01-Aug-2018

Hyster-Yale Materials Handling, Inc. (HY)

Q2 2018 Earnings Call

CORPORATE PARTICIPANTS

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

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

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

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

OTHER PARTICIPANTS

Michael David Shlisky
Analyst, Seaport Global Securities LLC

Joseph Mondillo
Analyst, Sidoti & Company, LLC

MANAGEMENT DISCUSSION SECTION

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

Ms. Christina Kmetko, you may begin your conference.

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

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 For anyone who is not able to listen to today's entire call, an archived version of this webcast will be on our website later this afternoon and available for approximately 12 months.

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

Now, let me discuss our second quarter results and activities. I will discuss the highlights first and then get into the details. In the second quarter, the global lift truck market remained strong. And in this strong market, we had a solid increase in our second quarter lift truck shipments and bookings and our ending backlog increased 18% over the prior year. We also experienced a large increase in our average unit backlog value as a result of the mix of products within the backlog. We booked more higher-priced units and fewer lower-priced Class 3 trucks.

On a consolidated basis, our revenues increased over 11% to $765.6 million, up from $685.5 million last year, driven by a 25% increase in Bolzoni's revenues and an 11% increase in the Lift Truck business revenues.

It should be noted that a significant portion of these increases were attributable to the translation of EMEA and Bolzoni sales into U.S. dollars. Despite this revenue growth, our consolidated operating profit, which was broadly in line with our expectations, decreased 38% to $10.8 million from $17.5 million last year. This decline was solely the result of a decrease in our Lift Truck business operating profit.

Our consolidated results also include an unplanned $2.6 million unfavorable mark-to-market adjustment on an equity investment and a $700,000 unfavorable pension settlement adjustment, both of which were recorded in our Americas segment. We reported net income of $5.6 million this quarter or $0.34 per share compared with $16.4 million or $0.99 per share in the prior year second quarter.

I should also highlight that we completed the Maximal transaction on June 1, 2018. As a result, the JAPIC segment's second quarter results include revenues of $7.2 million and a net loss of $200,000 for the one month we owned Maximal.

In addition, our second quarter consolidated net income in both 2018 and 2017 includes pre-tax amounts of $1.9 million and $500,000 respectively from Maximal acquisition related costs, which were also reported in our Americas segment as well as higher 2018 tax expense of $1.1 million related to accumulated non-deductible acquisition costs.

In our Lift Truck business, second quarter 2018 revenues went up 11% to $720.1 million from $647.7 million in the prior year. Our gross profit was generally comparable to the prior year quarter but operating profit decreased 37.8% to $17.3 million compared with $27.8 million last year.

Overall benefits from higher shipments and parts revenues in all geographic segments as well as favorable foreign currency movements in EMEA were more than offset by higher material and manufacturing costs and other price increases, and higher operating expenses incurred to support our strategic initiatives. Those are the significant factors affecting our Lift Truck operating results.

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

The overall global lift truck market remains strong in the first half of the year but we expect it to grow only modestly in the second half compared with both the second half of 2017 and the first half of 2018. We expect unit shipments and unit and parts revenues to increase during the second half and full year 2018 compared with the same prior year periods.

We also anticipate the Lift Truck operating profit to increase in the second half of the year with a modest decrease in the third quarter expected to be more than offset by improvements in the fourth quarter. However, the improvements in the second half of the year are not expected to offset the reduced operating profit during the first half and as such, we expect this will result in an overall moderate decrease in full year 2018 operating profit compared with last year.

Nevertheless, net income in the second half of 2018 is expected to increase substantially over last year's second half as a result of the absence of the tax adjustments made in 2017 for U.S. tax reform legislation.

The anticipated decrease in our third quarter is driven primarily by shipments and backlog orders that were booked at prices in effect prior to the price increases being implemented. The expected fourth quarter improvements are the result of an anticipated increase in product pricing as trucks booked at the new higher prices are shipped. These improvements are expected to be partially offset by material cost inflation and by the higher operating expenses I mentioned previously.

We implemented price increases to help recover anticipated material cost inflation, including the impacts of Section 232 tariffs and we expect to continue to implement pricing actions as needed. We are still working to interpret the full likely impact of the most recent Section 301 tariffs on our future operating results. And at the same time, we are reviewing a number of strategies to minimize their effects.

