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Hyster-Yale Materials Handling, Inc. (HY)

Q2 2022 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Hello and welcome to the Hyster-Yale Q2 2022 Earnings Conference Call. My name is Alex. I'll be coordinating the call today. [Operator Instructions]

I'll now hand over to your host, Christina Kmetko of Investor Relations. Christina, over to you.

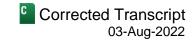
Christina Kmetko

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

Good morning, everyone, and thanks for joining us today. Welcome to our 2022 second 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, Chief Financial Officer and Treasurer.

Yesterday evening, we published our 2022 second 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 several 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 second quarter results are directionally where we expected them to be as we continue to face near-term supply chain constraints and inflation challenges, as many other companies do. Despite these headwinds and while still reporting a substantial consolidated operating and net loss, our results for the quarters were substantially better than we anticipated in our first quarter earnings release with all three segments, particularly the Lift Truck business reporting better than expected results. These more favorable results were due to higher than anticipated gross margins and lower operating expenses. Nevertheless, supply chain availability prevented our forklift truck business from achieving production levels we would have preferred in the second quarter.

Lift truck gross margins decreased modestly from gross margins in the first quarter of 2022 due to additional commodity inflation resulting from the Russia-Ukraine conflict and adverse product mix. End market booking demand appears to be moderating, but the market is still strong, and we continue to have healthy order rates and a robust backlog. Nevertheless, shortages of certain critical components are continuing to disrupt our production levels. And the Lift Truck business has reduced future production levels planned for the back half of 2022 and 2023 to help ensure parts availability. We remain laser focused on mitigating the impacts of the supply chain constraints, and our teams continue to work closely with suppliers to obtain the components we need for production.

Given the high backlog levels, the Lift Truck business will further increase production as supply chain bottlenecks are resolved. We have also continued to raise prices in the current inflationary environment to increase margins, both in our backlog and particularly for new orders. While these challenges have affected our outlook for the back half of the year, we remain confident that they will subside over time. 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?

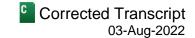
Christina Kmetko

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

Thank you, Al. I'll start with high level comments about the consolidated operations and then provide some perspective on the individual segments. In the second quarter, our consolidated revenues increased 17% to \$895.4 million from \$765.6 million last year, because of improved pricing in our Lift Truck and Bolzoni businesses, and higher unit and parts volumes in the Americas and EMEA. These improvements were partially offset by unfavorable currency movements from the strengthening US dollar.

Shipments for the quarter were 25,300 units, an increase of 11.5% over the prior year second quarter. However, as Al mentioned, while the Lift Truck market continues to be healthy, it has shown signs of moderating. As a result of this and other factors Rajiv will discuss in a moment, we saw a significant decrease in bookings in the second quarter compared with the prior year second quarter and the first quarter of 2022. We ended the second quarter with approximately 112,000 units in backlog, still very high, but down modestly from the historically high level at the end of the first quarter.

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Despite the increased shipments and higher revenues, the company reported an operating loss of \$15.7 million compared with operating profit of \$5.9 million in the prior year, which included \$6.3 million of income associated with a favorable court ruling. We also reported a consolidated net loss of \$19.4 million for the second quarter of 2022, compared with net income of \$1.9 million last year. The decline in profitability was mainly due to significant material and freight cost inflation and manufacturing inefficiencies, primarily in the Americas and EMEA, totaling \$85.9 million. These unfavorable variances more than offset the favorable impact of improved pricing of \$59.9 million and higher unit and parts volumes.

Looking at the individual segment results, our Lift Truck business generated an operating loss of \$11.7 million in the 2022 second quarter, compared with operating profit of \$15.4 million in the prior year, primarily due to a decrease in gross profit in all three geographic segments, the most significantly in EMEA, as well as higher operating expenses in the Americas. 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, EMEA was affected the most. The Americas was able to fully offset the increase in material costs with price improvement, whereas EMEA pricing did not fully cover cost increases. EMEA and JAPIC also experienced significant unfavorable currency movements, and JAPIC generated lower margins because of a shift in mix to lower margin products.

Bolzoni's second quarter revenues increased modestly and operating profit improved to \$3.4 million from an operating loss of \$400,000 last year. These improvements were primarily due to a 19.6% improvement in gross profit and a substantial increase in gross margin resulting from a shift in sales mix to higher margin products and benefits from price increases, net of material and freight cost inflation as well as lower operating expenses. Finally, at Nuvera, revenue of \$300,000 was comparable to the prior year second quarter and the operating loss decreased to \$7.9 million from \$9 million in the prior year. The lower operating loss was due to improved margins from lower production costs in 2022.

That 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.

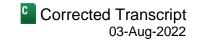
Rajiv K. Prasad

President, Hyster-Yale Materials Handling, Inc.

Thank you, Christy. The global Lift Truck market grew in the first quarter of 2022, but as AI indicated, appeared to decline significantly in the second quarter compared to the high levels of both the second quarter of 2021 and the first quarter of 2022. As a result of the market decline, as well as our focus on accepting only orders with expected sound margins, bookings in the second quarter of 2022 decreased substantially from the robust levels of the 2022 first quarter and 2021 second quarter. However, the average bookings sales price per unit increased 23.8% in the 2022 second quarter over the first quarter and 43.6% over the prior year quarter because of price increases, a shift in sales mix and our focus on accepting only orders with expected sound margins.

