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# Hyster-Yale Materials Handling, Inc. (HY)

Q2 2019 Earnings Call

### CORPORATE PARTICIPANTS

#### Christina Kmetko

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

#### Alfred M. Rankin

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

#### Colin Wilson

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

#### Kenneth C. Schilling

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

### OTHER PARTICIPANTS

Joe L. Mondillo Analyst, Sidoti & Co. LLC

### MANAGEMENT DISCUSSION SECTION

**Operator**: Good morning. My name is Marcella and I will be your conference operator today. At this time, I'd like to welcome everyone to the Hyster-Yale Second Quarter 2019 Earnings Conference Call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question-and-answer session. [Operator Instructions] Thank you.

Christina Kmetko, you may begin your conference.

#### Christina Kmetko

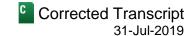
Investor Relations Consultant, Hyster-Yale Materials Handling, Inc.

Thank you. Good morning, everyone, and welcome to our 2019 second quarter earnings call. I'm Christina Kmetko, and I'm responsible for Investor Relations at Hyster-Yale. Joining me on today's call are Al Rankin, Chairman, President and Chief Executive Officer of Hyster-Yale Materials Handling; Colin Wilson, President and Chief Executive Officer of Hyster-Yale Group; and Ken Schilling, our Senior Vice President and Chief Financial Officer.

Yesterday evening, we published our 2019 second quarter results and filed our 10-Q. Copies of the earnings release and Q are available on our website. For anyone who is not able to listen to today's entire call, an archived version of this webcast will be on our website later this afternoon and available for approximately 12 months.

I would also like to remind participants that this conference call may contain certain forward-looking statements. These statements are subject to a number of risks and uncertainties that could cause actual results to differ materially from those expressed in the forward-looking statements made here today in either our prepared remarks or during the following question-and-answer session. We disclaim any obligation to update these forward-looking statements which may not be updated until our next quarterly conference call, if at all. Additional information regarding these risks and uncertainties were set forth in our earnings release and in our 10-Q.

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

Now, let me discuss our second quarter results and activities. I will discuss the highlights first and then get into the details. On a consolidated basis, our revenues increased almost 12% to \$856.2 million, up from \$765.9 million in last year's second quarter. Each of our three businesses contributed to this increase with our core Lift Truck business, Hyster-Yale Group, realizing a 12.9% increase in revenues to \$812.7 million because of increased units and parts volumes, product mix and price increases. The acquisition of Hyster-Yale Maximal in June 2018 also contributed to the improvement. In the second quarter of 2018, we had only owned Maximal for one month. This year, we have the benefit of a full quarter of Maximal's revenues which increased \$16.3 million over last year's second quarter.

Our consolidated operating profit also increased significantly to \$22.9 million from \$10.8 million last year and our consolidated net income increased to \$16.2 million or \$0.97 per share from \$5.6 million or \$0.34 per share last year. Hyster-Yale Group's 68% increase in operating profit was the primary driver of the substantial improvement in both consolidated operating profit and net income. A lower operating loss at Nuvera also contributed to the consolidated operating profit increase. However, Bolzoni's results were lower than planned primarily because of the cost associated with the restructuring of the North America operations and unfavorable currency.

Looking specifically at the Lift Truck business, Hyster-Yale Group's operating profit increased to \$29.1 million in the second quarter, up from \$17.3 million last year, primarily because of higher profits in both the Americas and EMEA. A number of factors contributed to this improvement.

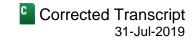
Despite the fact that the global Lift Truck market continued to soften in the Americas and to a lesser extent in EMEA, unit shipments and bookings increased over the first quarter of 2019 and the prior year second quarter, even after excluding non-comparable Hyster-Yale Maximal shipments of 1,400 units.

Shipments of higher-priced units, including Big Trucks, increased during the 2019 second quarter as supplier parts shortages for Big Trucks abated. On the other hand, the average sales price per unit for bookings and backlog decreased compared with the 2019 first quarter and the 2018 second quarter as the higher-priced trucks were shipped out of backlog and we experienced an increase in bookings of lower-priced units. We were able to realize benefits from price increases, net of material and freight cost inflation and continuing import tariffs, as well as a favorable retroactive tariff exclusion adjustment of \$4.9 million for certain components imported from China. The adjustment includes \$3.1 million of refunds for tariffs incurred prior to this quarter.

Improvements in manufacturing efficiencies in EMEA resulting from the abating of supplier constraints on Big Trucks were more than offset by higher costs resulting from manufacturing inefficiencies in the Americas associated with component delivery disruptions from key suppliers. In addition, higher operating expenses primarily from higher product development costs to support our strategic initiatives partly offset the increase in Hyster-Yale Group's operating profit.