Moving to Bolzoni, Bolzoni reported net income of $2.1 million and revenues of $52.5 million for the second quarter of 2018 compared with a net loss of $100,000 and revenues of $41.9 million in last year's second quarter. Bolzoni's revenue increase was driven primarily by higher sales volumes in EMEA. In addition, due to favorable currency movements, revenues increased $4.7 million as a result of the translation of Bolzoni sales into U.S. dollars.

Bolzoni's operating profit and net income increased as a result of an increase in gross profit, including the absence of unfavorable currency movements in the prior year of $1.6 million. This improvement was partially offset by higher operating expenses.

Looking forward, as a result of anticipated growth in the EMEA and Americas markets and the continued implementation of sales enhancement programs, we expect Bolzoni's revenues in the second half to increase compared with the second half of 2017, primarily in the third quarter. However, the improvement in revenues in the second half of the year is expected to be at a lower level than in the first half of the year.

In addition to the anticipated increase in revenues and the expected operating leverage resulting from the sales growth, we anticipate the continued implementation of several key strategic programs to generate substantial growth in Bolzoni's operating profit and net income for the remainder of the year as well as for the 2018 full year compared with the respective 2017 periods.

Finally, in our Nuvera segment, Nuvera reported an operating loss of $9.5 million and a net loss of $6.9 million in the second quarter compared with an operating loss of $10.5 million and a net loss of $6.3 million a year ago.

Nuvera shipped 91 battery box replacement units this quarter compared with 31 in the prior year. But revenue on these units has been deferred until a later period.

Nuvera's operating loss decreased in the second quarter compared with both the prior year second quarter and the 2018 first quarter loss of $10 million, mainly as a result of lower product development costs. Nuvera's net loss increased primarily as a result of Nuvera realizing a smaller tax benefit on its pre-tax losses due to a lower effective income tax rate as a result of the U.S. tax reform legislation.

Shipments of Nuvera's battery box replacements increased in the first half of 2018 and we expect shipments to continue to increase in the second half of the year. The unit backlog was just over 250 battery box replacements at the end of the quarter. Nuvera expects demand to increase throughout the remainder of 2018 and expects its cost base to continue to decrease due to substantial cost reductions on future purchases of core components.

Nuvera expects to continue to leverage improved designs and higher volumes through its supply chain to generate further cost reductions in 2019, although recently implemented tariffs on imported components will partially offset these reductions. We are working closely with suppliers to find alternative sourcing for affected components.

Production of battery box replacements at Nuvera's Billerica facility is expected to be phased out and transferred to the Lift Truck business. With the phase out of battery box replacement production in Billerica, Nuvera will focus on the design, manufacture and sales and marketing of fuel cell stacks and engines. In addition to growing demand for engines that are used in battery box replacements, reinforced by recently extended federal fuel cell tax credit, Nuvera is experiencing significant interest in its stacks and fuel cell engines for applications outside of the lift truck market, particularly in China. And we believe this could be a significant and profitable growth opportunity.

Early in the third quarter of 2018, Nuvera finalized an agreement to manufacture and assemble fuel cell engines designed by Nuvera for use in the Chinese New Energy Vehicle market. This agreement provides a product license for the exclusive manufacture of 45 kilowatt fuel cell engines, based on Nuvera's Orion Gen1 fuel cell stack, for sale in China over the next three years. The units are expected to be integrated in transit buses, delivery vehicles and other motive platforms. In addition to the fuel cell engine manufacturing license, the agreement also provides royalty and technology service revenue to Nuvera.

The agreement incorporates a minimum initial purchase volume of 500 fuel cell stacks after successful testing of the engines, with annual minimum purchases increasing significantly throughout the three-year term of the contract. The fuel cell stacks used in these engines will be manufactured exclusively by Nuvera, initially at its facility in Billerica, with localized manufacturing in China anticipated in the 2019-2020 timeframe.