Over the remainder of 2022, we expect the global lift truck market to continue to decline from historical highs of 2021, but remain above pre-pandemic levels. As a result of this market outlook and the discretion we have are order acceptance, we anticipate a substantial decrease in bookings during the second half of 2022 compared with the second half of 2021, particularly in the Americas. Despite the ongoing parts shortage and supply chain disruptions, which continue to constrain production of our Lift Trucks in the second quarter, we experienced higher shipment levels than in the prior year second quarter and 2022 first quarter because an increase in production rate over prior period levels was facilitated by a moderately reduced impact of component shortages.

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Nevertheless, with higher shipments and lower bookings than in 2022 first quarter, our high backlog levels with the delivery lead times that remain well above historical norms began to decrease in the second quarter of 2022 for the first time since the beginning of the pandemic.

Some moderation in the number of suppliers with shortages occurred in the first half of this year, but shortages are anticipated to continue through the remainder of 2022 and then decline in 2023. However, that could change based on China lockdowns and Russia-Ukraine conflict development. As a result, we have reduced that planned production schedule for the second half of 2022 and in 2023 from what we expected at the time of last quarter's earnings release.

We continue to focus on managing margins in our backlog and especially on new orders. As a result of the Ukraine/Russia conflict, material costs continued to increase in the second quarter. However, recent signs have suggested some relief from additional material and freight cost inflation in the second half of this year. As a result of the cost inflation that has already occurred and what is expected over the remainder of 2022, we have implemented several price increases both last year and in the first six months of this year. But many of the orders in the backlog slotted for production in the third and fourth quarters do not reflect the full effect of [indiscernible] (00:12:15).

On the other hand, our sales team is pricing new bookings at close to target margin based on anticipated future costs at the time of production. 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. Due to the lag between when unit price increase go into effect and when revenue is realized as the units were shipped as we work through our low margin backlog in the second half of 2022 and in early 2023, we expect margins to improve, specifically in the 2022 fourth quarter when the high margin already booked trucks were expected to be produced and shipped.

We continue to focus on our strategic initiatives, which are laid out in more detail in our earnings release. The Lift Truck business primary focus continues to be on introducing new modular scalable products and transforming our sales approach by using an industry-based approach to meet our customer needs. Bolzoni continues to work on streamlining and strengthening its operations while increasing its Americas business and expanding its industry sales, marketing and other product capabilities. And Nuvera continues to focus on ramping up demonstrations, 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 and then decline in material and freight costs.

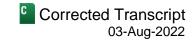
I'll now turn the call over to Ken for an update on future quarters and liquidity. Ken?

Kenneth C. Schilling

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

Thanks, Rajiv. As you've heard from both Al and Rajiv, significant supply chain disruptions continue despite relentless engagement with our supply base. These disruptions are reducing our production plans and shipment levels substantially lower than what we would like and increasing manufacturing inefficiencies. We have also been faced with higher material and freight costs. All these factors are having an impact on our expectations for the second half of 2022 and into 2023. However, given our robust backlog and actions put in place to mitigate the impact of supply chain constraints and shortages, we still expect full year 2022 shipments to increase over 2021 despite the normal third quarter plant shutdowns. Of course, this is all with the expectation that supplies of components or commodities are not further constrained. We are hopeful that availability will improve and

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consequentially production can increase over our current forecast for the remainder of 2022 and into 2023's production schedules.

As Rajiv discussed, we are focusing on pricing new bookings closer to target margins based upon anticipated costs at the time of expected production. These increased prices have translated into a substantial increase in the current average sales price per unit within our backlog. Over time, we expect improved margins as prices and costs come into line. In the meantime, we continue to work aggressively to manage component availability, to increase production rates and continue to adjust prices as costs change. As a result of these factors, along with our core strategies, increased shipment volume potential of our current backlog and expected bookings during the remainder of 2022 and enhanced prices and the renewal of tariff exclusions, we expect the Lift Truck business to move from a significant operating loss in the first half of 2022 to an operating profit in the fourth quarter.

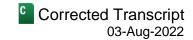
Because of manufacturing inefficiencies expected in the third quarter due to our normal seasonal plant shutdowns and reductions in production volumes resulting from the continued supply chain constraints as well as unfavorable currency effects, we expect a significant operating loss at the Lift Truck business in the third quarter that is higher than the operating loss in the prior year third quarter. Then an increase in substantial operating profit is expected in the fourth quarter, but one that is lower than was anticipated at the time of the 2022 first quarter earnings release. The anticipated operating loss in the second half of 2022 at the Lift Truck business is expected to be significantly lower than the operating loss in the first half, mainly driven by strong operating profits in the fourth quarter of 2022 in the Americas segment.

Over the second half of 2022, we are projecting the stabilization of product and transportation costs and continued improvement in component and logistics availability, although this could change if the availability of commodities and/or components continues to be seriously affected by various market forces, including a potential economic recession, the lockdowns in China, and the ongoing Russia-Ukraine conflict. We're also anticipating the continued introduction of additional modular and scalable product families and the continued implementation of cost saving initiatives over this period and into the longer term.