Moving to our Bolzoni segment, Bolzoni reported net income of \$1.6 million and revenues of \$90.8 million for the second quarter of 2019 compared with net income of \$2.1 million and revenues of \$88 million in last year's second quarter. Bolzoni's operating profit decreased to \$2.3 million down from \$3.2 million last year, primarily due to cost associated with the restructuring of its North America operations and unfavorable currency translation, as I mentioned previously.

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Finally, in our Nuvera segment, Nuvera reported revenues of \$2.2 million in the second quarter compared with \$700,000 in the prior year second quarter. Nuvera's second quarter operating loss decreased to \$8.2 million from \$9.5 million last year. Both the improvement in revenues and reduction in operating loss were mainly because of product development funding received from third-parties.

Looking forward, we continue to focus on our six strategic initiatives and the many projects we are undertaking to execute these initiatives, which we believe will have a transformational impact on our competitiveness, market position and economic performance over the next three to five years.

Our longer term outlook did not change from what we said at year-end, but I have a few updates to our thoughts in 2019.

In total, the many projects we discussed last quarter have required and continue to require significant upfront expense and capital expenditure investments. We expect further increased investments to continue to be made in the remainder of 2019 and in 2020 and then generally remain at or below the 2019 levels for the next several years, but we believe the return from these investments has started to be realized and is expected to increase over the next five years.

Before I provide an update on our outlook, let me provide some updates on specific, more immediate projects and how those are expected to affect 2019.

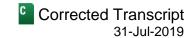
During the second quarter, a new range of lower-cost Class 3 Lift Trucks were launched in certain markets. New lower-cost Class 3 walkie and stacker global products are expected to be introduced during the second half of this year. Hyster-Yale Group expects to introduce new fuel-cell BBRs for Class 1, Class 2 and Class 3 forklift trucks over the next two years, with the anticipated introduction of the first model in the first quarter of 2020.

As previously discussed in the first half of 2019, Bolzoni phased out production at its current Homewood, Illinois facility and substantially completed the shift of manufacturing to Sulligent. Bolzoni is still maintaining the distribution centers and certain other operations in the Homewood area. In the first quarter, Bolzoni recorded a restructuring charge associated with these plans. Payments related to this restructuring plan are expected to be made during 2019. In addition to the restructuring charge of \$1.4 million recorded during the first quarter, Bolzoni incurred charges during the second quarter of \$600,000 and anticipates it will incur additional charges during the second half of 2019 of approximately \$2.2 million to \$3.5 million for further restructuring-related costs.

The transfer of the responsibility for the development of non-fuel-cell engine components and the overall assembly of Class 1 and Class 2 BBRs to Hyster-Yale Group is expected to occur during the second and third quarters of 2019. The transfer of the Class 3 BBRs is expected in early-2020. Once this is complete, this will allow Nuvera to be entirely focused on fuel-cell stacks and engines by mid-2020. Nuvera expects to bring the first one of two planned robotic stack assembly lines online by the end of 2019, which is expected to help lower Nuvera's cost structure. Shipments of fuel-cell engines to a key customer in China have been delayed because of the need for additional unplanned customer-driven product validation. As a result, Nuvera's quarterly breakeven target has been adjusted.

Turning now to the overall outlook. In summary, while the third quarter of 2019 is expected to reflect continued investment in all of our programs, similar to what you saw in the first half of the year, the fourth quarter is expected to improve significantly in comparison to the 2018 fourth quarter and the first three quarters of 2019. Efforts we have taken to abate some of the most critical Big Truck supplier issues, which include working with existing suppliers, and in some cases, finding additional suppliers, have succeeded, but there are still significant

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shortages from key suppliers in the United States that are not expected to be resolved fully until the fourth quarter.

In addition, plans established in 2018 to find offsets to the tariff-driven, unprecedented material cost inflation witnessed last year began to mature in the first of this year and are expected to continue to mature and result in recovering margins during the remainder of the year. Augmenting the plans we put in place, on April 18, the U.S. Trade Representative posted a notice announcing its determination to grant additional exclusion requests for certain duties on Chinese goods. The exclusions were applied retroactively to the July 6, 2018 effective date and extend for one year after the notice of exclusions or April of 2020.

Certain components of forklift trucks, including counterweights and forks were listed in the notice as exclusions for the duties, while other components that we and our suppliers import from China are still subjected to certain tariffs. During the second quarter, we recorded duties recoverable for the period of July 6, 2018 through June 30, 2019. We expect to be able to record additional recoveries later in the year when we receive recovered tariff costs from certain of our suppliers. In May 2019, additional tariffs were imposed on certain Chinese goods. It has been our determination that the favorable impacts of the exclusions announced in April are expected to be greater than the anticipated unfavorable effect of the new tariffs announced in May.

In addition, our current Lift Truck backlog contains certain deal-specific pricing agreements at less than target margins to gain targeted accounts and for which margin improvement efforts will take some time to mature. We expect these agreements reduced profitability in the first half of the year and will continue to have an impact on results in the second half. However, margins are expected to recover fully from the 2018 material cost inflation and the heavily discounted deals by the fourth quarter of 2019, as well as continue to be enhanced over the remainder of this year by the exemption of tariffs on certain Chinese components, although the majority of tariffs remain in place.

