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Hyster-Yale Materials Handling, Inc. (HY)

Q1 2022 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good day, and thank you for standing by and welcome to the Hyster-Yale Quarter One 2022 Earnings Conference Call. At this time all participants are in a listen-only mode. After the speaker presentation, there will be a question-and-answer session. [Operator Instructions] Please be advised that today's conference is being recorded. [Operator Instructions]

I would now like to hand the conference over to your speaker today, Christina Kmetko. Please go ahead.

Christina Kmetko

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

Thank you. Good morning, everyone, and thanks for joining us this morning. Welcome to our 2002 (sic) [2022] (00:41) first quarter earnings call. I am Christina Kmetko, and I am responsible for Investor Relations at Hyster-Yale. Joining me on today's call are Al Rankin, Chairman and Chief Executive Officer; Rajiv Prasad, President; and Ken Schilling, our Senior Vice President and Chief Financial Officer.

Yesterday evening, we published our 2002 (sic) [2022] (01:01) first quarter results and filed our 10-Q, both of which are available on our website. Today's call is being recorded and webcast. The webcast will be on our website later this afternoon and available for approximately 12 months. Our remarks that follow, including answers to your questions, contain 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.

These risks include, among others, matters that we have described in our earnings release issued last night and in our 10-Q and other filings with the SEC. We disclaim any obligation to update these forward-looking statements, which may not be updated until our next quarterly earnings conference call, if at all.

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In a moment, I'll discuss our current quarter results, but first, let me turn the call over to our Chairman and CEO, Al Rankin for some opening remarks. Al?

Alfred M. Rankin

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

Thanks, Christy and good morning, everyone. Overall, our first quarter results reflect the impact of the various headwinds that we discussed in last quarter's outlook. Despite these headwinds and while reporting operating and net losses, our results are substantially better than we anticipated in our fourth quarter earnings release with all three segments, particularly the Lift Truck business reporting better than expected results.

In addition, significantly, because of a favorable sales mix and the reinstatement of tariff exclusions, our first quarter gross margins improved from the very low gross margins in the fourth quarter of 2021, even though these two periods had comparable revenues. Customer demand remains healthy, as evidenced by strong bookings during the quarter and our record backlog level. Further, as we expected, during the early part of the quarter, material and freight costs began to moderate. And we experienced a reduced number of individual supplier issues during the quarter. Nevertheless, shortages of certain critical components continued to disrupt our production levels, and affect our shipments.

Our teams continue to work closely with suppliers to obtain the components we need for production, and on pricing, to increase margins in our backlog, and particularly for new orders. Further, given the Lift Truck business record backlog levels, the opportunity for increased production as supply chain bottlenecks are resolved is high. However, the Russian invasion of Ukraine has caused further inflation pressure and supply chain shortages. The recent COVID-related lockdowns in China are also affecting parts availability, and have introduced additional difficulty in global supply chains. Both of these events have affected our outlook for the second quarter and for the back half of the year.

Rajiv and Ken will provide more specifics on these topics.

Now I'll turn the call back over to Christy to review the financial results for the quarter. Christy?

Christina Kmetko

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

Thank you, Al. As Al mentioned, the lift truck market continues to be healthy. And as a result, in the first quarter, we saw an 8.1% increase in bookings over the fourth quarter of 2021, although we had fewer bookings than in the historically high prior-year first quarter. We ended the first quarter with new historically high backlog of 114,100 units. Our consolidated revenues increased 13% to $827.6 million from $732.2 million last year because of improved pricing in the Americas and higher unit and parts volumes in the Lift Truck and Bolzoni businesses, partly offset by unfavorable currency movements as the dollar continues to strengthen.

Nevertheless, despite the higher revenues, we reported an operating loss of $18.3 million compared with operating profit of $3.1 million in the prior year. The decline in profitability was mainly due to significant material and freight cost inflation, as well as manufacturing inefficiencies resulting from shortages due to supply chain and logistics constraints and totaling $68.6 million, primarily in the Americas and EMEA. In addition, we recorded $3.2 million of charges in the first quarter related to the Russia-Ukraine conflict, primarily related to Russian inventory and receivables in the EMEA and Bolzoni segments. These unfavorable variances more than offset the favorable impact of improved pricing of $43.9 million and higher unit and parts volume.