As a result of lower sales and inefficiencies expected from the normal third quarter seasonal plant shutdowns, reduced demand for legacy components for the Lift Truck business and additional material inflation caused by the Russia-Ukraine conflict, we expect Bolzoni to achieve near breakeven results in the third quarter of 2022, with a return to profitability in the fourth quarter, as component shortages moderate, efficiencies return, and benefits are realized from pricing actions. We expect solid operating profit at Bolzoni in the second half of 2022 compared with an operating loss in the second half of 2021. However, operating profit in the second half of this year is expected to be significantly lower than it was in the first half of 2022. Excluding the impact of the inventory valuation and success and impairment charges taken last year, we expect moderately reduced losses at Nuvera in 2022 because of enhanced fuel cell shipments and expected lower production costs, although losses in the second half of 2022 are expected to be higher than in the first half as a result of higher operating expenses.

On a consolidated basis, we expect a larger net loss in the third quarter of 2022 than previously projected, but a return to net income in the fourth quarter of 2022. However, I would note that the fourth quarter net income is not expected to offset the losses generated in the first nine months. Generally, results in the second half of the year are expected to be lower than anticipated when the 2022 first quarter earnings release was issued, mainly due to the adjustments we made to our production schedule because of continued supply chain constraints. Current expectations are based on the anticipated reasonable resolution of component shortages, and relative stabilization of material and freight costs. Our expectations could be lower if supply chain and inflation conditions worsen or if conditions improve. We continue to monitor the factors contributing to our revised outlook for the year, and we'll provide an update on our next earnings call.

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We carefully manage our capital expenditures, our operating expenses and our production plan 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 the 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 the first half of 2022, our ability to build and ship trucks was significantly constrained by parts shortages of certain critical components, while the remaining components needed to build trucks were received and added to inventory, causing inventory levels to increase substantially. We expect to reduce inventory substantially by using current inventory to build trucks for which production has been significantly delayed due to critical part shortages and receiving components as they are needed for production. That process has resulted in reduced inventory over the last two months with further reductions expected monthly.

At June 30, 2022, we had cash on hand of \$75.6 million and debt of \$580.6 million compared with cash on hand of \$65.1 million and debt of \$479 million at March 31 of 2022. And cash on hand of \$65.5 million and debt of \$518.5 million at December 31, 2021. As of June 30, 2022, we had unused borrowing capacity of approximately \$156 million under our revolving credit facilities compared with \$218 million at March 31.

I'll now return 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're facing near-term supply chain challenges, market dynamics remain strong. We've taken numerous pricing actions to recover margins. Additionally, we've updated our production plans to better match the current environment in terms of supply of components and believe we have a realistic outlook for the back half of 2022. We have innovative products and we're implementing the right programs in this highly inflationary environment. We remain confident that the actions we are taking will enable us to return to profitability in the fourth quarter of 2022 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's businesses support this long-term strategy.

We will now turn to any questions you may have.



QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] Our first question for today comes from Steve Ferazani from Sidoti & Company. Steve, your line is now open.

Steve Ferazani

Analyst, Sidoti & Co. LLC

Great. Thank you. Thanks a lot. I appreciate all the detail on the call. There's a lot there. So I start out by obviously, one, congratulations on the pickup on deliveries in the quarter given all the volatility that's out there, that was impressive, certainly well above what we were expecting in terms of shipments, deliveries. But in terms of how you're thinking about the second half of the year, are you seeing – and this wouldn't be different from what we're hearing from other companies, including much larger ones – have component shortages in the near term gotten worse now versus how you were looking at them three months ago or in terms of how you're guiding for at least 3Q? Is it more the typical European slowdown and just higher material prices, or is there a material impact in terms of component shortages?

Alfred M. Rankin

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

Let me ask Rajiv in a minute to make a comment – to comment on your question. But I'll just preface his remarks by saying that it's important to keep in mind that our objective has been to increase our production over prior levels. We have a backlog in which we very much would like to do that. So we have increasing demand for our products as well as just component availability issues to meet current levels. So let me – with that perspective in mind, let me turn to Rajiv for a more detailed answer.

Rajiv K. Prasad

President, Hyster-Yale Materials Handling, Inc.

Yeah. Sure. Thanks, Al. Thank you for the question. What we see right now is a little bit of variation in the two regions. So in North America, we do see improvement. The number of delayed shipments from our suppliers is definitely reduced from the first quarter to the second quarter, and we expect and we forecast that to continue to improve but not be flawless. We still expect to work hard [ph] with our buyers (00:26:13) to meet their delivery targets. In Europe, we're seeing a little bit of a worse situation driven by the Russia-Ukraine conflict. And then as we've gone into the kind of summer shutdown period in August. So, again, I would characterize it as improving in Europe, but not to the level we're seeing improvements in North America, but still more challenging to get our parts in Europe. Hopefully, that gives you a sense for it.

Steve Ferazani

Analyst, Sidoti & Co. LLC

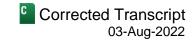
It does. Appreciate that. When I look at...

Alfred M. Rankin

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

What it does mean is as we said very clearly in the earnings release, is that we are bringing our planned production levels in line with what we see is supplier capabilities at this point and we're not going to assume we can ramp up the way we would like to and the way we had anticipated our suppliers could ramp up. We're going to wait until we really have clear evidence that they can ramp up and then we'll move up beyond the more

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moderately increasing levels that we now have in our current production plan. So we're trying to be conservative in our aspirations, in our planning production levels and the consequent inventory that's coming in. But if things improve from what they are now, we certainly have the backlog to respond to those improved availability – to an improved availability situation if that occurs.