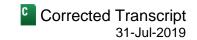
In this context, we expect 2019 operating profit at Hyster-Yale Group to improve considerably over 2018. While results in the first half were moderately lower than the first half of 2018, we expect results in the remainder of this year to improve significantly over both the second half of 2018 and the first half of this year, principally in the fourth quarter. Beginning in 2020, further improved results are expected with significant increases through 2023. Our objective is to achieve a 7% operating margin in this period assuming reasonable market conditions continue. We expect Bolzoni's results to decrease in 2019 primarily due to the restructuring of its Americas operations, but results in the following years are expected to improve with the target of achieving a 7% operating profit margin.

Nuvera's results are expected to improve moderately over the course of 2019, with the second half of this year expected to show a lower operating loss than in the second half of 2018. Breakeven is now expected to be reached during the second half of 2020.

At each of these three businesses, we expect that the investments being undertaken will lead to increased operating profit through higher volume, decreased product costs and improved pricing, partially offset by a higher level of operating expense. As a result, overall, we expect 2019 consolidated operating profit to increase significantly over 2018 with the improvement coming in the fourth quarter.

Of course, the absolute level of profitability will reflect actual market demand levels, which showed substantial softening particularly in the Americas and to a lesser extent EMEA, in the first half of this year. While markets are still at historically high levels, we believe the market could be at the beginning of a downturn, which is projected to be moderate and of limited duration. Therefore, in 2019, we are currently forecasting strong but moderating Lift

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Truck market levels. We also continue to forecast a resolution to Brexit in a way that does not significantly harm our business prospects.

Before I open up the call for questions, I wanted to discuss a few balance sheet and cash flow items. Our cash position at June 30 was \$50.3 million compared with \$83.7 million at the end of 2018. Our debt balance was \$370.9 million, up from \$301.5 million at December 31. The supplier constraints and the expenditures we are making associated with our strategic initiatives have affected our cash flow and our working capital. As a result of these factors, we expect our full year 2019 consolidated cash flow before financing activities to decrease significantly compared with last year, after you exclude the impact of the 2018 acquisition of Hyster-Yale Maximal, which was a \$78 million cash outlay.

As mentioned, this decrease was primarily because of increased working capital, particularly higher accounts receivable during the first half of the year, as well as higher capital expenditures. However, working capital is expected to improve significantly in the second half as the inventory supplier issues are resolved. This improvement is not expected to fully offset the higher working capital needs from the first half of the year.

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

### **QUESTION AND ANSWER SECTION**

<b>Operator:</b> [Operator Instructions] Your first question comes from the line of Joe Mondillo from Sidoti & Company Your line is open.	
Joe L. Mondillo Analyst, Sidoti & Co. LLC	Q
Hi. Good morning, everyone.	
Christina Kmetko Investor Relations Consultant, Hyster-Yale Materials Handling, Inc.	A
Good morning.	
Alfred M. Rankin Chairman, President & Chief Executive Officer, Hyster-Yale Materials Handling, Inc.	A
Good morning, Joe.	
Joe L. Mondillo Analyst, Sidoti & Co. LLC	Q
I wanted to ask first about sort of the price/cost situation and I understand, sind when you started implementing price increases, that's starting to improve. But steel prices coming down so much and I'm just curious when we sort of hit an and then at that point going forward, do we actually see sort of a tailwind and a being down compared to where they were a year ago?	specifically I wanted to ask with inflection of sort of back to normal,
Colin Wilson President & Chief Executive Officer, Hyster-Yale Group, Inc.	A

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Yeah. This is Colin. Yes. I mean we are seeing steel prices falling, so that's a little bit of a headwind – sorry, a tailwind on our results in 2019. As far as pricing goes, I think we've been very good at – done a very good job of improving pricing, particularly in our sort of National Account channel. We have pushed out the time when, if you like, these low-priced deals will lead out of the system. That's not because we've done more, it's because of the lengthened lead time that there was a supplier issues. So, we're just not able to ship them quite as quick as we were expecting, but we still expect all of those to be behind us by the fourth quarter, like time to come out in the fourth quarter. So, I think the prospect going into 2020 is, if the current supply situation holds with steel, that it will be a tailwind pushing us. And again, I think we're through these low-single-digit large deals that we did at very low pricing and that should be a positive for us as we look at 2020.

Kenneth C. Schilling

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

А

Yeah. I just would add that we saw some moderate – a very moderate amount of tariff improvement on our run rate, but the headwind that we do have in costs is freight.

Colin Wilson

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

Α

Yeah.

Kenneth C. Schilling

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



And that somewhat offset the benefit that we've received [ph] for material cost inflation (00:18:39).

