market less Class 3 because of the significant growth in the very low value Chinese Class 3 products that have really been growing at a rate higher than the total market. But if you look at the total market in the third quarter, it was up about 9%. And if you exclude Class 3, it was up about 4%. [ph] The end (25:07) market was broadly flat in the third quarter. I mean, we do see the markets continuing to grow but at a slower rate, as we go out of 2018 into 2019, just to reference the growth, 4% growth excluding Class 3 in the third quarter contrast with a 12% growth that we saw through the first half of the year, so all regions – nearly all regions are growing, there's a few spotty patches around the world, just like the Middle East, but overall, we just see a continued healthy market environment.

Joseph Mondillo
Analyst, Sidoti & Company, LLC

Q

Okay. Also I had a couple of questions just on your EMEA segment. First, two things, are you seeing any sort of – you just commented that you're anticipating a little bit of a slowing, but that's also I think partially due to just tougher comps. But in terms of Europe specifically, more specifically, are you seeing any slowing because of economic slowdown, we're starting to hear some pockets of potential slowing within the European economy. I'm wondering, if you're seeing any of that? And then also could you give us an idea of what the segment profits would look like on a year-over-year perspective ex currency because I know currency is baked into there and I know it can move that quite a bit. And I know currency probably did play a role this quarter compared to the last couple of quarters?

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

A

The markets again in Europe for Lift Trucks continue to be strong. I mean, we saw an overall 13% growth in the third quarter. If you exclude the Class 3, about a 6% growth, so that again did – has slowed compared to what we saw in the first half of the year. Certain markets are doing better than others. Russia is still struggling a little bit, Turkey is certainly weak at this moment in time, but we're seeing growth in most of the Western European markets including surprisingly the UK with all of the uncertainty that's going on. So, I think our prognosis on Europe would be – going out of 2018 into 2019 would be slowing growth. Ken, do you want to answer the second part? Ken?

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

A

Joe, about currency, I think, Joe, we are pretty clear that in our results for the third quarter currency was favorable to us. And of course that's kind of a snapshot of the trends where we sit today. So, I would expect that for the European division, currency would continue to be favorable at the currency rates we're seeing at the end of the third quarter going into the fourth. So, just based upon year-over-year comparisons, that would be helpful to us at the off-profit line. I think that was your question on currency with regard to European division.

Joseph Mondillo
Analyst, Sidoti & Company, LLC

Q

Yeah. Is there any way you can sort of maybe address the magnitude of that benefit at all, I'm just trying to get an idea of what the core business looks like ex the currency headwinds [indiscernible] (28:42)?

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

A

Yeah. We didn't call out a numbers specific either in the earnings release or in the queue. From that perspective, you can use a materiality threshold and consider what you might think that might be below our materiality disclosure threshold, we haven't disclosed it.

Joseph Mondillo
Analyst, Sidoti & Company, LLC

Q

Okay. All right. I have a few more questions, but I'll let if anyone else has a chance.

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

Please go ahead Mr. Mondillo.

Joseph Mondillo
Analyst, Sidoti & Company, LLC
Q

Okay. So, I wanted to also ask about the JAPIC segment. I'm just curious on how the investments and how everything is going with Maximal is going? And then in terms of magnitude thinking about the next couple of quarters, I think you may have mentioned that that's going – got to see a dilution to operating income by $5 million to $10 million for the first year, just sort of wondering how that sort of plays out in these first couple of quarters? Is it more heavier spend in the first couple of quarters and then that starts to wind down or just if you can address all that, that'll be helpful?

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

I think you've said it. I mean, I think we're going to see heavier expenditures early on. We're pleased with the acquisition of Maximal, we've owned it since June. There are a lot of things we're doing there to improve, even though, I think by Chinese standards, it was already a certainly better than most Chinese companies we've seen. We were very pleased with what we bought, but we're investing to improve some of the manufacturing processes, improve the business systems, we've got some integration work that we've got to get done. So I think we'll see fairly heavy or heavier expenditures as we go through the first half of the year and then those should start to ease off as we get into the second half.

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

Yeah, Joe, I think if you look at – obviously, JAPIC results were pushed unfavorable by the adjustments we were required to book under purchase accounting and the amortization of purchase accounting adjustments for depreciation and amortization, but once you strip all that out, Maximal as we disclosed in the earnings release was $1.1 million operating profit favorable. So we're excited to see that they're coming into the fold. They continue to be operating at a profitable level, we did talk about mix shift that there is less domestic sales and more export sales as we go forward, which is expected.

