PARTICIPANTS

Corporate Participants

Christina Kmetko – Investor Relations Consultant, Hyster-Yale Materials Handling, Inc.
Alfred M. Rankin – Chairman & Chief Executive Officer, Hyster-Yale Materials Handling, Inc.
Rajiv K. Prasad – President, Hyster-Yale Materials Handling, Inc.
Kenneth Christopher Schilling – Chief Financial Officer & Senior Vice President, Hyster-Yale Materials Handling, Inc.

Other Participants

Steve Ferazani – Analyst, Sidoti & Co. LLC
Chip Moore – Analyst, EF Hutton Group
Brett Kearney – Analyst, Gabelli Funds
Jeffrey Farkas – Analyst, Marathon Asset Management

MANAGEMENT DISCUSSION SECTION

Operator: Good day, and thank you for standing by and welcome to the Hyster-Yale Q4 2021 Earnings Conference Call. At this time, all participants are in a listen-only mode. After the speakers' presentation, there will be a question-and-answer session. [Operator Instructions] Please be advised that today's conference is being recorded. [Operator Instructions]

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

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

Good morning, everyone, and thanks for joining us this morning. Welcome to our 2021 fourth quarter and full-year earnings call. I'm Christina Kmetko, and I am responsible for Investor Relations at Hyster-Yale. Joining me on today's call are Al Rankin, Chairman and Chief Executive Officer; Rajiv Prasad, President; and Ken Schilling, our Senior Vice President and Chief Financial Officer.

Yesterday evening, we published our 2021 fourth quarter and full-year results and filed our Form 10-K, both of which are available on our website. Today's call is being recorded and webcast. The webcast will be on our website later this afternoon and available for approximately 12 months. Our remarks that follow, including answers to your questions, contain forward-looking statements. These statements are subject to a number of risks and uncertainties that could cause actual results to differ materially from those expressed in the forward-looking statements made here today.

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

In addition, we will be discussing non-GAAP information that we believe is useful in evaluating the company's operating performance. Reconciliations for these non-GAAP measures can be found in our earnings release on our website.

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

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

Good morning, everyone. The 2021 calendar year was very challenging, more so than 2020 in fact. Our fourth quarter and full-year results reflect the impact of those challenges. As you saw from the release we issued last night, our fourth quarter results excluding some non-cash charges, were directionally in line with the outlook we provided last quarter, but still due to the non-cash charges which arose as a result of how this challenging environment has affected our near-term forecasts were lower than we anticipated. While Christy will discuss these specific charges in our financial results in detail in a moment, I will provide some high-level thoughts on our results.

Lift truck market demand remained strong during the fourth quarter and continued to grow over 2020 levels. But as we expected, it decreased from the third quarter of 2021 as markets continued to moderate from the peaks achieved in the first half of the year. This year-over-year market growth as well as share gains resulted in strong lift truck bookings for the fourth quarter, which contributed to a new record of truck backlog level and exceeded the historically high level achieved in the third quarter. Given these factors, and as a result of production changes made in the fourth quarter and despite the continuing supply chain challenges exacerbated by several critical component shortages, our fourth quarter shipments were the strongest we've seen since the start of the pandemic.

Last quarter, we indicated that we expected significant losses in the lift truck business in the fourth quarter of 2021 as a result of anticipated continuing supply chain constraints and significantly rising material and logistics costs, leading to margin contraction for trucks in our backlog. These challenges continued in the fourth quarter with only modest parts shortages improvement and inflation continued to rise in the quarter but at a slightly lower rate of change. These factors, along with the non-cash charges, led to the substantial consolidated operating and net losses we reported for the consolidated company in the fourth quarter.