Colin Wilson

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



And some of that was one-time to do with the shift in our 3PL carrier and some of it is just higher rates to do with the regulations surrounding on-the-road vehicles, which has caused a shortage of trucks and a spike in prices. We're not sure how long that will continue, but certainly, that is a headwind as we look at 2019.

Joe L. Mondillo

Analyst, Sidoti & Co. LLC



Okay. So, with price/cost going to continue to be a tailwind through this year or become maybe a bigger tailwind and I know the supply chain constraints sort of continue like you mentioned, but hopefully those continue to improve through this year. Addressing your comment on the margins, you stated in your prepared remarks that margins are going to return to pre-2018 levels. Are you referring to the fact that you think 2019 margins will return to, say, 2017 margins or that will finish the year sort of entering 2020 on a run rate at those levels?

Colin Wilson



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

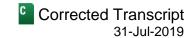
I think sort of the comments were sort of a look forward comment we've got a declining trend. I mean it's not huge, but we do have a declining trend in cost, particularly in the U.S., and we are seeing our margins improve. I think if we want to sort of a time when we get back to normal run rate fully, I would say it will be in 2020.

Joe L. Mondillo

Analyst, Sidoti & Co. LLC



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Okay. And then, I wanted to ask about sort of related to the backlog, but more specifically with what you're seeing in Class 4 and Class 5 order trends. I understand the backlog sort of the value per unit declining, but that doesn't necessarily tell the full picture, you could be seeing very strong demand on the low-end. So, I'm specifically wanting – curious to see what you've been sort of seeing in your Class 4 or Class 5 order trends over the last several months?

Colin Wilson

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

A

I mean, as I said, fairly healthy. I mean there has been a pullback. We're talking about the North American market. The North American market was down just into sort of double-digits overall in the first half of the year, but we think that was a little bit of a reaction to what happened last year. As far as our Class 4 and Class 5 demand is concerned, it's holding up well. We have slightly longer lead times than we would like on some of our trucks, some of that have to do with the supplier issues, but particularly on the electrics and some of our Class 4 trucks, and lead times are back to normal on some of our Class – the bulk of our Class 5 range. So, we don't see ourselves being in sort of any type of sort of deep market pullback. We see the period that we're in right now is a period of adjustment after what happened probably the little bit of overheating in terms of Lift Truck demand in 2018. But we look at the ongoing next six months or so being sort of, I wouldn't say returning to normal, but certainly better than it was in the first half of the year.

Alfred M. Rankin

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

A

I think the other thing I'd add is that as you see from the investor perspective over the next two or three years, we've got a lot of programs that are coming together in ways that significantly affect the counterbalanced business, both ICE and electric. And so, regardless of what the sort of within limits what the market situation is we expect to continue to get – have a very healthy backlog and a high level of sales. So, that's an important perspective to have as you look out a bit on the volumes that we expect to book.

Joe L. Mondillo

Analyst, Sidoti & Co. LLC

All right. So, just to sort of follow-up, looking at the backlog value per unit sort of declining, that's really just the case in point where you're seeing stronger, pretty strong or stronger demand on the lower class or the smaller lower margin type trucks, and Class 4 and Class 5, you're still seeing – it's still holding up. Are you still seeing sort of modest low-single-digit type of growth? Is that really sort of the story behind that backlog value per unit?

Colin Wilson

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

Δ

You've had a couple of extremes. I mean on one hand, we were shipping more Big Trucks, because the supply situation in Nijmegen has basically been resolved and we're back to normal in Nijmegen. So, we've been shipping more Big Trucks out of backlog than we had in prior quarters. But the order intake on the Big Trucks is still pretty healthy, so that's sort of normalized. And then, you've got [indiscernible] (00:24:21)

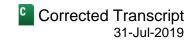
Alfred M. Rankin

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

А

Our backlog situation in Nijmegen was really terrible...

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#### Colin Wilson

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

Yeah.

A

#### Alfred M. Rankin

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

...because of the supplier constraints. We had a lot of difficulties with customers that very properly expected trucks to be delivered at earlier times than we were able to do it. But we've now, as Colin said, gotten through that, so – but I don't consider that that really has much to do with the flow of our bookings. And we probably were reaching the point where people were irritated with our – the length of our backlog and our promise dates. But hopefully, we're through that period now and we cannot lose any orders because of lead times at this point.

Colin Wilson

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

Right. And then, the other thing is we run some initiatives and programs, and so we actually booked a lot more of the lower-value Class 3 product in the second quarter. So, part of the mix shift is the number of Big Trucks that have come out of backlog and then the number of little trucks that have gotten into backlog. But if you look at the middle, I would say, that's been sort of steady flow business and no significant change.