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Overall, we reported a consolidated net loss of $25 million compared with net income of $5.6 million in the prior-year quarter due to the operating loss, the absence of a $4.6 million gain on sale at Nuvera and as a result of the decision made in the second half of 2021 to record valuation allowances against certain losses that have resulted in zero-tax benefits in jurisdictions with expected losses, but income tax expense in jurisdictions with expected income in 2002 (sic) [2022].

Looking at the individual segment results, our Lift Truck business reported an operating loss of $10.7 million compared with operating profit of $12.2 million in the prior-year quarter, primarily due to a decrease in gross profit in all three geographic segments, but most significantly in EMEA and JAPIC, as well as higher operating expenses in the Americas and EMEA. The decline resulted from the specific factors I mentioned in the discussion of our consolidated results.

While all three of the geographic Lift Truck segments were affected by higher costs and production delays, the Americas segment was affected the least, and the EMEA segment affected the most. The Americas was able to fully offset the increase in material costs with price improvements, whereas EMEA was not. And the Americas benefited from $3.5 million of favorable retroactive U.S. tariff exclusion adjustments, for certain imported Chinese components, which was partially offset by $2.5 million of reserves on certain Russian-related assets.

Bolzoni's first quarter revenues increased 19.6% and operating profit improved to $2.1 million from $800,000 in the prior-year quarter. These improvements were primarily due to higher sales volumes, price increases and the shift in sales mix to higher-priced, higher-margin products.

Finally, at Nuvera, revenue increased to $600,000 and the operating loss decreased to $8.1 million from $9.8 million in the prior year. These improvements were due to sales of fuel cell engines and improved margin from lower production costs in 2022. This completes the update of our financial results for the quarter.

Now let me turn to Rajiv, who will provide an overview on our operations and our strategic projects.

Rajiv K. Prasad

President, Hyster-Yale Materials Handling, Inc.

Thank you, Christy. As Al indicated, the global lift truck market appears to have remained relatively healthy in the first quarter of 2022, resulting in a robust level of bookings that were higher than the fourth quarter but lower than the historically high prior-year first quarter. In the remainder of 2022, we expect the global lift truck market to continue to decline from the historic highs of 2021, in part due to the impact of the Russian-Ukraine conflict, but still remain above pre-pandemic levels. As a result of this market outlook, we anticipate a substantial decrease in bookings at our Lift Truck business during the remainder of the year compared with last year, with the rate of decrease expected to moderate in the fourth quarter.

Despite ongoing parts shortages and supply chain disruptions, which continued to constrain production of our lift trucks in the first quarter, we experienced higher shipment levels than in the prior year because component availability has improved from the prior-year first quarter and permitted increased production. However, ongoing supply chain constraints of certain critical components resulted in fewer shipments than in the fourth quarter of 2021.

With strong first quarter of 2022 booking and lower shipments than in the 2021 fourth quarter, our already historically high backlog level continued to increase with further extended delivery lead times. Some moderation in the number of suppliers with shortages occurred in the first quarter of 2022. Our shortages are anticipated to continue throughout the year and could escalate again. Our previous outlook assumed moderate supply chain

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improvement throughout the year. But as we are speaking today, the pace of supply chain improvements remains uncertain. Since our production outlook is largely dependent on parts availability, we are closely monitoring two evolving areas that could affect: the potential for additional supply chain shortages due to the Russia-Ukraine conflict, and the potential impact of COVID-related lockdowns in China, which could affect our production and parts availability in China.

Our most significant issue right now is managing margin in our backlog, especially on new orders. Prior to the Russia-Ukraine conflict, there were signs that material costs had peaked, and in fact, early in the quarter we experienced modest improvement in commodity costs. However, as Al mentioned in his opening remarks, Russia's invasion of Ukraine caused fuel, steel, aluminum, and numerous other input costs to increase sharply once again. As a result, significant additional material and freight cost inflation is expected to keep cost of components higher than in 2021 and possibly not moderate, as previously expected.