Our teams continue to work diligently to obtain the components we need for production and to increase margins in our backlog and particularly for new orders. Further, given the record backlog levels, the opportunity for increased production and supply chain bottlenecks are resolved as high as evidenced by the substantial increase in shipments in the fourth quarter of 2021. After Christy reviews the financial results for the quarter, Rajiv will provide more detail on these supply chain challenges, as well as provide an update on our business operations and strategic projects. Ken will then discuss our outlook in this very challenging but we believe improving environment.

Christy?

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

Thank you, Al. I'll start with high-level comments about the quarter and then discuss the individual segments. As Al mentioned, due to market level changes and share gains, we had a 16.5% increase in lift truck bookings over the fourth quarter of 2020. But our bookings of 33,200 units in the fourth quarter decreased 10.5% from the third quarter. We ended the fourth quarter with a historically high backlog of 105,300 units. Our fourth quarter unit shipments increased 24.2% driven by our Americas and EMEA segments, and our revenues increased 15.3% over the prior-year fourth quarter. Higher unit shipments and parts volume in the Lift Truck business and at Bolzoni resulting from increased customer demand, along with the favorable effect of price increases in the Lift Truck business were the primary drivers for the increase in our 2021 fourth quarter consolidated revenues to $829.7 million from $719.6 million in the prior year.

Despite the higher revenues, we reported an operating loss of $107 million, compared with operating profit of $13.7 million in the prior year. We recorded a non-cash goodwill impairment charge of $55.6 million in our JAPIC segment because the continued disruption of supply chains and the resulting increased costs unfavorably affected our near-term forecast. The remaining operating loss was the result of several factors, a significant increase in material and freight costs of $68.6 million, net of price increases of $17.5 million, higher unfavorable manufacturing variances of $13.3 million resulting from inefficiencies associated with component shortages, a shift in sales mix to lower margin lift trucks, and additional non-cash charge of $1.3 million to write down inventory at Nuvera and higher operating expenses primarily due to the reinstatement of pre-pandemic compensation and benefits.

Higher unit volumes as well as the absence of $4.4 million of restructuring charges taken in the fourth quarter of 2020, partly offset the unfavorable factors contributing to the operating loss. Overall, we reported a consolidated net loss of $103.3 million, compared with net income of $13.1 million in the prior-year quarter due to the factors previously noted as well as a $19.4 million non-cash charge to establish additional valuation allowances on certain US and UK deferred tax assets, which Ken will discuss in more detail.

Turning to the individual segment results, our Lift Truck business excluding the goodwill impairment charge reported an adjusted operating loss of $37.6 million, compared to an operating profit of $24.4 million in the prior-year quarter, primarily due to significant decrease in gross profit and higher operating expenses in the Americas segment, both resulting from the specific factors I noted in the discussion of our consolidated results. Our Americas division saw by far the greatest impact of production delays and higher costs with EMEA experiencing the same difficulties, but to a lesser extent. However, our JAPIC segment reported an adjusted operating loss of $4 million, which was an improvement from the prior-year operating loss of $6.9 million. The improvement in JAPIC was due to lower operating expenses, partly offset by lower gross profit resulting from higher material freight costs – material and freight costs and additional manufacturing costs.

Bolzoni's revenues for the fourth quarter increased 36.9% over the prior-year quarter. Despite these higher revenues and a 9.3% improvement in gross profit, Bolzoni reported an operating loss of $2.2 million, compared with an operating loss of $1.3 million last year. The higher loss is due to an increase in operating expenses, primarily from the reinstatement of pre-pandemic salaries and benefits that were suspended in 2020 and the absence of government subsidies received in 2020.

Finally, in Nuvera, revenue decreased to $200,000 in the fourth quarter from $1.1 million in the prior year due to fewer sales of fuel cell engines for lift truck battery-box replacements. As a result of a $1.3 million unfavorable inventory charge, Nuvera's operating loss increased to $11 million, compared to $9.7 million in 2020.

That completes the update of our financial results for the quarter. Now, let me turn to Rajiv who will provide an overview on our operations and our strategic projects.