We're currently targeting Nuvera to achieve break-even by late 2019, although this target could be achieved earlier or later depending on sales volumes for fuel cell-powered lift trucks, as well as engine sales for other markets. The operating loss in the second half of 2018 is expected to decrease compared with the second half of last year, especially in the fourth quarter, and moderate more substantially over 2019.

While the 2018 full year operating loss is expected to be lower than last year as a result of improvements in the second half of the year, the 2018 full year net loss is expected to be comparable to 2017 because of a smaller benefit expected to be realized on Nuvera's losses due to the lower effective income tax rate.

So to summarize our consolidated outlook for the 2018 full year, we expect our consolidated operating profit to increase due to a lower operating loss in Nuvera principally in the fourth quarter and expected improvement in Bolzoni's operating profit. These improvements are expected to be partially offset by a modest decrease in full year operating profit at the Lift Truck business due to the lower operating profit in the first half of 2018, combined with a modest decline in the third quarter, mostly offset by a substantial increase in the Lift Truck operating profit in the fourth quarter. Our consolidated net income is expected to increase substantially due to the absence of net tax adjustments of $18.4 million made in 2017 as a result of the U.S. tax reform legislation.

Before I open up the call for questions, I wanted to make a comment about our cash position and cash flow expectations. Our cash position at June 30 was $152.4 million compared with $220.1 million at the end of 2017. Our debt balance was $273.1 million, down from $290.7 million at year end. As a result of an unplanned acceleration of payments in December of 2016, we experienced higher than normal cash benefits from the restoration of accounts payable levels in the first quarter of last year, excluding the favorable effect these payments had on 2017 and excluding the cash paid for HY Maximal in June, we expect our consolidated cash flow before financing activities to decrease significantly in both the second half and 2018 full year compared to 2017, primarily due to anticipated increased working capital, and higher capital expenditures.

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

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] And your first question comes from the line of Mike Shlisky from Seaport Global. Your line is open.

Michael David Shlisky
Analyst, Seaport Global Securities LLC
Q

Good morning, everybody.

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

Good morning, Mike.

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

[ph] Hi (15:45).

Michael David Shlisky
Analyst, Seaport Global Securities LLC
Q

So, I wanted to start off with the very broad overview here. I know you mentioned you've got a – when you look at all the three segments combined, there should be an improvement in operating profit from last year, but I wanted to get the basic view as to do you feel better about the full year this quarter than last quarter or if things ticked down slightly because of some of the pricing in the backlog in Lift Trucks?

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

That's a hard question to answer, it's a very subjective point of view.

Michael David Shlisky
Analyst, Seaport Global Securities LLC

Q

Right.

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

A

The only comment I'd make is that there is more uncertainty now about the impact of tariffs than, perhaps, was the case three months ago. It's a very difficult period from that point of view. Nobody is quite sure what's really going to happen, are they negotiating or is this a permanent environment, there is a – and the challenge of balancing price increases with cost increases, including the tariffs, is a difficult one. So that's the only comment I'd add.

Michael David Shlisky
Analyst, Seaport Global Securities LLC

Q

Okay. That's fair. And then, perhaps, as a follow-up to that question, on Maximal, if things don't change from a tariff perspective, is there anything we should be worried about as to how effective you can be with what your original plans were for the Maximal brand going forward?

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

A

Maximal is really not affected by the tariff issue. Maximal produces products that are appropriate for utility markets, particularly in China, Asia and segments of other markets around the world but there's very little that affects the U.S. So the tariffs really don't come into play.

Michael David Shlisky
Analyst, Seaport Global Securities LLC

Q

Got it. And then, perhaps, more broadly on Maximal. And now that you own the controlling share of it, kind of what are your first impressions now as you've been there and you're allowed to go kind of behind the curtain and see the books, et cetera. If you own it now, do you feel any differently now than you did back when you were just kind of looking at it from a distance?

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

A

Let me tell you, we've been behind the curtain for 18 months. This has been an extraordinarily detailed due diligence period. We have learned nothing new since the acquisition. We had complete disclosure on their part. We had the teams of people involved in our due diligence, professional, outsiders including accountants, advisors, lawyers and as well as our own teams in product development, supply chain, manufacturing, information technology, sales and marketing. We've been crawling all over this for a very substantial period of time. In fact that whole effort was, in some ways, complete some time ago and then it came down to hammering out all the details in the very complex set of documents that we have. And we'll have to see – and so those documents are now signed and that was really the focus in the most recent months' efforts.