With commodity and freight costs trending up again, our team acted quickly to implement price increases at our businesses in the first quarter of 2022, in addition to those implemented in 2021. However, many of the orders in the backlog slotted for production in the second and third quarter of this year do not reflect in full effect of all these price increases. On the other hand, our sales team is pricing new bookings at close to target margin based on the expected future costs at the time of expected production.

I'll add that we are going out to customers and dealers to discuss our backlog, the material and logistic experience that we have – the inflation we've experienced, and also the level of margins in our backlog to see if adjustments could be made in any of those. And those will be ongoing throughout the second and third quarter.

Further the renewal of tariff exclusion is expected to partly offset the anticipated higher material cost inflation in the backlog over the remainder of 2022. As a result, we expect to experience lower margins in the second quarter compared with the first quarter of this year due to these increased costs. Overall margins are expected to increase over the second half of 2022, with much stronger margins in the fourth quarter when higher margin already booked trucks and trucks anticipated to be booked are expected to be produced and shipped.

Now let me briefly discuss our strategic initiatives, which are laid out in more detail in our earnings release. At a high level, the Lift Truck business' primary focus continues to be on introduction of its modular scalable products, and transforming our sales approach by using an industry-focused approach to meet its customers' need. Bolzoni continues to work on streamlining and strengthening its operations while increasing its Americas business and expanding its sales and marketing and product support capabilities, Nuvera continues to focus on ramping up demonstration, quotes and bookings of its 45 kilowatt and 60 kilowatt engines.

Overall, we continue to believe we have the right strategies in place for sound long-term financial results once we can achieve resolution of component shortages and relative stabilization of material and freight costs.

I'll now turn the call over to Ken for an update on future quarters and liquidity. Ken?

Kenneth Christopher Schilling

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

Thanks, Rajiv. As you've heard from both Al and Rajiv, we continue to experience production and shipment levels, which are substantially lower than we would like, due to the continued supply chain logistics constraints and component shortages. And we've also been faced with higher material and freight cost. We expect to continue to experience component availability constraints over the remainder of the year. Nonetheless, full-year shipments are expected to increase significantly over 2021, given the company's robust backlog, and actions put in place, to

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mitigate the impact of the supply chain constraints and shortages, assuming no further fundamental component availability issues occur.

Significant material cost inflation and higher freight costs are expected to continue to affect the cost of production negatively in 2022. We expect to work aggressively to manage component availability, in order to increase production rates and continue to adjust prices as costs change. As a result of these factors, combined with the favorable factors of increased shipment volume potential of the current backlog and expected additional bookings in 2022, enhanced pricing and renewal of U.S. tariff exclusions, we expect the Lift Truck business to have a larger 2022 operating and net loss in the second quarter than in the first quarter, moderating operating, and net losses in the third quarter and a substantial profit in the fourth quarter.

Overall, the Russia-Ukraine conflict on a net basis has reduced the prospects for the remaining quarters of 2022, particularly in the expectation for EMEA's second and third quarters, but has not changed the overall pattern of quarterly improvements expected in the second half of 2022. With the improvements expected over the second half of the year Lift Truck's fourth quarter profit is expected to more than offset the losses in the first nine months of 2022. This outlook is dependent upon the stabilization of product and transportation costs and continued improvement in component and logistics availability. Although this could change, as Rajiv has said, if the availability of commodities and/or components is severely affected as a result of the ongoing Russia-Ukraine conflict, and the recent lockdowns in China. We are also anticipating the continued introduction of additional modular and scalable product families, and the continued implementation of cost saving initiatives over this period and in the longer-term.

Overall, our strategic programs – as our strategic programs mature, as cost and price come in line, over 2022 and 2023, and as production volumes increase, we expect our Lift Truck business to generate strong operating profit and net income in the fourth quarter of 2022 and into 2023.

As we indicated in our release, Bolzoni has a small operation in Russia, which is in the process of closing. As a result of adjusting operations for the Russia-Ukraine conflict, and adapting to the individual material inflation, caused by the conflict, we expect Bolzoni's second quarter operating profit and net income to be lower than the 2022 first quarter, but significantly higher than the loss realized in the prior-year second quarter. Also, with component shortages expected to moderate, and given the timing of pricing actions, we expect improving operating profit in the third and fourth quarters at Bolzoni, which is expected to result in sizable but moderately lower-than-previously-anticipated operating profit and net income in 2022, compared with operating and net losses in 2021.