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

Thanks, Christy. As Al indicated, the global lift truck market remains strong this quarter, increasing more than 15% over the prior-year quarter. However, growth was at a more moderate pace than in the first nine months of the year. Compared with 2021 third quarter, the market increased only about 5% as a result of an increase in almost 19% in EMEA market and modest growth in JAPIC, partly offset by 12.5% decrease in Americas market. Our sales team continue to improve market share in this robust market environment and the market improvements over the prior-year quarter, combined with the share gain translates into an increase in the company's 2021 fourth quarter bookings and exceeded market growth.

In 2022, we expect the global lift truck market to recede from the historical highs of 2021, but still be higher than pre-pandemic levels. As a result of this market outlook, the Lift Truck business is anticipating a substantial decrease in bookings in 2022 compared with 2021, with the rate of decrease expected to moderate in the fourth quarter. Many industries, including our own, are experiencing a significant increase in demand as markets recover, and this is causing significant stress on our global supply chain. Our supply chain group has continued to work diligently to address the challenges related to component shortages caused by supplier constraints and logistic challenges, which only modestly improved in the fourth quarter. These challenges arose due to the lack of shipping container availability from Asia, congestion at US ports and a shortage of truck available to move the goods once they were received at US ports. All these factors have limited our receipts of component parts when scheduled. We have put significant effort into securing component parts by using different shipping methods and vendors. However, limited availability of alternative shipping methods and the build-to-order, highly configurable nature of our trucks has meant that alternative vendors that can provide the necessary component parts are very limited, with the result that countering the constraints successfully has been very difficult.

Nonetheless, as a result of measures we put in to counteract these challenges, our fourth quarter unit shipments increased to above pre-pandemic levels as we successfully slotted orders that were able to be fully built and shipped. Despite the increase in fourth quarter shipments, bookings net of shipments in the quarter added to an already historical high backlog levels and delivery lead times continued to increase. Our most significant issue right now is managing margins in our record backlog and especially on new orders. In our Lift Truck business, we have implemented price increases several times over the course of 2021 and again at the beginning of 2022 to address the effect of material and freight cost inflation. But many of the orders in our backlog slotted for production in the first nine months of 2022 do not reflect the full effect of all the price increases. As a result, we expect to continue to experience very low margins in the first quarter of 2022 due to the lag between the – when unit price increases went into effect and when revenue is realized as the units are shipped. Importantly, the lift truck sales team is pricing new bookings at close to target margin based on expected future costs at the time of production. As a result, margins are expected to increase over the successive 2022 quarters with much stronger margins in the fourth quarter when the higher-margin, already booked trucks had improved margins and trucks are anticipated to be booked are expected to be produced and shipped.

Now, let me update you on our strategic initiatives, which are laid out in more detail in our earnings release. At a high level, the Lift Truck business primary focus continues to be on introducing new modular and scalable products and transforming our sales approach by using an industry-focused approach to meet our customers' needs. Bolzoni continues to work on streamlining and strengthening its operation while increasing its Americas business and expanding its sales, marketing and product support capabilities, and Nuvera continues to focus on ramping up demonstration, quotes and bookings of its 45 kilowatt and 60 kilowatt engines. Overall, we continue to believe that we have the right strategies in place for long-term growth once we can achieve resolution of component shortages and relative stabilization of material and freight costs.

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

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

Thanks, Rajiv. As you've heard from both Al and Rajiv, during 2021, we have experienced production and shipment levels which are far lower than our objectives due to continued supply chain logistic constraints, component shortages, and we've also been faced with higher material and freight cost. The results stemming from these challenges contributed to our need to book in the fourth quarter an additional $19.4 million to a valuation allowance against our US and UK deferred tax assets, which Christy mentioned in her remarks. In total, for the 2021 year, we increased our valuation allowance by $58.6 million based upon a review of our recent operations, including cumulative US and UK pre-tax losses, lack of available tax planning strategies and declining near-term forecasts due to material and freight inflation, along with supply and logistics constraints.