Joe L. Mondillo

Analyst, Sidoti & Co. LLC

Q

Okay. I want to sort of switch to sort of the cost structure and specifically related to the investments that you've been making over the last couple years, and it seems like you're finally maybe by the early-2020, getting to a point where you feel pretty good where those projects are and that you're not going to need to invest incrementally much more beyond that point. I'm just wondering, while you have all these projects going on and even with Maximal and what you're doing over there and – at your facility over there, but with all these things going on, are there any sort of costs or maybe even more so maybe inefficiencies with the operations or anything where, as once we get through to the end of these projects that we actually see margins benefit going forward, not because of the top line which, obviously, you're hoping that that ends up being the case, but more so just because the cost that you're actually spending that may go away or inefficiencies related to everything that you're doing? Is there anything associated with that or not really?

Alfred M. Rankin

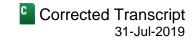
Chairman, President & Chief Executive Officer, Hyster-Yale Materials Handling, Inc.

Α

I think the way I'd be inclined to characterize that is that we've got different types of programs. Certain of them are, what I would call, sales and marketing-driven programs, particularly our focus on serving the needs of customers in specific industries with very tailored solutions for them and our efforts to assist our dealers with a direct, greatly expanded direct sales force that shows that they're more successful with some of the larger customers than they were able to be before. But those are designed to just increase our volume over time and help us have a better market share position with those larger customers that are below our big National Accounts in size.

Then, on the other hand, there are new products, some of them are near, very near term in the – particularly in the warehouse business that we expect to have a significant impact on our position, in those we've mentioned I think both the end rider and also our new Reach Truck that are coming into the marketplace. And then, we have some major product introductions in our counterbalanced business that are coming, beginning in the middle part

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of 2020. And those programs carry with them a significant cost reduction as well as a repositioning of the product line. So, in total, they should put us in a position as you move into 2021 and 2022 of having not only an improved market position, but also an improved margin position. So, that comes a little later in the period, not immediately, but it certainly is going to be a factor as we look out a little bit further in this transformational period that we've been talking about in our investor perspective.

Joe L. Mondillo

Analyst, Sidoti & Co. LLC

Okay. And I guess I'll switch to Nuvera. Just wondering if you could provide any more color regarding this - I guess, in your press release, you called it a customer-driven product validation, essentially the reason why the sort of your expectation of the breakeven point. Could you just provide exactly if you have any more color regarding what's that exactly means?

Alfred M. Rankin

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

Well, apparently what happened was that one of the other competitors in the marketplace installed a significant number of fuel cells in buses in China, which is the most immediate large market opportunity there and where we're positioned to do we think quite well, and those competitors' fuel cells failed. And so, the entire industry has apparently recalibrated its requirement in the context of government concern about that for proving out the durability and reliability of those fuel cells. And from our point of view, it's very frustrating that it's generating a delay, on the other hand, it in many ways plays to our strengths because we think we have a better, more reliable fuel cell solution and our total engine package is more reliable. So, it's kind of a combination of pluses and minuses, but certainly, it's something that we just have to deal with. It's not anything that's within in our control at this point. But it is specifically event-driven as we understand it.

Joe L. Mondillo

Analyst, Sidoti & Co. LLC

Great. Okay. Any idea at this point whether they're going to do a full [ph] 180 or do you think it's just a... (00:31:44)

Alfred M. Rankin



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

It's just - they've got a very specific program and it's for the buses to go beat with a set of test units to test number of buses to go 20,000 kilometers. I think it is and demonstrate reliability. So, instead of shipping during that period, we are going to be demonstrating the reliability with a smaller number. We're working with our customer to try to be in a position where, upon the completion of those tasks, we can move forward as fast as possible and that's still under discussion. Colin, do you want to add anything to that?

Colin Wilson

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

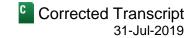
No. I mean we have commitments on the volume after we go through the public validation. So, we know the volume is there and the volumes we're talking about are really initial volumes that we have built into the forecast, but we expect the real demand to be significantly higher.

Alfred M. Rankin

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



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That's an important point. We have built our forecast around this narrower set of volume requirements to be cautious and to make sure that they're proven in the field and there aren't issues that have to be dealt with. Having said that, we're already finding that there is additional demand that's being lined up behind those that are factored into our forward forecast and that's very important, because we're looking to build this business in a significant way over a very extended period of time and so far we see the evidence of that happening.

And let me remind you in addition that there are sort of three prongs to our fuel cell activity. One is in the forklift truck business, which at the moment has been mainly through battery box replacement systems and we're developing new battery box replacement envelopes for – as Christy outlined for our Hyster-Yale Group with applications that we believe, particularly in America, but also in Europe and possibly in Asia. So, that's the forklift truck business at the lower levels. And there is a heavy-duty engine which will go in both buses and in our large forklift trucks. And we are testing those engines in our forklift trucks, particularly in California under some specific programs, and we have the bus business that uses basically the same engine. And so, there's this sort of heavy-duty vehicle business.