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

Let me add one thing to that for the purpose of clarity and have Ken confirm this. We referred at the beginning of the press release to post-acquisition expenses. I think we want to be very clear that what we're talking about are expenses that are triggered by the acquisition that will be expended in future times. These are not expenses that we have been incurring after the fact that are simply the part of our integration activities. These are really part of the purchase price structure one way or another. So they are part of the impact of the agreement itself. And so, when we say post-acquisition expenses, it could be interpreted as the expenses of integration but that's not what is in there. This is accounting treatment for the way the acquisition was structured, correct, Ken?

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

That is correct in this quarter and then as we go forward, Al, we'll have those integration programs [indiscernible] (32:46).

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

A

Right.

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

A

Joe, you'll remember our Investor Day presentation, we had a chart that showed how Maximal's contribution would be dilutive and I think you're quoting some of the numbers from that slide and of course, we are going to go through that dip as we put those integration programs in place and then, of course, the increased volumes on the broader production throughout our network. From Maximal, we'll add more profitability to the business, but we need to incur the expenses to get the right systems and manufacturing production lines in that facility to be able to reach the acquisition plan that we had for that transaction.

Joseph Mondillo
Analyst, Sidoti & Company, LLC

Q

Right. Okay. And now that you are sort of in the thick of things, is that sort of $5 million to $10 million dilution for the first year, is that sort of still [ph] same on (33:36), correct?

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

A

Yeah. We haven't provided an update to that number. So you should assume that.

Joseph Mondillo
Analyst, Sidoti & Company, LLC

Q

Okay. I also had a couple of questions on Nuvera. I just wanted to clarify in terms of your comments you made them in the press release and in the prepared commentary related to sort of the breakeven sort of goal or target. I understand that that's sort of, you're sort of maybe taking that off the table or that could be potentially changed in the future as you go through potential opportunities in China. Do I interpret that as potentially because of additional cost investments that you may have to make to go after this opportunity that potentially that breakeven target maybe have to be pushed out a little bit, but in the end that's hopefully a positive because those investments will be going towards a pretty big market in China. Is that sort of the way to sort of interpret that?

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

A

Yes.

Joseph Mondillo
Analyst, Sidoti & Company, LLC

Q

Okay. And could you just maybe provide a little more color on – so you talked about how revenue you anticipate that should have ramped up through 2018 or in the back half of 2018. We haven't seen a whole lot, just you've reiterated that you do anticipate a ramp up in the fourth quarter and throughout 2019. Is there any way you can talk about sort of magnitude or I mean are we talking double or triple of what we've seen on the quarterly run rate over the last few quarters. I mean, we haven't seen a whole lot yet. And then...

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

A

You're...

Joseph Mondillo
Analyst, Sidoti & Company, LLC

Q

...in terms of...

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

A

...you're talking about Nuvera, right?

Joseph Mondillo
Analyst, Sidoti & Company, LLC

Q

It is all, Nuvera, yeah?

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

A

Okay. Yeah. I think in Nuvera, essentially, we have had in our history two products we sold, power taps and battery box replacements. The comparison that we described was really we had some power tap sales that were incremental to last year's third quarter that did not reoccur in this year's third quarter. But that business is not a focus of our direction forward. Our focus really is this fuel cell engine and fuel cell stack development business and that's where we're going to see revenue being generated in the future. We also called out the status of battery box replacements. And today, we are deferring the revenue on battery box replacements as we describe until we're able to get a calibration of the product in the market to be able to estimate all the cost of sales and we continue to review that, Joe.

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

A

And Joe, in the 10-Q, we have disclosed the revenue that has been deferred. It's $6 million right now.

Joseph Mondillo
Analyst, Sidoti & Company, LLC

Q

Okay, okay. And in terms of the timing of the Billerica facility closing or the movement of the production, when – is that sort of a mid-year kind of a thing? And when that happens does that dramatically or does that shift profitability at all dramatically if and when that happens?