I would say, in addition, don't forget that the owners of the Maximal business still own 25%. They have a huge stake in the success of this joint business and there they have interests that are very much aligned with ours. So it's not a situation where the former owners and the managers are gone. They're integral to this entire transaction and very important from our point of view.

Michael David Shlisky
Analyst, Seaport Global Securities LLC

Q

Wow, great. Just squeezing one last one, I guess, it's for Ken here. The backlog being up 18%, could you tell us what percent is due to currency?

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

A

Mike, let me get back to you on that one. I don't have that handy in the backlog analysis, but I would say that the backlog is predominantly in the U.S. So, I would say only about 30% to 35% of total...

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

A

I wouldn't look at it from the point of view of revenue. I'd look at the units and the unit backlogs are up very substantially and that's really the key way to do that. I think to have a perspective on that, I think the currency approach is to give you a flavor for the value of it and the mix has been changing generally in our favor. That is from smaller Class 3 type trucks to larger Class 5 trucks, including big trucks. And I think that's the way I would call it out. And we say in the earnings release that the world-wide backlog was approximately 41,700 units compared with the 35,300 at during a year ago and 36,100 at March 31.

So I think it's an indication of robust bookings, a moderate perspective in terms of the shipment cycles that we can manage our shipments and any changes in volume and our plans and in an orderly way tied in with our suppliers and have it not be disruptive at all to our manufacturing productivity and I think it gives us a very healthy backlog in units as we look forward.

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

A

And, Mike, coming back to your earlier question about how do we feel about this forecast compared to three months ago, certainly the outlook is more solid because we're booking well into the fourth quarter and we've been booking at higher prices for some time now. So as we look at the third quarter and into the fourth quarter we have pretty good visibility as to what we expect the results to be.

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

A

And as I said, Mike...

Michael David Shlisky
Analyst, Seaport Global Securities LLC

Q

Great.

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

A

...about 70% of our units are in the Americas, where our currency is the U.S. dollar. So only 30% really would have that effect.

Michael David Shlisky
Analyst, Seaport Global Securities LLC

Q

Okay. Got it. I've got some more but I should pass it along and I'll hop back in queue. Thank you.

Operator: And your next question comes from the line of Joe Mondillo from Sidoti & Company. Your line is open.

Joseph Mondillo
Analyst, Sidoti & Company, LLC

Q

[Technical Difficulty] (23:36) everyone.

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

A

Hello.

Joseph Mondillo
Analyst, Sidoti & Company, LLC

Q

My first question, I'm just trying to get a sense or try to understand better, you said you have pretty good visibility into the business over the next couple of quarters. So, I'm just trying to get a sense of the margin at the Americas segment. A couple of years ago, we were in the 7% range of the op margins. And just given the headwinds of material inflation in the first half of this year, we're looking at op margins in the 4%, but if you sort of fully make up that with the price increases that you're instating and the mix sounds the best that it's been in a very long time. Could you help me understand where you think op margins can get at the Americas segment?

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

A

We really don't make those kinds of forecasts, but dimensionally, I think, your understanding of the situation is reasonable. The important thing to understand is that the tariff situation has emerged and – over time and as it has emerged, we've taken action to increase prices of trucks that are being booked. But those trucks that are being booked don't get produced for several months and especially with backlogs at levels where they are now. So you're getting a mismatch between the assumptions for our pricing when we book trucks some months ago and the material cost levels that are resulting from the tariffs. So we have to work our way through that

And, I think, as Christy suggested, the biggest impact comes in the fourth quarter, not in the third quarter when we're still working through some of the bookings at earlier numbers but dealing with the inflationary impact of the tariff increases. So this is why I made my comment earlier that these are very uncertain times. And as you've read in the newspaper [Technical Difficulty] (26:09) this morning, the Trump administration is even thinking about another round of tariffs and instead of 10% tariffs, 25% tariffs. If that happens that'll change the outlook very considerably with regard to the ability of the price increases to cover the tariff impact on those circumstances.