And then, further down the track is the automotive side of the business and probably somewhere in between there's also an expansion of the – those heavier duty models into the delivery van business as well as the bus business. So, we tend to think about it in three segments with applications really up and running in the forklift truck side, but the need for market maturity with applications coming in with contractual commitments behind it for these heavier duty fuel cells and fuel cell engines. And then finally, further down the track, the contractual arrangements we have to develop applications in the automotive side of the market in China. So, it's a sequence of different fuel cell engine capabilities and fuel cells for those engines that we're working on at this point.

Colin Wilson

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

And we're also working on opportunities outside China. So, it's not all China.

Joe L. Mondillo

Analyst, Sidoti & Co. LLC

Okay. I'll ask one more question and see if anyone else has – wants a shot at it, but I just wanted to follow-up on the battery box replacements. I know that a second generation, you guys have talked for a little while now, that you're fairly excited with that because of it being better than the first generation. I'm just wondering, since hearing about that maybe a year ago, if there's any updates with that product development? I think you mentioned that it's supposed to be introduced in the first quarter of 2020. Any other color that you can provide in terms of how this is going to drive more demand or I guess maybe it's more of a better product on the cost side of things, but any other sort of color you can provide regarding that?

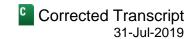
Alfred M. Rankin

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

Let me kind of say – make a couple of comments first and maybe Colin would like to add. In the battery box replacement side of it, you really have to think about two elements. One is the battery box replacement which uses the second piece which is the fuel cell engine. So, Nuvera is supplying the fuel cell engine to Hyster-Yale Group, which is building the battery box replacement. The battery box replacements using the current generation of fuel cell engines are the ones that we were specifically referring to that are coming out over the next few months and into 2020. Then, we have a revised fuel cell engine which has more efficiency and capability and better energy density and that comes on a little bit later...

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Colin Wilson

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

In 2020.

Alfred M. Rankin

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

...in 2020. So, there really are two answers to your question. Do you want to add anything, Colin?

Colin Wilson

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

No. Other than we will be producing the first of the next generation of BBRs starting in the first quarter, we are up and running with BBR manufacturing in Greenville now, that started in July, but that's of the previous generation for which we have customer orders. And then, the additional BBRs will be brought on stream over the next couple of years, but the one that we're starting to build is our highest volume for current customers, the one that the new next generation BBR that we'll start in the first quarter of next year.

Joe L. Mondillo

Analyst, Sidoti & Co. LLC

Okay, great. Thanks.

Alfred M. Rankin

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

Okay. Thank you.

**Operator**: [Operator Instructions]

Alfred M. Rankin

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

I don't think – if there are no more questions, I'd just close by saying that we encourage you to read the Investor Perspective in some detail. We think it lays out this three-plus-year time horizon that we think is critical for our business and it focuses on, what we call, a set of transformational programs for our business. Generally, we feel our programs that we've been outlining in this Investor Perspective for a couple of quarters now is on track. We've had no major deviations from terms of timing and sequencing. You've heard about the slippage in the timing of Nuvera. We have – are working to adjust and bring our new line of counterbalanced, smaller counterbalanced trucks online in the most efficient way possible. And so, there are minor adjustments in the timing of some of the models that are being brought to market after the mid-part of – beginning in the mid-part of 2020.

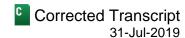
But generally speaking, we feel that the programs are going pretty much as we had anticipated, and we will make any adjustments that are appropriate in the Investor Perspective in future quarters that seem appropriate. And so, our hope is that that will be a good guide to the prospects of the company over the next few years. That's all I have at this point. Anybody have anything else, Ken, Collin?

Colin Wilson

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

No.

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Kenneth C. Schilling Chief Financial Officer & Senior Vice President, Hyster-Yale Materials Handling, Inc. No.	A
Alfred M. Rankin Chairman, President & Chief Executive Officer, Hyster-Yale Materials Handling, Inc.	A
Christy?	
Christina Kmetko Investor Relations Consultant, Hyster-Yale Materials Handling, Inc.	Δ
Nope.	
Operator: So, our next question comes from Joe Mondillo. Your line is open.	
Joe L. Mondillo Analyst, Sidoti & Co. LLC	C

I wasn't sure if I was going to get that in. I just had a couple other questions, if you don't mind. I wanted to specifically ask I guess on Bolzoni. When you say that their performance this year is going to be down year-over-year, if you exclude the restructuring, do you think it will still be down year-over-year?

Colin Wilson

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

I mean Bolzoni's – bulk of Bolzoni's business is in Europe still and the European market has softened, softened particularly in the second quarter. And so – and again, when Bolzoni looks at its market, it looks at the counterbalanced market. We're not expecting the downturn to be long and protracted and deep, but certainly it's come off the levels that it was at last year. And so, Bolzoni is picking up market share as best as they can measure it, but when you look at the performance in that theater, then that is being a headwind.