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

A

Just to be clear, Billerica is not closing. We are taking the production of BBRs out of Billerica and moving them to Greenville. That timing was meant to -- originally intended to coincide with the launch of sort of a new generation of products. But we are looking right now at accelerating the movement by moving existing BBR into Greenville and we're just working out the timing of that now. But it will be in 2019. It's just whether we can get it started before the – in the first half or whether it'll be a second half event, but it will – and when we talk about – and that's a very small part of the population that we have at the campus of Billerica, it's a lot of manual labor assembling the BBRs, couple of supply chain people, but those activities will move to Greenville in 2019. But we will be actually increasing the head count in Billerica associated with some of these other programs that we've just been talking about.

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

A

Yeah, the fuel cell stacks and engines that we assemble there as part of the first operation to be able to then build BBRs, that will stay in Billerica and of course we are noting that we have quite a bit of demand for those product lines, which will provide the anchor for the Billerica activities.

Joseph Mondillo
Analyst, Sidoti & Company, LLC

Q

Okay. Understood. And then lastly I wanted to ask if there's anything additionally that you can provide regarding this agreement with the Chinese customer, how does this ramp up the magnitude of size of an agreement and how profitable this could be, how you see that playing out?

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

A

I think we're going to be taking this step-by-step. And as it is appropriate and prudent, we'll give more information. I think, at this point, as [ph] Christie's (39:34) overview remarks indicated, we had a proof-of-concept program that went well. It reinforced our continuing belief that our technology is highly competitive in the industry and kind of sets a standard. And it seems to be being viewed that way in China, as well as in the U.S. So, we have a very positive view.

On the other hand, we'll monitor it step-by-step and we don't want to get out ahead of where we are. So, there are various triggers in all these agreements and we need to continue to perform which we have every expectation that we will do. They need to continue to perform which we have every expectation that they will do. And if all that comes to pass, it could be a very beneficial situation. One thing I'd like to add just an overview is that, we tend to look at our company in general far more from a three-year to five-year point of view than we do from this year or this year and next year perspective.

Our programs are set up to be multi-year programs with a long-term impact, we're prepared to invest upfront and we really look for the benefits whether they are in Nuvera, Bolzoni or the forklift truck business as being a very significant as we look out a period of time.

So what we try to do is to keep our programs on pace. We still have the same outcome expectations that we've had. It takes a period of time for them to ramp up. We have new product introductions, a very great significance coming in the 2020 period over the 2020, 2021, 2022, all part of that single program mainly in 2020 and 2021.

And we think that there are enhanced sales programs and manpower and the focus of that effort on accounts that we're not doing business with are going to have a significant impact as we look out. And then, it's certainly our hope and that some of these immediate headwinds whether they are the supplier issues that we discussed earlier or more importantly the tariff issues will abate or we will be able to ameliorate them.

So we're a lot more focused on that three-year to five-year period. And if you look at each of our companies, whether it's Nuvera which we were just discussing where we would see very, very significant improvement over that period of time or whether it's Bolzoni where we see significant improvement or the forklift truck business where we also see significant improvement coming. So, it's just an added perspective that adds to the timeframe that we're really thinking about and managing to in our programs. We're not unmindful, of course, of near-term results, but our focus is to make sure that [indiscernible] (43:42) no way spending any money and it is profligate or not appropriate. We are investing in our judgment, very well through and thoughtful longer term impact programs. And that we believe is the way that we can enhance our relative position in each of those businesses versus their key competitors in a way that perhaps is a little different from how they're thinking about their businesses.

Joseph Mondillo
Analyst, Sidoti & Company, LLC

Q

Great. Appreciate the color there. Just two more quick questions if you don't mind. I was just wondering the Bolzoni business. It seems like you sort of called out the opportunities and maybe the progress that you're making with North America a little bit more in this press release and the commentary than you have in the past. Could you just talk about the progress that you're making there in terms of attacking the North America markets? And then last question would be the $2.5 million unfavorable mark-to-market adjustment in the Americas segment. Could you just describe what exactly...

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

A

Well, let me comment on the Bolzoni one for a minute and Colin can chime in as well. I think we do have considerable confidence with regard to the Americas. And you're right, it probably is increased, but it is probably less because of the nature of the opportunity, which we've always felt was there. And more reflective of the fact that we have a clearer and high probability set of plans now for how to accomplish that than we did even a year ago.

And so, I think that's what gives us the confidence that those programs are going to begin to mature in a way that they haven't in the past and it's really a matter of getting that business in the U.S. to the same kind of scale and delivery and availability position that we have in Europe, scale in the sense of being able to produce effectively in a quality way and a timely way with a reasonable cost structure.