Steve Ferazani Analyst, Sidoti & Co. LLC Q

When I look at bookings and backlog dollars per unit, it's hard to figure out how much of that mix versus how much it's just straight pricing. And also, as I look at the dollars per unit in backlog, how much of that is — you've moved a significant portion now of the older price backlog and that is going to help you moving forward. If you can sort of help out with the sort of the per unit dollar amount in both bookings and backlog. And if I can throw one other piece into that is when we see the bookings coming down, how much of that's demand versus you being very strongly holding the line on pricing and willing to give up business to make sure you get the margins you want into next year?

Alfred M. Rankin

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

Maybe Rajiv starts and then turn it to Ken?

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Rajiv K. Prasad

President, Hyster-Yale Materials Handling, Inc.

Yeah. Again, thanks, Al. So what – in terms of our backlog, we are – I mean, you can imagine the backlog has some sort of chronicle element to it and so does our pricing and the inflation. So, we are working through the lowest margin trucks that were in backlog. We did that in the first half of the year. We still have some to work through. So that's definitely an element.

In terms of the pricing of the trucks, I think, we've given you the percentage of price increases we've made in 20 – over the last 18 months and those numbers are significant and you can imagine how that has a impact on the price of the trucks that we're booking right now. I would say the mix is a slight impact. I mean, we did ship more Class 3, which is our smaller warehouse trucks in the first half than we had planned and that backlogs come down a little bit more than the other trucks. But I would say that's the marginal part. Majority of it is to do with shipping the lower priced trucks, which were lower margin and then booking really good priced trucks.

In terms of what the market dynamics is, as we stated, the market has just this quarter started to moderate as we were anticipating. Now within that, we are, I would call, the price leader. We are holding the price in line with what we expect, not what today's product will cost but our products that will ship out and you can see with our backlog in some cases are [ph] by lead times are (00:31:00) almost a year. So we're forecasting ahead, trying to understand what the shipment kind of inflation will be and then pricing according to that and that means – so that has also create – not – I don't think all of our competitors aren't using those techniques and so that made us the price leader in the market right now. And that's had some impact on the booking that we've made.

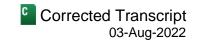
Kenneth C. Schilling

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

Yeah. I'd agree with Rajiv's comment. We shipped lower priced layers out of the backlog in the second quarter production. We booked trucks at higher prices during the second quarter as well. And Steve, you're doing the math based upon the backlog and the backlog values. And you've seen that we grew by about \$3,700 on the average truck between March 31 and June 30 in terms of average sale value of the trucks. Now, some of that was

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- that increase in price, some of it was the shipping of the lower priced trucks. But also, there is a bit of mix. But you also have to consider that trucks that we sell overseas now stated in US dollar value have actually gone down. So in some ways, the backlog is now not even showing all of the increase that we have because those foreign book sales in non-US currency are typically being translated at unfavorable conversion rate in the US dollar. So I guess that's kind of the – how you add up the bits and pieces.

Steve Ferazani

Analyst, Sidoti & Co. LLC

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That's helpful. Thank you. If I could get one last one in. Obviously, you've really held the line on OpEx. How well can you do that as you start picking up production hopefully over the next few quarters and you're getting those stronger margins? What are you thinking about OpEx, because obviously you've done a great job here over the last couple of quarters?

Alfred M. Rankin

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

Rajiv?

Rajiv K. Prasad

President, Hyster-Yale Materials Handling, Inc.

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Yeah. So, we have – as you said, we have held a tight ship as far as the OpEx is concerned. That has involved slowing down in some of our key initiatives. The critical ones are still continuing and we've funded them. We think that the second – because we've brought down the production rates for the second half of the year, I think we're still going to run a tight ship from an OpEx point of view, maybe with a little bit of flexibility on some of the next year programs and then again, progressively kind of get back to some of the other programs in 2023 to our more normal levels.

Alfred M. Rankin

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

It's useful to just keep in mind that there is some inflationary backlog or inflationary impact that's occurring in [ph] GS&A (00:34:04) as well as in the components that we buy. And I'm sure you're seeing that in other companies, but our outsourced services and certain kinds of expenses are continuing to move up. So there's an inflationary aspect that is apart from sort of the substantive question of when do we begin to undertake some of the projects that we've been deferring for a relatively short period, but nevertheless deferring.

Steve Ferazani

Analyst, Sidoti & Co. LLC

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Great. Appreciate all the detail everyone. Thanks.

Rajiv K. Prasad

President, Hyster-Yale Materials Handling, Inc.

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Thank you, Steve.

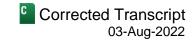
Kenneth C. Schilling

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

Thanks, Steve.

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Operator: Thank you. Our next question comes from Chip Moore of EF Hutton. Chip, your line is now open.

Chip Moore

Analyst, EF Hutton Group

Good morning. Thanks for taking the question. One follow-up on the production schedules for the back half of the year into next year. Can you give us a sense maybe of your ability to flex those schedules up? If you do see some improvement on supply chain shortages, how quickly do you think you could react?

Rajiv K. Prasad

President, Hyster-Yale Materials Handling, Inc.

Yeah.

Alfred M. Rankin

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

Rajiv?

Rajiv K. Prasad

President, Hyster-Yale Materials Handling, Inc.