In the U.S., we're very bullish. Once we get out of 2019, I mean the transfer of business from Homewood into Sulligent is broadly complete and we are producing attachments in Sulligent. We are increasing our investment in the U.S. market. And so, we expect to be increasing business through 2019 into 2020. And then, we have initiatives with Bolzoni in Asia, in South America. We've got an increasing level of demand for the standard type attachment coming out of China, that's being used in global markets. But again, the big driver to the short-term results is the softening in the European economies. The other factor is if you look at their results in euro terms, they were up in the quarter and up for the first six months, but of course, the strength of the dollar means, the dollar translation on the results, means the results don't look as good as they actually are in their functional currency views.

Joe L. Mondillo

Analyst, Sidoti & Co. LLC

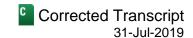
Yeah. That I know. If you exclude the restructuring costs, you end up in a positive territory and that's fairly good. They're a euro-centric company. So, that really is more representative of their results.

Alfred M. Rankin

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

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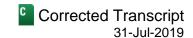
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But I don't want to leave a pessimistic view about their revenues in the remaining portion of the year. I think we don't see that they're going to be slipping off the kinds of levels that we saw last year. They can be a little...

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Joe L. Mondillo Analyst, Sidoti & Co. LLC	Q
Right.	
Alfred M. Rankin Chairman, President & Chief Executive Officer, Hyster-Yale Materials Handling, Inc.	A
we would expect them to be a little bit better. The main impacts here are these special cost incurred in the U.S. and they've had some currency headwinds and those are, at currency-currency rate levels, those headwinds are expected to continue. So, I'd say, it has a lot more currency than it does with the volume and that there's some softening, but then we'll bring the we've got a good healthy run rate. So, we're not going to spike up in the business, but it's stip healthy and the biggest issues are the currency headwind in the short-term, but we expect to we look forward.	urrency levels, e to do with the le backlog back in and ill going to be pretty
Colin Wilson President & Chief Executive Officer, Hyster-Yale Group, Inc.	A
Right. I mean, bottom line is we're very pleased with the underlying drivers in the Bolzoni bu	siness.
Alfred M. Rankin Chairman, President & Chief Executive Officer, Hyster-Yale Materials Handling, Inc.	А
And certainly optimistic about 2020.	
Joe L. Mondillo Analyst, Sidoti & Co. LLC	Q
Okay. Sure. So, the additional one-time or additional restructuring costs that are in the second the transition from Homewood to Sulligent is pretty much complete, are all those costs related July or what are those associated with?	•
Colin Wilson President & Chief Executive Officer, Hyster-Yale Group, Inc.	А
Well, what I said is substantially complete. I'm talking about the transfer. I mean we've still g need to deal with in the Homewood area and some of the transition costs of people and what are the	-
Joe L. Mondillo Analyst, Sidoti & Co. LLC	Q
Okay.	
Colin Wilson	Λ
President & Chief Executive Officer, Hyster-Yale Group, Inc.	$\vdash$
additional costs we're talking about.	

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#### Alfred M. Rankin

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

A

And we've got quite a bit going on in the Sulligent facility that relates to change in the activities that are being performed there...

Joe L. Mondillo

Analyst, Sidoti & Co. LLC

Right.

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

Δ

...toward obviously the Bolzoni components on the one hand, but equally away from certain of the forklift truck components that they had been doing. That means there's a readjustment of the workforce involved in those activities and – but part of our strategy was that the machine tools and that plant can do what is necessary to create the components in Sulligent. At the same time, we're getting the cost reduction on some of the components for the Hyster-Yale Group. So, all of that is going on at the current time and will begin to moderate as we work through the rest of this year and next year. Do you want to add anything...

Joe L. Mondillo

Analyst, Sidoti & Co. LLC

Okay.

Alfred M. Rankin

Δ

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

...Ken, in terms of the prospective extra costs that are being associated with it and...?

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Kenneth C. Schilling

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

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Yeah. Joe, with regard to just specifically the restructuring number, because that would be from an accounting perspective discloses restructuring. We do have costs related to going from two facilities to one in the Illinois area. But the bigger set of cost is conforming their IT systems to work with Sulligent's IT system and that's part of the restructuring activity as well.

Joe L. Mondillo

Analyst, Sidoti & Co. LLC

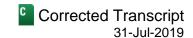
Okay. I wanted to also ask about the sales and marketing program regarding positioning, I guess, your sales and marketing related to industry groups. This has been an area that you've been focusing on for a little bit. But on the press release, you made it – you stated that U.S. and Europe, they're all in place at this point. And this is – I think you've called out, this is an area where you're trying to target 40% of the Lift Truck market that you've sort of underperformed, I guess, in terms of market share. So, it seems like a pretty big opportunity. Now that the sales and marketing teams are in place, what do you think about, I guess, the market share gains now that they're all in place? How does that transpire over the next year or two?

Alfred M. Rankin

A

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

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Yeah. It's an important...

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

Any other color regarding...?