Due to these factors, the required accounting evidence no longer supported realization for certain of our US and UK deferred tax assets and the accounting rules required the company to record additional valuation allowance in the fourth quarter. We expect to continue to experience supply chain logistic constraints into the beginning of the third quarter of 2022, but they are anticipated to begin to moderate during the first half of the year. Nonetheless, we are expecting the positive shipment momentum from the end of 2021 to continue and for shipments to increase significantly over the course of 2021 given our robust backlog and actions we put in place to mitigate the impact of the supply chain constraints and shortages.

Significant material cost inflation and higher freight costs, as well as the non-renewal of US tariff exclusions are expected to continue to affect the cost of components and freight negatively in 2022. More moderate cost increases are expected to continue in 2022, but there are some signs that suggest material costs have peaked. We will continue to work aggressively to manage supply chain and logistics costs, component availability and tariff exclusions, and we'll continue to adjust our prices for all new orders accordingly.

As a result of these factors, the core strategies discussed by Rajiv and the increased shipment volumes potential of the higher price lift trucks in our current backlog as well as trucks still to be booked in 2022 as it progresses, we expect the Lift Truck business to have significant operating and net losses in the first quarter of 2022, moderate losses in the second quarter, profitability in the third quarter, and substantial operating profit and net income in the fourth quarter, with the improvements in the second half of the year expected at the Lift Truck business to more than offset the losses in the first half.

Over this period, we are projecting relative stabilization of product and transportation costs and the continued expectation of improved component and logistics availability. We're also anticipating the continued introduction of additional modular and scalable product families and the continued implementation of cost-saving initiatives over this period and the longer term. As we bring costs, price and production volumes in line over 2022, we expect our Lift Truck business to generate strong operating profit and net income in 2023.

At Bolzoni, we expect the migration of component shortages and the timing of pricing actions to permit improved returns, beginning with a moderate operating profit in the first quarter and continuing with improved operating profit in the remaining quarters of 2022. As a result, Bolzoni expects sizable operating profit and net income in 2022 compared with operating and net losses in 2021.

Excluding the impact of inventory valuation and fixed asset impairment charges taken in 2021, we expect moderately reduced losses at Nuvera in 2022 as a result of enhanced fuel cell engine shipments. On a consolidated basis, given the continued extensive component shortages, significant material and freight cost inflation as well as continued losses at Nuvera, we expect to have a large net loss in the first quarter, a substantially reduced but still large net loss in the second quarter, approximately breakeven results in the third quarter and substantial net income in the fourth quarter of 2022, assuming reasonable resolution of component parts shortages and relative stabilization of material and freight costs. I would note however that the consolidated fourth quarter net income is not expected to fully offset the consolidated losses generated in the first nine months.

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

Our ability to ship trucks was significantly constrained by parts shortages of certain critical components while the remaining components needed to build trucks were received and added to inventory, causing inventory levels to again increase substantially. We expect based upon our recast of manufacturing production plans to reduce inventory significantly by using current inventory to build trucks for which production has been significantly delayed due to critical parts shortages.

At December 31, 2021, we had cash on hand of $65.5 million and debt of $518.5 million, compared with cash on hand of $61.4 million and debt of $428 million at September 30. And finally, cash on hand of $151.4 million and debt of $289 million at the end of 2020. As I mentioned before, we were fortunate to be able to refinance our revolving credit facility and expand our term loan facility in May to finance our production growth and related working capital needs during this challenging period. As of December 31, we had unused borrowing capacity of approximately $165 million under our revolving credit facilities, compared with $245.9 million at September 30 and $266.4 million at December 31, 2020.

I'll now turn the call back over to Al.