Excluding the impact of inventory valuations and fixed asset impairment charges taken last year, we expect moderately reduced losses at Nuvera in 2022 as a result of enhanced fuel cell shipments and expected lower production cost. On a consolidated basis, given the business outlooks and the lack of tax offset against pre-tax losses for the Lift Truck business and Nuvera, we expect a larger net loss in the second quarter than in the 2022 first quarter, a lower but still substantial net loss in the third quarter and a substantial net income in the fourth quarter of 2022. However, the fourth quarter net income is not expected to offset the losses generated in the first nine months.

In general, results in the remaining three quarters of 2022 are expected to be lower than what we had previously communicated last quarter, mainly due to the Russia-Ukraine conflict. These expectations are based upon the expected reasonable resolution of component shortages, despite the recent lockdowns in China and relative stabilization in material and freight costs.

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We are carefully managing our capital expenditures, operating expenses and production plans for 2022 in a manner designed to protect liquidity. We have implemented a program of strict controls over operating expenses to reduce cash outflow, including delays in timing of certain of our strategic program investments. While we expect over time to make these capital expenditures and investments in the business, maintaining liquidity will continue to be a priority.

During 2021, and early 2022, our ability to build and ship trucks was significantly constrained by part shortages of certain critical components, while the remaining components needed to build the truck were received, and added the inventory, causing inventory levels to increase substantially. We expect to reduce inventory significantly by using current inventory to build trucks for which production has been significantly delayed due to the critical parts shortages and receiving components as they are needed for production.

At March 31, 2022, we had cash on hand of $65.1 million and debt of $479 million compared with cash on hand of $65.5 million and debt of $518.5 million at December 31. During the first quarter of 2022, we implemented a dealer advance deposit program on orders which contributed to the reduction in debt levels. As of March 31, 2022, we had unused borrowing capacity of approximately $218 million under our revolving credit facilities compared with $165 million at December 31.

I'll now turn the call back to Al.

Alfred M. Rankin

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

As we look to the remainder of 2022, we're continuing to focus on managing effectively in this challenging environment. While we face short-term challenges, including those of global events that have emerged, over the past quarter, the market dynamics in our business remain strong.

We have innovative products, and we are implementing the right programs, in this highly inflationary environment. We remain confident that the actions we are taking will enable us to return to stronger margins in the back half of the year and in 2023. Further, we continue to execute our mid-term and long-term strategies. Our strategy for the longer-term is clear and transformative.

Our key projects as well as the explicit objectives for the Lift Truck, Bolzoni and Nuvera businesses support this long-term strategy. Further, expected improvement and nearer term prospects over 2022 with substantial profit in the fourth quarter and in 2023 suggests significantly improving results at the Lift Truck business, despite current component availability challenges. We also expect improving adoption rates for key fuel cell market segments, as well as sound results at Bolzoni. End markets are strong. We have a record lift truck backlog, a strong current booking environment. And we are currently working diligently to manage the supply chain headwinds. We are continuing to invest in innovative products and in our key strategic projects to build a stronger long-term business. Once these challenges are behind us, we believe we will deliver solid sales and earnings performance.

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

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QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Your first question comes from the line of Steve Ferazani from Sidoti & Company. Your line is open.

Steve Ferazani
Analyst, Sidoti & Co. LLC

Q

Good morning, everyone. Appreciate your product, so much color in the release, and in the presentation. I know things are very, very complicated. We look forward to when things can get a little bit simpler. I took really lot of notes, so let me try to cover some of the bigger topics. In terms of shipping trends, which was down sequentially, is your expectation that we see that sequentially improve through 2022? And how are you handling component shortages now? Because I'm hearing, even from other companies, the issues particularly with electrical parts, is still extremely challenging.

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

A

Rajiv?

Rajiv K. Prasad
President, Hyster-Yale Materials Handling, Inc.