Alfred M. Rankin

A

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

Yeah. It's an important point, because on the one hand, we feel the capabilities are in place, that's step one. But then you win business, account by account, and it doesn't happen overnight. You have to take your ideas on how to improve the productivity and the cost position of our customer base of these types of customers. And you have to persuade people that we have a better solution than our competitors' solution. And there are many accounts that where our competitors have been embedded in those accounts for many, many years, but we have a disciplined program. We've identified the accounts. We have a disciplined program of calling on those accounts, and over time, we expect the impact of those efforts to gain momentum quarter by quarter, year by year and – but it isn't going to happen overnight.

The most important comment I'd make is that as recently as this last week in some of our operating updates, it was pretty clear that our people on the ground, who are carrying out these programs, feel that there are no roadblocks to their eventual ability to get a fair share of that business. So, we have a very optimistic point of view, but I don't think anyone should think that you snap your fingers now that you've got those capabilities in place and that the customers are all going to buy immediately. That's not the process that's underway.

Colin Wilson

А

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

I mean we are winning business through our new sales teams and we're also getting a lot of quoting opportunities, we're getting opportunities of putting demo units in, we're getting opportunities of selling small number of units to some customers to allow them to really test this out. So, I mean, it's really like a flywheel, and the flywheel is definitely moving and we're getting some good momentum. But we believe that the real payoff of this activity will happen in 2020 and beyond.

Joe L. Mondillo

Analyst, Sidoti & Co. LLC

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Sure. And then, I just wanted to address sort of the modular and scalable production sort of program that you're investing in. I sort of wanted to get sort of more of a clear timeline on what percentage of the business you'll have this sort of set and complete, I know 2020 has been a period of time for one part of the business, but then other parts are going to be 2021, 2022. So, could you just walk me through sort of the timeline of expectations on getting that all in place?

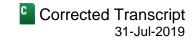
Alfred M. Rankin

Δ

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

So, the first part of the program will take place, as you say, starting in 2020. And then, as far as the real heart of the line that would probably be complete over the subsequent two years, then it migrates to other series. So, ultimately, we see the modular and scalable approach applying, I wouldn't say light across the range, but across a very large part of our range and that's going to take longer than the – for that to be complete, it will take longer than the current planning horizon. But as far as applying the 80%-20% rule in terms of our volume and what have

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you, I think it would be substantially complete within the timeframe that we put in the Investor Perspective, maybe it's a little bit longer than that, but not much longer.

Joe L. Mondillo

Analyst, Sidoti & Co. LLC

But if you think about 80%-20%, what timing do you have 20% of your units produce 80% of your profits, at what point in time, will that be complete for that – the 80%-20% I guess, if you want to talk about it like that?

Alfred M. Rankin

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

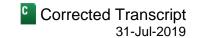
Well, the first wave is our smaller counterbalanced trucks and that sort of begins in the mid-part of 2020 and carries through certainly the first half of 2021 and then begins – and then in the second half as well. And – but it's all out by the end of 2021 and that's the product line I would concentrate on thinking about at this time. And if you think about it, you've got something on the order of 60% of the business globally is in the counterbalanced side and the smaller trucks probably are 60% of that. I don't really know exactly what that number is off the top of my head, but I think Colin, it's something like that.

And so, you're talking about a substantial portion of the business where we should be fully out and competing with these capabilities by the – certainly the end of 2021, but increasingly beginning – around the world, beginning at the middle part of 2020, and that's probably the best way to think about it. So, you get 30%, 35% of the business and it's a heartland business for us. So, it's very important in terms of keeping us in a leadership role and gaining position in areas where we know a very large position of the customer base.

But going back to your earlier comment or question about the effect of the industry strategies and the direct coverage, I think it kind of goes without saying that if you add to their capabilities, not just knowledge of the industries and the ability to communicate solutions to customers, but you add in what we think will be a significantly improved product as well, that increasingly over this period beginning in the mid-part of 2020, we should be gaining momentum in that very important portion of the marketplace as the sales force with these capabilities is delivering even better solutions than they have today.

Joe L. Mondillo Analyst, Sidoti & Co. LLC	Q
All right, great. Well, thanks for taking my questions. I'll leave it at that. Thanks. I appreciate it.	
Alfred M. Rankin Chairman, President & Chief Executive Officer, Hyster-Yale Materials Handling, Inc.	А
Thank you.	
Christina Kmetko Investor Relations Consultant, Hyster-Yale Materials Handling, Inc.	A
Thank you, Joe.	
Kenneth C. Schilling Chief Financial Officer & Senior Vice President, Hyster-Yale Materials Handling, Inc.	A
Thank you, Joe.	

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#### Christina Kmetko

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

Okay. So, thank you very much everyone for asking all your questions. If we do not get to you or you do not have – you had a follow-up question, please feel free to give me a call. You can reach me at my number which is available on the earnings release. Thanks and have a good day.

Operator: This concludes today's conference call. You may now disconnect.

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