Now on the other hand, if somehow the two countries get together and start negotiating, it could be less impact than we think. It all depends on the politics of the tariff discussions and what happens. I don't think anyone expected that the U.S. would agree to sit down and try to reach resolution on all these issues with regard to the EU and U.S. differences point of view. And so they held off on tariffs and they're negotiating. So I wish I could say what was likely to happen with regard to China. I think that from our point of view, this is an environment that we have to deal with. It's not closely related, these tariffs are not closely related to the issues that are most on the table. In China particularly, the protection of intellectual property and other issues that sort of affect the steel capacity and things like that that are affecting global markets.

But we're dealing with an environment that we have and we can just try to respond to it as effectively as we possibly can. One of the things we wonder is if this goes on for a long enough period of time, companies are going to have to look very carefully at having add-on charges for tariffs because of the unpredictability of this and its impact in terms of magnitude on the business. So uncertain times.

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

Mike, as you think about – I'm sorry, Joe, as you think about Al's comments, we have our third quarter and our fourth quarter. Our third quarter we're forecasting, obviously, our seasonal shutdowns that we normally have. But also that lag period that Al described predominantly from the steel and aluminum tariffs is still taking a bite out of us. When we move into the fourth quarter, we start to get pricing that helps us out to somewhat balance that. And of course, fourth quarter is a strong volume quarter for us traditionally. So that's kind of how you can put those pieces into play. When you think about the component side, Chinese components, that's the piece that has the uncertainty that Al's describing here, that's harder to calibrate.

Joseph Mondillo
Analyst, Sidoti & Company, LLC
Q

Okay.

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

And there is so many factors as you probably noted, the Chinese currency has devalued by a significant amount in the last couple of months. That's something of an offset. Assuming that the prices are negotiated in dollars and so they are in local currency, so there are a number of things. I think the other thing that we'd say is that we are looking at a variety of measures to try to moderate the impact of tariffs on the assumption that they will be with us for a period of time. So we're actively looking at mitigating the impact of those through other means than price increases.

Joseph Mondillo
Analyst, Sidoti & Company, LLC
Q

Can I try asking it another way? So I'm obviously trying to focus on the spread between input prices and output prices as well as product mix, so in terms of...

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

Yeah, I don't think we can give you any more visibility than what we've just said. It's – we're not going to get into a detailed forecast. I think we've given you the drivers and that's about where we're going to kind of pause in our comments.

Joseph Mondillo
Analyst, Sidoti & Company, LLC
Q

Okay. Thank you. Thanks for taking my question.

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

A

Yeah.

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

A

Thank you.

Operator: [Operator Instructions] Your next question comes from the line of Mike Shlisky from Seaport Global. Your line is open.

Michael David Shlisky
Analyst, Seaport Global Securities LLC

Q

I want to touch a little bit on Nuvera now. I guess, first, great looking news on that China deal to get some of your products into some non-lift truck applications on the road. I guess, I'm kind of curious if you could give us any kind of sense as to what the potential market sizing is over the next couple of years. And I'm also curious if could you tell us kind of why haven't we seen Hyster pursue this much in the U.S. or in Europe, [ph] where there (31:35) apparently also needs for potential alternative fuel solutions for on-highway applications.

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

A

I think that, to answer your last question first, that the pace at which different new energy sources are adopted can vary from country to country. In China, there are serious traditional pollution problems and a tremendous need to address that both in terms of the types of power plants that are used and in terms of the types of sources of energy for mobile vehicles that are used. You couple that with commitment from China or desire on China's part to be a technology leader in the world and the centralization to drive change quickly. And you have an environment in China, where companies are responding to the expectations of the government and the market opportunity is expanding at a very rapid rate, particularly in vehicles like buses and automobiles and others.

I would say that as far as United States and Europe are concerned, that the adoption in buses and other vehicles is simply going at a significantly slower and more measured pace, because you don't have the impact of governments driving the change as quickly. So we expect that the Chinese market is going to change, going to grow very rapidly in these non-forklift truck applications and provide significant opportunity for us in it.