I guess I'll take that, Al. Yeah. So, our typical lead times for our highly engineered components is in that 12 to 13 weeks' kind of timeframe, so about three months. And we are using internal metrics to see how well we're receiving material. That's the primary variable. We have the capacity from a manufacturing perspective to build a truck. So that's not an issue. So, as those metrics tell us that we could – the security of supply is improving, then with about a, I would say, three months; for some of our bigger trucks, four months, kind of ahead, we can start to ramp up. So that's our kind of ramp-up lead time.

Alfred M. Rankin

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

I'd add to that that the sort of metrics we're using internally are very much focused on the levels of inventory that we have available to build trucks for the next four days or so and whether we have all the components in hand. And we also track very carefully the components that are available for the next 30-day build and our judgment as to the reliability of the supplier forecast of what they're going to ship to us. So, when those metrics start to improve, that'll be a real indicator that we can look forward in the way that Rajiv was describing. But in the meantime, we're going to be carefully controlled because it's just not breaking open in terms of the supply availability as we had hoped that it might.

Chip Moore

Analyst, EF Hutton Group

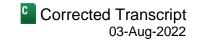
Got it. That's very helpful. And if I could ask another on sort of this being a price leader and a bit more selective on bookings, it makes a lot of sense I think given the backlog position. Any sense of, back to the competitive dynamics, what's allowing maybe some of your competitors to be a bit more aggressive on price or any concerns on fair or – again, is it – you have such strong backlog that's really your focus right here?

Alfred M. Rankin

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

We have really a set of excellent share gain programs that we put in place, and our market share position in 2021 was very strong and the programs are really paying off. So we feel that as two things happen, one, costs come

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down as commodities ease over the next few months that our prices will become – we'll be able to lower our prices and still have our target margins. But secondly, there is evidence in the marketplace that our competitors were simply slower than we were to recognize the impacts of increased inflation costs in their own pricing. And now – so there's catch-up going, we think, on both sides that will allow us to become competitive when we need to based on the backlogs and we're monitoring our backlogs very much on a product type by product type basis. So what – the backlog levels are not the same for all trucks. Some are more much more extended and others. And so our objective will be as our backlogs come in line to more competitive and appropriate levels, we expect to be competitive in our pricing. In the meantime, we're following the approach that you just outlined.

Rajiv K. Prasad

President, Hyster-Yale Materials Handling, Inc.

A

I guess the only other thing I would add, Chip, is we are working very closely with our customers and dealers. We've kept them appraised of what we're doing and why we're doing it and have had quite extensive discussions with them. So that – those relationships are going to be intact through this process.

Alfred M. Rankin

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

А

Yeah. And remember that the inflation is not just in the components that we buy. The shipping costs both internationally and domestically have been very elevated. There's some sign of moderation in both of those, and we're hopeful that that will continue and come back down to far more normal levels.

Chip Moore

Analyst, EF Hutton Group

C

Yeah. That's very helpful perspective. Appreciate that. But maybe just one more kind of longer term update on Nuvera sort of pipeline and progress and maybe how to think about some of the potential regulatory drivers there, whether I think California, right, is talking about phasing out some of the bigger trucks, the spark ignited trucks. Obviously, Europe has many initiatives underway. Just kind of an update on how you're thinking about the opportunity...

[indiscernible] (00:41:23)

Rajiv K. Prasad

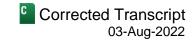
President, Hyster-Yale Materials Handling, Inc.



Sure. Yeah. I'll take that Chip. So, we certainly have seen activity, I would say, led by Europe in a – with the constraints that are coming out of Russia on kind of carbon field that Europe is really working hard to figure out what the alternative fuel future for them looks like and hydrogen is a big part of that. We've seen activities accelerate in Europe. We're also seeing that in India. China with the lockdowns have slowed things down a little bit, but we expect them to come back strong. And now we're seeing early signs of kind of the same thing in North America. But as you say, starting with California, but we also know that, if that happens in California, the next kind of green state will also go along with California. So, activity level at Nuvera is high.

But the Nuvera – we've talked to you over the last few calls about that Nuvera is taking a really segment of the market into what type of vehicles we think fuel cells are going to be most effective in as a green solution with, let's say, batteries. So they're very focused on kind of those segments of the market, connecting – they're working with the key OEMs in those segments. And what's become apparent is the critical part to industrialization of fuel cells is really going through a demonstration and a development path, essentially what we're doing internally within Hyster-Yale. We just brought our first port equipment into California, just arrived last weekend. And it's going to be

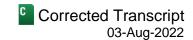
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tested with one of our key customers in the port in LA. And then later in the year, we will do the same thing in [ph] Valencia (00:43:37), for instance, where they reach with another port equipment truck. So we're starting to roll out our own products. And then they have a long list of by segment customers that are earlier in the phase then of course Hyster-Yale is but going through the same processes with those customers starting with demo units.