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

As we look to 2022, we're continuing to be focused on managing effectively in this very challenging environment. We continue to execute our mid-term and long-term strategies. Our strategy for the long term is clear and it is transformative. Our key projects, as well as the explicit objectives for the Lift Truck, Bolzoni and Nuvera businesses support this long-term strategy. Further, expected improvement in near-term prospects quarter-by-quarter over 2022 with substantial profit in the fourth quarter and in 2023 suggest significantly improving results despite continuing logistics challenges, as well as expected improving adoption rates for key fuel cell market segments. End markets are strong, we have a record lift truck backlog, a strong current booking environment and we are working diligently to manage the supply chain headwinds. We're continuing to invest in innovative products and our key strategic projects to meet increased customer demand. Once these challenges are behind us, we believe we will deliver solid sales and earnings performance.

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

QUESTION AND ANSWER SECTION

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

<Q – Steve Ferazani – Sidoti & Co. LLC>: [indiscernible] (00:24:12) First question has to be a modeling question. I'm trying to think about – and you provided a pretty good outlook over the next few quarters. But specifically, I'm trying to think about lift truck gross margin Q1, Q2, the trends, because what we don't know what's sitting in backlog and how that rolls through and how it hits on – in terms of gross margin, because obviously we saw it weaker this quarter sequentially. Given we're two months into the quarter, can you give us a sense on trends with lift truck gross margins?

<A – Al Rankin – Hyster-Yale Materials Handling, Inc.>: What I would suggest that you do is given a little more time is to read through the earnings release in great detail because we describe that process very clearly in the earnings release and in great detail, including the quarter-by-quarter progression. Basically, the near-term production has the lowest prices relative to the inflationary impact, and that occurs in the fourth – in the first quarter of the year. And then the margins improved because we put so many price increases in place, inflation began to moderate. We started did not get ahead of it, but to begin to catch up. And then new bookings we're putting in place have a significant impact in the fourth quarter and those are pretty much at our target margins. So it's a very straightforward story driven by just what you focused on which is the margins, but let me divide it into two pieces, what I really focused on in my comments are the adjusted standard margin – what we call internally from an accounting point of view, our adjusted standard margins.

Now, something else happens too at the gross margin level, which is as our production picks up and as the supply chain problems become less – have less of an impact on our factories, our manufacturing variances go down as well. So when you put those two factors together, what it means is that our margin progression is as we've outlined in the release in some detail. So, I think it's there.

<Q – Steve Ferazani – Sidoti & Co. LLC>: Okay. Fair enough. Thank you. On deliveries, I was surprised how much they improved in Q4 given it's typically – you're going to run into at least some holidays and I know some companies and it sounds like you weren't impacted by the Omicron variant, trying to think about how much more you can pick up on the deliveries and why it improved so much in Q4.

<A – Al Rankin – Hyster-Yale Materials Handling, Inc.>: I'd like to ask Rajiv to answer that and I'd simply noted – note that it depends enormously on the efforts that our supply chain people have made to reduce the impact of shortages.

<A – Rajiv Prasad – Hyster-Yale Materials Handling, Inc.>: Yeah. I think the impact continued, but to a less – but they did moderate. If you know now, Omnicom wasn't as severe as the other variants prior to it. So, we did have – the issues we faced in the fourth quarter were around delivery through the ports, internal logistics and particularly we saw – started to see a worsening logistics issues around trucks and also a little bit around rails which have somewhat continued into the current quarter. The main benefit was we have a large backlog of trucks. We also have quite a large, as you can see, working capital and inventory. And so, the team did an excellent job of putting together trucks that we could build with the inventory we had whilst focusing on getting the materials that were missing. We expect that to continue in the first quarter or – the two quarters of 2022. It will ease as we go through the quarter. But our current planning is to try and maintain a flat production rate focusing on really getting our efficiencies up so that we can ramp up the production in the second half of the year when we expect majority of the supply chain constraints that have eased significantly.

<Q – Steve Ferazani – Sidoti & Co. LLC>: Great. Thanks for that.