So, we've got a lot more clarity about that. Part of it is related to the overall set of capabilities that we have in our forklift truck business, it can be brought to bear on helping the Bolzoni team in the U.S. to become as professionalized in their business in the U.S. as the forklift truck business is at Hyster-Yale Group. So, you're probably – I think you are right that we see enhanced performance. And I would just say that if you look at the results in the third quarter, the sales volumes increased only moderately. We've got a pretty good gross profit on those enhanced sales front. But we expect more growth as we look out into future quarters. We did increase our SG&A in the third quarter and that reflects some additions of people to strengthen our ability to meet our customers' needs. Increasingly in a way that's similar to what we're doing in the core forklift truck business which is industry by industry specialization and as you can imagine attachments are used differently in different industries and different attachments are used in different industries and they address different kinds of problems and pain points in those industries. So we're kind of enhancing our specialization and focus on working with customers to bring those benefits to them and there was some investment in that in the third quarter. Colin do you want to add anything.

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

A

No. You said it very well. I mean, we have more aggressive plans and we're resourcing accordingly. Ken, do want to talk about the mark-to-market?

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

A

Yeah. On the mark-to-market, Joe, we have an ownership interest in a strategic partner that is publicly traded since we own less than 50% we don't consolidate the fact we own substantially less than that. But since their shares are publicly traded we have to mark-to-market the value of that investment in that strategic partner based upon the closing market price of the shares and the math is just simply the number of shares times the market prices at the end of the period compared to what we had carried on the books in prior quarter.

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

A

And let me just add to that I believe these are different accounting treatment than might have been the case several years ago.

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

A

Yes.

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

A

So this mark-to-market, you should understand in our view, doesn't reflect anything fundamental. We think that the investment worth far more than when we made the investment in the first place. But it's thinly traded, enthusiasm waxes and wanes in a thinly traded technology company and the accounting treatment is now sort of, in our view, somewhat draconian. But it is what it is and I don't think that it's not a cash expense, it's strictly a book entry and you shouldn't [ph] count it (50:34) much more on the downside than when the price goes up which we think it will in due course and you shouldn't think a whole lot about it then either. So it's just – that's just the way the [ph] economy (50:47) works.

Joseph Mondillo
Analyst, Sidoti & Company, LLC

Q

This is related to the Maximal asset or...?

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

A

No.

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

A

No.

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

A

No, this is a different...

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

A

This is a business which is in the automation business and it is part of our strategy for enhancing our capabilities in the automation business insofar as it affects lift trucks. The kinds of things that we do to have less manpower or no man power associated with moving goods in a warehouse or with some sorts of picking and – it's very much related to that whole effort.

You may remember from our presentations that if you look at cost of ownership, the lift truck driver is the single biggest cost of ownership. So this is a program that's very topical now in the industry and we think we can be a leader.

Joseph Mondillo Q
Analyst, Sidoti & Company, LLC

Okay. Sounds – I understand that.

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

it is not a huge number by the way.

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

Yeah.

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

In terms of the investment that we're talking about.

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

Joe, it's gone up and it's gone down. This quarter it went down.

Joseph Mondillo Q
Analyst, Sidoti & Company, LLC

Great. Okay, makes sense. Thanks a lot.

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

Joe, I think when you take that into account and those one-time numbers for Maximal, you get a little different view of the quarter perhaps than the bottom line numbers reflect.

Joseph Mondillo Q
Analyst, Sidoti & Company, LLC

Yeah. Definitely. Thank you.

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

Joe, to follow-up on your FX question, there is information in the MD&A section of our current 10-Q that gives you the impact of foreign currency on EMEA.

Joseph Mondillo
Analyst, Sidoti & Company, LLC

Q

Okay. Appreciate that.

Operator: [Operator Instructions] There are no further questions. I will now return the call to our presenters.

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

Okay. Thank you very much. Does anybody have any closing comments? All right.

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

No, my real closing comments I made earlier which have to do with taking – really trying to focus in on the three to five-year look at the business as the investor timeframe. If I were an investor, which I'm that's the timeframe that I tend to look at in terms of thinking about whether it's a good investment or not.

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

Okay. Thank you for joining us today. We do appreciate your interest and if there are any additional questions, you are welcome to call me after we're done. Thanks and have a great day.

Operator: To listen to a replay of this conference, dial 1800-585-8367 or 1800-859-2056. This concludes today's conference call. You may now disconnect.