AITTEG M. KANKIN Chairman & Chief Executive Officer, Hyster-Yale Materials Handling, Inc.	A
I think our terminal tractor venture is going very well. We'll have, I believe running very shortly in August, actually is the plan. And I think the overall from the details, is that the high gasoline prices and diesel fuel prices and significantly accelerated the focus in development perspective that both whave on prospects over the next few years. So I'm – I think the overall per clearly focusing on the segments, as Rajiv said, where we expect early a get the job done in the heavy-duty applications that we're focusing on.	perspective, if you want to back away described the shortage of natural gas have really we and I think more generally the industry erspective is a good one. But we are
Chip Moore Analyst, EF Hutton Group	Q
Great. I appreciate all the color. Thanks, everybody.	
Rajiv K. Prasad President, Hyster-Yale Materials Handling, Inc.	A
Thank you.	
Operator : Thank you. Our next question comes from Brett Kearney of Open.	Sabelli Funds. Brett, your line is now
Brett Kearney Analyst, Gabelli Funds LLC	Q
Hi, guys. Good morning. Thanks for taking my questions.	
Christina Kmetko Investor Relations Consultant, Hyster-Yale Materials Handling, Inc.	A
Good morning.	
Alfred M. Rankin Chairman & Chief Executive Officer, Hyster-Yale Materials Handling, Inc.	A
Good morning.	
Brett Kearney Analyst, Gabelli Funds LLC	Q
Good morning. So obviously, we've heard from a lot of companies about lockdowns and war in Ukraine, putting on supply networks. Curious, your kind of what are the few critical components most holding things up at thi never shifting list, but the wire harnesses, electronics, still two of the large	factories today and your inventories, s point? And obviously understanding it's

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Rajiv K. Prasad

President, Hyster-Yale Materials Handling, Inc.

They are. Yes. So you pick the two top ones. But then strange stuff like hoses and sometimes I'm surprised that the things that we get shortages on and when we deep dive what the root cause is, is typically some sort of material availability. And in some cases, we have been COVID, that a plant got impacted by COVID, but that's starting to be a rare case now. It's mostly raw material out of sync with what people had expected. And [ph] the longer term thinking (00:46:56) suppliers seem to be doing better, and the ones who are much more reactive suppliers are the ones that struggle.

Brett Kearney

Analyst, Gabelli Funds LLC

Okay, great.

Alfred M. Rankin

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

Yeah, I would add only to that. Yeah, I would add one thing to that and I just had to step away for a second. So I don't think Rajiv commented on this. But part of it are the type of suppliers that you have asked about, but we're also seeing random smaller parts that are unavailable here and there. And we've been putting new processes to deal with that sort of random unavailability of parts, because as you well know, it only takes one part that's missing that to be able to complete the truck. So it's not just the big large scale parts. It's often to some degree are smaller, less important parts that are simply unavailable because our suppliers are unable to get what they need from their suppliers. And so there's a lot of random stuff going on. That's why we focus on whether — so strongly and whether we have the parts for the next four days to build all the trucks that we're planning to build for the four days. When we get that working better, it'll give us a lot more confidence about our ability to build and to build efficiently, because it is — it's not just the unavailability. It's very difficult to run an efficient manufacturing operation when you just don't have a reliable supply chain structure.

Brett Kearney

Analyst, Gabelli Funds LLC

Yeah. Okay. All right. That's very helpful. And then, I guess, with some of the geopolitical dislocations, we've seen Eastern Europe, potentially also evolving now in Asia. I know you've obviously done a tremendous amount of work really the past two years managing through this challenging supply environment. I guess, longer term and structurally, do you think there's any adjustments coming out of this you might contemplate on some of your component sourcing or even finished products shipped out of China and other areas?

Rajiv K. Prasad

President, Hyster-Yale Materials Handling, Inc.

Yeah, Brett...

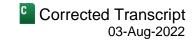
[indiscernible] (00:49:25)

Alfred M. Rankin

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

...ask Rajiv to address that question, but let me introduce it by just saying that we have a lot of discussion with our board of directors about that particular issue. And the general perspective is that we need to have backup plans for all the components and some of the assembly operations that we have around the world and those areas that

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are likely to have more political stress or issues potentially. So this is an area of considerable focus in which our board is taking a lot of interest in as a general backup plan and risk management plan. With that backdrop, let me turn the question over to Rajiv.

Rajiv K. Prasad

President, Hyster-Yale Materials Handling, Inc.

A

Yeah. Thanks, AI, and thanks for the question, Brett. So, yeah, what I was going to say is even before we got into this current spikes in geopolitical kind of issues, we have considered that we need a more resilient supply chain and that was kicked off in parallel to our development of our A, N Series trucks, which is the modular scalable truck, and we term this phrase called center of gravity supplier. So just to give you a feel for, we have over 700 suppliers today, but what we've integrated into IRIS is a much smaller group of suppliers, but they're all large, very capable suppliers with a very diverse footprint. What I mean by that is a supplier that can build a part in Asia, that can build the same part in Europe, they can build the same part in the Americas. And we feel that will drive a lot of the resiliency, but at the same time, we're heavily developing other Asian countries as source of supplier, as a backup to China.

Brett Kearney

Analyst, Gabelli Funds LLC

Terrific. That's very helpful. I appreciate all the color.

Christina Kmetko

А

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

Thanks, Brett.

Rajiv K. Prasad

President, Hyster-Yale Materials Handling, Inc.

Thanks.

A

Operator: Thank you. Our next question comes from Benjamin Thelen of Arosa Capital Management. Benjamin, your line is now open.

Benjamin Thelen

Analyst, Arosa Capital Management



Hey, guys. Thanks for taking my question. I just had a question as it relates to your working capital. So it looks like this quarter we saw a pretty sizable decrease in your payables, but also subsequent increase in your receivables. I'm wondering what you can do better to manage your working capital overall. Is there anything you can do to accelerate receiving your receivables from customers or extending your payment cycle? And then also on the inventory side, nice job, using up some inventory this quarter. But how should we think about that going forward? Thank you.