A

Yeah. So, I think, our plan currently is to increase production. Of course, that's highly dependent on component availability. We've seen, as I've said in my remarks that we've seen a little bit of easing in component availability. But, as you can imagine, it takes one component outage to not build a truck fully and ship it. So, we're always very – we're being very careful about what we're kind of stating. But we see some easing. We have changed some capabilities in our manufacturing plants to be able to, at least at very low volume, build some of the components that have lead time issues. So, we're taking a number of actions to improve the situation, and we see some improvement.

Of course, the more difficult one to really nail down at the moment is the impact of the Russia-Ukraine war. And the reason that's difficult is because if you look at what ships out of Russia and Ukraine is predominantly raw material. And so it takes more time for it to make an impact on our supply chain, because that really affects our Tier 3 and Tier 4 suppliers initially, while we are out talking to our Tier 1, Tier 2 suppliers to understand what that could look like.

The second one, more immediate, is the COVID lockdown issues in China. We have a – China is an important part of our supply chain for most of our trucks. And that one, we're monitoring and taking action, but we are more concerned about that. And again, it's impact also on our Tier 2 and Tier 3 suppliers.

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

A

I'd just add to that, that the level of activity by our supply chain team is extremely high. People are working with this – we are not just giving suppliers an indication of what we'd like. We're actively working with them, figuring out how to break their bottlenecks, how to provide additional sources. It's a very creative and dedicated program with a very large number of people. So, I think what we've found is that we are able to find workarounds. We are able

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to help our suppliers put in or take capacity increasing actions that make the ramp-up at the level that we're contemplating realistic over the course of 2022. But it is dependent on the factors that Rajiv has mentioned.

We're finding, as far as China is concerned, that if you look more toward the south in Shenzhen and around the Hong Kong area where COVID moved through earlier, late in last year and early this year, and lockdowns occurred, particularly in Hong Kong, but also in Shenzhen, that situation has now largely alleviated. It's still there, but it can be managed. At the moment, as you know from the newspapers, Shanghai has significant lockdown activity right now. That's really clogging the ports. But we hope that the same thing will happen in the Shanghai area that happened in the Hong Kong, Shenzhen area, and that whatever problems there are will be more short-lived than long-lived.

So, we're aggressively working it, thinking about it all the time, and being very actively involved at all levels of management, including senior management, effectively on a daily basis, deeply involved in supply chain activities, and working closely with our suppliers at all appropriate levels to try to ensure that we get what we would really like to have, and we have component availability.

Steve Ferazani Q
Analyst, Sidoti & Co. LLC

Great. If I could also ask about bookings, because I know for a couple of quarters you've been saying, you think that could start softening, but we have – I mean it still is really, really healthy, and it was up sequentially. I don't know if there's a seasonal aspect to that. Is this stronger than you were thinking maybe three or six months ago, because it still looks very strong, even though you're indicating you do think it's going to decline at some point?

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

Well, the bookings are very strong. And, yes, I think they're higher than we might have been expecting. And that's despite efforts on our part to ensure that we have target margins in anything that we're booking today. We are looking forward at the costs that we think will be incurred at the time we expect to produce, which is quite far out as you know because of the level of the backlog. Therefore, we have to forecast material cost increases that will occur over the remainder of this year and to some littler degree in the early part of 2023.

But I think perhaps a more important aspect is not to look at the first quarter, but to say that we're being very cautious in our own internal forecasts and thinking about future bookings levels. And frankly, that's – if you want to call it, I wouldn't call it a silver lining, but certainly a softening impact is the fact that if our bookings are lower than our shipping levels, we will finally start to bring down our lead times, which are much longer than we've had traditionally and that we would like and that would help us manage costs more effectively, and help us meet customer requirements more quickly.

So, our real objective is to balance ourselves out at a production level that's consistent with the market, and – but having brought down our lead times in a very significant way. And then of course, if, in the middle term, costs do go down, we'll moderate our pricing accordingly. We're going to make changes on a regular basis depending on what happens in the cost area.

Rajiv K. Prasad A
President, Hyster-Yale Materials Handling, Inc.