I particularly note that the type of engine that we expect to use in some of these heavy vehicle markets is very similar to the type of engine that we will be using in our larger forklift trucks and that will be used in the demonstration project in California for an equipment and other efforts that we're making in our larger vehicles.

So – and then I just note that our focus in the forklift truck business is quite different in the sense that it's not comprehensive across all forklift truck applications. It's focused on heavy duty applications, where the use of fuel cells can improve productivity and help in those applications, the users of the forklift trucks achieve the lowest cost of ownership. So it's a selective market driven opportunity as opposed to what's emerging in China, which is very much responsive to government objectives and those kinds of pressures.

Michael David Shlisky
Analyst, Seaport Global Securities LLC

Q

And just to kind of broaden that question a little bit further, there are some other major global engine makers that are also pursuing fuel cell power engines. They're most likely well behind where you are of course. But is there any concern, I guess, one, whether anyone from China, is there any kind of risk to technology transfer if your stuff is on the road there? And then secondly, could some of the larger global engine players really step in and make a big push if they already have capacity in China to kind of serve that market?

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

I think the answer to your first question is that in all of our work in China, with a variety of different customers and potential customers, we are being extremely focused on ensuring that our intellectual property is protected. We believe that we're in a good position to do that and the approaches we're using are appropriate and protective.

Secondly and, perhaps, even more importantly, the technology we have is broadly of interest because of some of the features that our particular technology has. And so in addition to the heavier vehicle market, we also have extensive efforts going on in other markets, including the automobile market that we think may bear fruit for us over time.

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

I should say, I mean, this agreement we've signed also, it will be our engine and our designed engine but we will be providing the stack, which is where really the most significant IP is, so we're protecting the IP by really keeping control of the manufacture of the core component.

Michael David Shlisky — Q
Analyst, Seaport Global Securities LLC

And the engine stack will be exempt from any tariffs going into China, once you have your own facility there?

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

Excuse me, what was your question?

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

Exempt from tariffs going in. I don't believe – there's no tariffs.

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

There are no tariffs. In addition, we would expect particularly in the light of our Maximal acquisition, we have the ability now to have access to facilities that can – and a critical mass of people, including our own emerging market development, product development group that in the Hangzhou area that will allow us to control any manufacturing activities that we do in China. And in the end, we will have manufacturing in China to be the best possible supplier to customers in that market. But we'll do it off the back of our Lift Truck operations, which are now significantly enhanced by Maximal.

Michael David Shlisky — Q
Analyst, Seaport Global Securities LLC

Great. And just kind of one last one for me on Nuvera, I'm sorry I had to [ph] ask this part because it's (38:54) kind of important. There was a big accident in the quarter at a major multinational of someone who was offering a fuel cell powered lift truck, not one of yours, of course, but in the end that was somewhat – that was a fatal accident. And I was kind of wondering if you've gotten any sense if the attitude's changed from some of the big multinationals over the last month or two toward the purchase of the fuel cell powered lift truck just over some safety reasons and stuff like that.

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

A

I'll ask Colin to comment on that, but with the introductory comment that we are very knowledgeable about or at least we are highly aware of the accident and it has – our expectation is that it has some characteristics, which will not raise concerns in the minds of the customers that we've been working most closely with. Colin?

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

A

Yeah. As Al said, I mean, we have awareness of the conditions, we don't want to comment on them because, obviously, the investigation is still ongoing, but our analysis is that the conditions that caused the accident are not prevalent in our trucks. So we have different design characteristics. As far as the reaction in the marketplace is concerned, we did lose a few prospects that we were working on, but the bulk of the prospect bank is still active and alive and discussions are ongoing.

Michael David Shlisky
Analyst, Seaport Global Securities LLC

Q

Okay. Fair enough. That's excellent color, guys. I really appreciate it.

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

A

Yeah.

Operator: And there are no further questions at this time. I will turn the call back over to our presenters for some closing remarks.

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

Thank you, everybody. Do you have any closing comments?

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

No closing comments, no.

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

All right. Thank you very much for joining with us today.

Operator: And to listen to a playback of today's conference, you may call 800-585-8367 and enter your conference ID number 4672709. It will be available until August 8, 2018 at 11:59 PM Eastern Time. This concludes today's conference call. You may now disconnect.