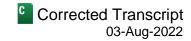
Alfred M. Rankin



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

Let me just give you an overview. Our receivables generally are managed very tightly and we feel pretty good about the receivables process that we have in place. Our real focus is on inventory and with the production schedules we've put in place, we believe that we can better match the inventory to the production levels that we have and the focus is on decreasing inventory in a significant way. Rajiv, would you like to expand on that?

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Rajiv K. Prasad

President, Hyster-Yale Materials Handling, Inc.

Sure. So, a part of really stabilizing our production plan and bringing it down and what I would call flattening it was so that we wouldn't have working capital peaks and troughs, which are tough for us to manage and also tough for our customers and suppliers. So, that's going to be a big enabler. We've just completed that process. So, there's an intense focus on inventory and bringing it down. And essentially there's two elements to it. First one is, we should – we're pushing out the unneeded inventory in collaboration with our suppliers as we brought down the production rate. The other one is to build the trucks we've planned. It's not complicated. So that's what we're very focused on. The whole organization is focused on it. And I think that we're winding up the intensity on that.

In terms of managing the payables, we're managing it very actively and working with suppliers to extend payables where we need it. So, I think that whole dynamic is working. Our focus right now is inventory and getting it down.

Kenneth C. Schilling

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

Yeah. And maybe I should have been...

[indiscernible] (00:54:30)

Alfred M. Rankin

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

Yeah. Let me just elaborate – let me elaborate just one bit on the inventory. Think of it in two components that Rajiv mentioned. One is what we have on hand. We have a lot of the components that we need to build the production that we have planned over the next several months. It's in the hand and it's in hand way ahead of when we would ordinarily have had it in hand because our production aspirations were higher than the ones that we've put in place now. And so, that's one piece of it is just working through the inventory that we have. And the second is ensuring that nothing else is shipped to us that we don't need in order to build the trucks that we now have and the production schedule and Rajiv focused on that. So we see a significant opportunity to bring down working capital by focusing on inventory as the number one priority, as Rajiv outlined.

Kenneth C. Schilling

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

Yeah.

Benjamin Thelen

Analyst, Arosa Capital Management

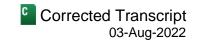
Thank you. That's very helpful.

Kenneth C. Schilling

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

[indiscernible] (00:55:39) comment, I mean, that effort to reduce inventory, of course, is going to cause us to order less in the current period and that's going to push our payables down as we reduce our inventory and buy less of the parts that we need in the current period to produce trucks in the current period. So, payables are going down because we're adjusting inventory levels down to more appropriate levels due to the excess inventory we have based upon the lack of those critical components to build trucks. On the receivable side, we did have a bit of linearity where we shipped more trucks towards the end of the guarter. That affected receivables going up. But we

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also had higher sales and higher sales values because of the increase in unit prices as we go through this price increase curve. So as prices go up, we might be selling same number of trucks, but if those trucks are selling for 15% more, we're going to see 15% more in receivables.

So I think those are some of the drivers. We do have programs [ph] with receivables to floor plan as best we can at dealers for dealer stock (00:56:46). And we work with – depending upon the mix of customers, there may be different payment terms, but I think we do have a very active program to manage receivables, as Al had pointed out.

Alfred M. Rankin

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

Yeah. And I think...

Benjamin Thelen

Analyst, Arosa Capital Management

Yeah. Thanks for that.

[indiscernible] (00:57:03)

Alfred M. Rankin

Α

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

...in terms of timeline, the best way to think about this is that we expect these inventory reduction programs and our working capital in general to decline significantly over the remainder of 2022.

Benjamin Thelen

Analyst, Arosa Capital Management

Q

Okay. And then could you put any quantification around that? So this last quarter, it looks like you actually released \$35 million roughly of inventory, which is phenomenal. Should we kind of expect that run rate going forward? And then how should we think about a normalized inventory level in terms of days of inventory outstanding or just in terms of an absolute dollar amount? In the past, you guys had been around \$500 million to \$600 million in inventory. Should we expect another \$290 million of inventory to be released here through that timeframe that you just laid out?

Alfred M. Rankin

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

Α

I think...

Kenneth C. Schilling

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

Δ

Yeah. I'd go back to...

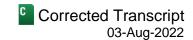
[indiscernible] (00:57:59)

Alfred M. Rankin

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

...it's just a little bit speculative to say a lot on that. But Ken, why don't you elaborate as appropriate?

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Kenneth C. Schilling

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

Yeah. Obviously, we're living in unique times with the critical component availability challenges causing us to not have inventory at the time we need it. But our goal, of course, is to return back to more normal levels of receivable days, inventory days and payable days. And I think if you go back and look at our history, you'll see what we're targeting. Now, we don't believe we're going to achieve all that this year, but we'll achieve quite a bit of that, at least that's what we expect and that's what we're working towards. And then, of course, as the supply chain evens out in 2023, we're going to task our businesses to get back on to our targeted days of working capital in each of those categories.

Alfred M. Rankin

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

I would add to...

[indiscernible] (00:58:55)

Alfred M. Rankin

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

...that when you have more and more of the new scalable – modular and scalable products that the inventory carrying characteristics of those are significantly different from the products that we have today. So there are longer term and increasingly significant results that will come from that as well as we push forward.

Christina Kmetko

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

Thank you, Benjamin.