I think the only thing I'd like to add to what Al said is we are seeing kind of the extended backlogs, and that's not just that. If you look at the bookings, or at the shipment data, we expect most of our competitors are in a similar

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position. And I think that's changing the customers' behavior and timing of when they put their orders in. So, I think that some of the – quite a bit of that going on at the moment as well.

Steve Ferazani
Analyst, Sidoti & Co. LLC

Q

And if I could slip one more in, it's just, the surprise to me, anyway, was the very strong lift truck, Americas' gross margin. Obviously, the tariff exclusions reinstatement helped a lot. Are you thinking this is sustainable double-digit now, moving forward? Or was there anything particular, this quarter? Because you mentioned next quarter could be a little bit more challenging.

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

A

I think we were very clear that the second quarter will not be sustained at that level that we see. It depends to some significant degree on the backlog mix. And there are one-time factors. But as we look at the backlog that's likely to be produced in the second quarter, there will be the pressures that we described in the release. And, I think, the best way to think about them is that it's going to be a very tough second quarter. And perhaps one way to think about it is that there's been some shifting between the first and second quarters and looking at them as a first half.

Then in the second half, we're expecting a third quarter that is better, and then a really good strong performance, in the fourth quarter. We still see that pattern, and we think that the price increases that we are putting in place will be responsive in, particularly in the fourth quarter, and in 2023, to even the cost increases that we're seeing as a result of the Ukraine-Russia war. So, it's a complicated story. But I think that's the best way to think about it.

Rajiv K. Prasad
President, Hyster-Yale Materials Handling, Inc.

A

Yeah, I mean, the primary impact in the second quarter and probably the third quarter that – versus our plan is really coming from the inflation related to Ukraine-Russia. And so, that's been the piece that we obviously hadn't predicted in, when we talked last.

Steve Ferazani
Analyst, Sidoti & Co. LLC

Q

That's fair. That's very helpful.

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

A

And that's of course...

Steve Ferazani
Analyst, Sidoti & Co. LLC

Q

Thanks...

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

A

... [indiscernible] (33:54) EMEA. But I don't think you should assume...

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Rajiv K. Prasad
President, Hyster-Yale Materials Handling, Inc.

A

Yeah.

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

A

... that the margins will be as strong in Americas either.

Rajiv K. Prasad
President, Hyster-Yale Materials Handling, Inc.

A

Yeah. I mean, if you just look at...

Steve Ferazani
Analyst, Sidoti & Co. LLC

Q

Right, thank you.

Rajiv K. Prasad
President, Hyster-Yale Materials Handling, Inc.

A

Yeah, if you just looked at steel prices, the fact that European prices jumped also really reflected in North American prices jumping straight up at the same time because capacity was taken out of the system in Ukraine. So, there's been a global impact on the steel side.

Steve Ferazani
Analyst, Sidoti & Co. LLC

Q

Right. Thank you.

Operator: Your next question comes from the line of Chip Moore from EF Hutton. Your line is open.

Chip Moore
Analyst, EF Hutton Group

Q

Hi. Good morning. Thanks for taking the question. Wanted to stick with price cost. Is it reasonable to think about the bulk of bookings sort of the target margins starting to flow through in Q4 or how we should think about that timing given some of the incremental headwinds here? And then really on price specifically, I guess last quarter, I think you talked about some index protection measures. So maybe you can give us a bit of sense of where those orders are in backlog. And I think you also talked about in the prepared remarks about going out to customers. So maybe you can give us some more color there?

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

A

I don't know that there's a lot more we can give you except to say that we do expect that the margin performance in the fourth quarter and in the 2023 quarters will be significantly better. That's the way we see it to current time, despite the impact of the Russia-Ukraine war and the COVID situation in China. So, I think, we'd probably leave it at that level the way we outlined it in the earnings release.

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Chip Moore
Analyst, EF Hutton Group

Q

Okay. Yes. And that's fair. You've given us great detail. I won't beat it. So, maybe I can ask about Nuvera sort of bookings pipeline. They had some interesting announcements in partnerships during the quarter, and also particularly curious about Europe given the energy dynamics over there what they're seeing?

Rajiv K. Prasad
President, Hyster-Yale Materials Handling, Inc.

A

Sure. Maybe I'll take that.

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

A

Rajiv, you want to comment on that?

Rajiv K. Prasad
President, Hyster-Yale Materials Handling, Inc.

A

Yes. I'll take that. So, I think, as we touched on, in terms of our strategic focus, we're focusing on these segments that we've identified that where we feel that lift trucks are going – I mean, both lift trucks and adjacent products including on-road trucks will be most likely to need fuel cells because of the amount of energy they need. And so, the team is really focused in on those segments and are connecting with customers in those section – segments, really focused on putting that demonstration together. So, what we're finding is demonstration vehicles that really show what the system can do is a big enabler for both the – our OEM partners, as well as customers, to understand the benefit, and the applicability of the truck. So, the team is very intensely focusing on that. And as you've seen, we've made some releases on those kind of activities and ventures we're following.

We have seen a jump in our kind of pipeline in Europe. Certainly, there's a lot more attention being paid to hydrogen, and fuel cells, in Europe, right now, because of the issues with Russia kind of carbon fuels, in a way, both gas and oil. So that's improved. I think Americas still similar, steady. And we're starting to see a pickup in Asia as well, both in China. China with already doing some – slowed down a little bit by COVID. But again, very active in the fuel cell area. And now, we're starting to see that in India also. So, those are, I would say, Europe has really progressed, over the last three months. I think, the war was a big catalyst for it. And I'm seeing the same thing in India as well.

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

A

And I think that on the one hand, it's a substantive catalyst the way that Rajiv outlined it. I think it's also a very significant psychological impact. There is a sense that in Europe that they simply can't be reliant on the level of imports and especially any imports from Russia and certainly in oil and probably in gas in the middle term. And so, there's a more certain sense that it isn't just about climate. It's about energy security, and they have to do more. And that's going to involve hydrogen inevitably in our view.

So, we think the psychological environment for moving forward, particularly in Europe, is significantly enhanced. And I think it's one area of the world settles in with applications that we're going to find that very quickly other areas of the world follow along, and the technology will start to be more proved out, less conceptual. And then as volume begins to develop, the potential economies of scale and cost can be unleashed. So, that's what we're looking at. And we think it's – I think Rajiv implied that it's simply a different environment than it was even a quarter ago before the Russia-Ukraine war.

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Chip Moore

Analyst, EF Hutton Group

Q

That's very helpful. Thanks for that. And then just lastly from me, just more a bit of housekeeping, looks like deferred revs ticked up substantially. I assume that's a dynamic of customer deposits in that dealer advance program. But maybe you can walk us through that.

Alfred M. Rankin

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

A

Ken, do you have comments on that?

Kenneth Christopher Schilling

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

A

Yeah, no, I think the level of borrowing at the company had been decreased in the first quarter. And that is primarily related to the additional funds we received under the advance dealer deposit program. So we were able to put that to good use to reduce our debt and improve our availability quarter – from the end of last year to the end of the first quarter.

Alfred M. Rankin

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

A

But make no mistake, as we look forward over the next – particularly the next two quarters, the focus in the company with our suppliers is twofold. One is the component availability that we've discussed extensively. The other is to make sure that the components that we are receiving are the ones we need in order to build, so that we can work down the accumulated inventory that is on the books.

So, reducing the absolute value of inventory and getting then over time, as production goes up, the days on hand of inventory at our traditional targets is a very highest priority for us. Obviously, the inventory is all a good producible inventory. It's the supplier shortage, the supply component, supply shortage issues that have caused the inventory to build. So, there's a dual focus in with our suppliers in that regard.

Chip Moore

Analyst, EF Hutton Group

Q

Perfect. Thank you very much, everybody.

Operator: [Operator Instructions] Your next question comes from the line of Brett Kearney from Gabelli Funds. Your line is open.

Brett Kearney

Analyst, Gabelli Funds LLC

Q

Hi. Good morning. Thanks for taking my question.

Christina Kmetko

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

A

Good morning.

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

Good morning.