Operator: Thank you. For the remaining questioners, please limit yourself to one follow-up and one question only. Thank you. Our next question comes from Richard Dearnley of Longport Partners. Richard, your line is now open.

Richard Dearnley

Analyst, Longport Partners LP

Good morning. Could you discuss in the advance truck hydrogen fuel cells and so on, that your ability or your marketing strategy when folks like Amazon and Walmart are getting warrants from various suppliers, how do you deal with that?

Alfred M. Rankin

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

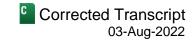
Rajiv, do you want to comment on that?

Rajiv K. Prasad

President, Hyster-Yale Materials Handling, Inc.

Sure. I mean, I think it's difficult to comment on how and why others are doing what they're doing. I mean, I think our strategy for marketing and developing this market is to work very closely with key customers, because it's not just about the solution, you need the infrastructure that goes along with it; not just truck, the hydrogen, but then

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you need very skilled service capability, service and support capability. So we're kind of moving ahead. And our customers have really thought through this process, understand it. And so we're engaged with them. And we will be following our normal kind of the way we interact with the market approach. Obviously, some of the venture companies are doing some unusual stuff, which we're unlikely to do.

Richard Dearnley Analyst, Longport Partners LP	Q
Right. Okay. Thank you.	
Rajiv K. Prasad President, Hyster-Yale Materials Handling, Inc.	Α
Thanks.	
Kenneth C. Schilling Chief Financial Officer, Senior Vice President & Treasurer, Hyster-Yale Materials Handling, Inc.	A
Thank you.	
Operator : Thank you. Our final question for today comes from William Niline is now open.	icklin of Circle N Advisors. William, your
William T. Nicklin Analyst, Circle N Advisors	Q

Thank you. And thank you for taking my question. In line with the prior Nuvera comments and the comments that you just made, I noticed that in the Inflation Reduction Act of 2022 that came out last week, there's a section titled Energy Security and Climate Act where they described [indiscernible] (01:01:59) grants to reduce air pollution at ports funded at \$3 billion, support the purchase and installation of zero emission equipment and technology at port, and \$1 billion for clean heavy-duty vehicles like school buses, transit buses and garbage trucks. It would seem to me that that was – if you have great lobbyists or you've had good fortune to have that in there, could you give me your thinking on the prospective effects of this? And maybe also on the new act, I think what it's called [indiscernible] (01:02:42) something else now that where they're talking about a \$3 per kilogram credit on energy production, on hydrogen production...

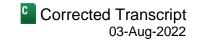
[indiscernible] (01:02:54)

Alfred M. Rankin

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

We'll have to see how all that plays out in final legislation. But I would say the general overview we have is that the kinds of things that you were talking about are playing to our strengths. We said earlier in this discussion that our focus is in applications where batteries alone really are not suitable for having a productive application for the end customer. That's particularly true in ports. You heard Rajiv comment about specific ports that we're working with and I think [indiscernible] (01:03:36) Germany, including Hamburg, and that we're working very closely with. And I think that's going to be a key area. And heavier duty vehicles, whether they're garbage trucks or to some degree school buses and others are certainly areas where our technology and our product applications and where our focus on both marketing and product capabilities is strongest. So we consider all those things positive and we'll be working to understand the details of any legislation that comes along to try to take advantage of national

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government policies, whether they're here in the United States or perhaps an even greater degree in Europe as well. Rajiv, do you want to add anything to that?

Rajiv K. Prasad

President, Hyster-Yale Materials Handling, Inc.

No, I think that covers it. I mean, of course, as you can imagine, that those who are target areas anyway both by our customers and our ports being by far number one, because there's intense focus. And I would say this is global, not just North America that moving to zero emission vehicles is critical in those locations. And then, as Al said, the heavier duty vehicles, those are key segments for us. And so I think it kind of – we understand why it's being done this way, because that's where the need is and also the toughest applications, because once we can solve those, it can then flow across the other applications as the costs come down.

Alfred M. Rankin

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

But this is why it's still important to...

William T. Nicklin

Analyst, Circle N Advisors

Thank you for your comment.

Alfred M. Rankin

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

This is why it's still important to pick up on Rajiv's point earlier that this is not simply a matter of providing a product. There's a whole support system that has to go along with these products that includes the development of the application itself in the vehicle from a total engineering point of view. So it's a very complex process, and we think it plays to our strengths and our capabilities. We've been assembling and engineering very large equipment, especially in our Nijmegen plant for heavy duty trucks and port equipment for many, many years. We have a lot of skills in this kind of area. And we're going to be using those to help end users really meet their real needs.

William T. Nicklin

Analyst, Circle N Advisors

Thank you. Sounds like you've got your arms around it. I appreciate it.

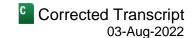
Christina Kmetko

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

Thank you, [ph] Bill (01:06:43). With that, we'll conclude our Q&A session. Thank you to everyone for joining us. I'll close with just a few final reminders. A replay of our call will be available online later this morning. We'll also post a transcript on the Investor Relations website when it becomes available. If you have any questions, please reach out to me. You can reach me at the phone number on the press release. I hope you enjoy the rest of your day. And now I'll turn it back to Alex, our operator, to conclude the call.

Operator: Thank you. A telephone replay will be available until Wednesday, August 10. If you're in the US and you like to dial in, you can dial 1-866-813-9403 and use the access code 149747. Thank you for joining today's call. You may now disconnect your lines.

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