Brett Kearney
Analyst, Gabelli Funds LLC
Q

Definitely appreciate all the details in the release and on your commentary so far, and certainly appreciate the daily blocking and tackling going in, particularly on the part of senior management or the firefighting involved in working through these industry supply challenges. Curious...

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

Boy, you can say that again, it is day-to-day firefighting. We got a fair number of pretty tired people in the company. And it's been, I suppose from our point of view, very rewarding to see people putting their shoulder to the wheel when it's really needed. And that is exactly what they're doing. So, we needed it, and they've performed in the way you just described. But it is tiring.

Brett Kearney
Analyst, Gabelli Funds LLC
Q

Certainly. Certainly. And, Al, one area we've heard from others in the industry with these kind of evolving developments in Eastern Europe is noticing that a number of suppliers, specifically wire harnesses and steel frames, are located in that area actually in Western Ukraine. Curious on how you are seeing that piece of the supply network and anything you're doing around managing through that item.

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

I would ask Rajiv to comment on that. But I'd just say, by way of introduction, that as you can well imagine, the European companies have a lot more exposure in those areas than we do, just because their sourcing patterns tend to be different and their production locations tend to be different. So, I think that different companies in the industry are going to have different experiences, based on their own structure, their supply chain and manufacturing locations. Rajiv?

Rajiv K. Prasad
President, Hyster-Yale Materials Handling, Inc.
A

Yes. So, I think you're quite right. I mean, we're working very, very closely with our fabrication suppliers in Europe to source steel, and obviously we have connections into the global steel market, whereas those suppliers have predominantly relied on European steel, which still there's availability. But the relationships need – where – needed some help with that. So, we've worked for it. We see – we're working through the challenges, let's put it that way. I was going to say, we see our way clear. But I think that's maybe overstating it a bit. I think we still see some challenges. But we have made great progress. We have visibility out over the next two months to three months, and it looks good.

Wire harnesses, on the other hand, have really suffered from component availability. And when I talk about component, I'm talking about connector shell, terminals and that continues to be a challenge. I mean, our supply chain, who is not used to delving into that level of detail, we don't buy those parts, but they're heavily involved in it. And I would say the same on the electronic component side. And we've heard about microprocessors. But

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other electronic components are also in short supply. And our teams are working closely with our suppliers, to work through them.

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

A

So, I'd just like to emphasize the comment that Rajiv just made. We are actively intervening in our suppliers' supply chains to help them get components that they need. So, we're going beyond things, and we're engaging in activities that would not be at all normal for us to try to deal with these kinds of issues. But there are certain areas, and wire harnesses is certainly one that are a constant source of focus for the team that is overworked, we're talking about before, yes.

Brett Kearney
Analyst, Gabelli Funds LLC

Q

Great. That's very helpful and certainly appreciate all the work by you all, and the team, all the paddling under the surface. So, thanks very much.

Rajiv K. Prasad
President, Hyster-Yale Materials Handling, Inc.

A

Thank you.

Operator: There are no questions over the phone. Presenters, please continue.

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

Thank you. Al, do you have any final remarks that you would like to make?

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

No. I think we've laid out the situation in the earnings release. We've tried to be expansive in that level of detail that we're giving. We've tried to give a little bit longer timeframe to some of our comments, than we might normally do in the first quarter release. And that's because obviously this is such a dynamic situation, and we want to give our investors as clear an understanding as we possibly can of the environment ahead. And so much of it is really contingent on the level of backlog we have. It changes how we have to think about and present our remarks. And I think we've covered that quite thoroughly in the earnings release.

So Christy, if you'd like to close up?

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

Great. I will close with just a few reminders. A replay of our call will be available online later this morning. We'll also post the transcript on the Investor Relations site, when it becomes available. If you have any questions, please reach out to me. You can reach me at the phone number that's on the press release. I hope you enjoy the rest of your day.

And I'll turn it back to the operator to conclude the call.

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Operator: Thank you. There will be a replay available of today's call starting at 3 P.M. Eastern Time. It will run through Monday, May 9, at midnight Eastern Time. The dial-in number is 800-585-8367, and the conference ID number is 1990075.

This concludes today's conference call. Thank you for participating. You may now disconnect.

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