[indiscernible] (00:28:52)

<A – Al Rankin – Hyster-Yale Materials Handling, Inc.>: ...it's partly as Rajiv suggested the supply chain constraints that we've been facing but we've also been working very closely with our suppliers to increase capacity so that we can produce their capacity so that we can produce at the levels that we want to produce at. So, there're really two parallel processes going on, Rajiv. I think...

<A – Rajiv Prasad – Hyster-Yale Materials Handling, Inc.>: Yeah. That's right.

<A – Al Rankin – Hyster-Yale Materials Handling, Inc.>: ...one has to really deal with the shortage problems which in the main is a small number of suppliers and then to ensure that everybody is geared up for the increase in volumes that we are in a position because of the backlog to produce especially in the third and fourth quarters.

<Q – Steve Ferazani – Sidoti & Co. LLC>: Great. Thanks a lot. If I can squeeze one last one in on, Rajiv, you mentioned the higher level of working capital. Just trying to think about trends and how quickly you think inventories start coming down, how quickly that can be a positive to cash flow. And then the $165 million in the unused revolver, it would seem based on your sort of guidance or outlook that that's more than the ample liquidity. Is that – would you agree with that?

<A – Rajiv Prasad – Hyster-Yale Materials Handling, Inc.>: I think we're – Ken can add to this, but I think we sit well with liquidity, we feel good about where we are. In terms of the inventory, we do expect inventory to come down, especially as you measure it in days because we're going through this transition. As I said, we'll have flat production rates initially in the year and then we're going to ramp up. But what we're really focused on is managing the working capital days which have – are above our normal run rates at the moment because we took inventory seeking to produce more trucks to drop build – to reduce our backlog and improve our lead times. Lead times as we've stated in our releases is a challenge at the moment for our sales teams. And so, we will ramp up as quickly as we can. But our planning suggests right now that that's going to be the characteristics of flat front half and a ramped up second half.

<A – Al Rankin – Hyster-Yale Materials Handling, Inc.>: But one thing to bear in mind is that we do have quite a bit of inventory that is on hand, that is paid for because...

<A – Rajiv Prasad – Hyster-Yale Materials Handling, Inc.>: Right.

<A – Al Rankin – Hyster-Yale Materials Handling, Inc.>: ...it came in in advance of our ability to actually assemble and build the product. So, the shortages prevented us from using the inventory in a way that we had anticipated. So as we move through the first quarter and into the early part of the second quarter, we'll also get a bump in payables to help finance our working capital that we've depleted for the moment. So, it's kind of a double-barreled effect; one is on the inventory levels as Rajiv described, and the other is related to the payables, the financing of some of that.

<A – Ken Schilling – Hyster-Yale Materials Handling, Inc.>: Yeah. Thanks, Al. And I think what I'd add to that is that in my section that we've just covered, we have strict operating controls in place to enhance cash during the period. We also have reduced capital expenditures. And you'll notice that when you review the Form 10-K and as well as the earnings release in terms of we took capital expenditures down for the period and the investment in strategic programs, but we've left those critical programs in place and are continuing to fund those. We have programs in working capital that we have as well and we expect those to supplement that $165 million of availability in the revolvers that we have today.

And then finally, Steve, I'd point out that we have commented for about a year or so that our production capacity globally is about 140,000 units. We sold 26,000 in the fourth quarter. So, you can see that there is ability in our plans to ramp, once our supply base can fill the parts that we need to be able to build that level of trucks. We do need to produce more. We need to get the backlog more in line in concert with the comments that Al and Rajiv made about the levels of the backlog and the lead times that we face.

<Q – Steve Ferazani – Sidoti & Co. LLC>: Great. I appreciate all the color, folks. Thank you.

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

<Q – Chip Moore – EF Hutton Group>: Good morning. Thanks for taking the questions. Wanted to stay there, actually I was going to ask you, appreciate the focus on liquidity here and some of the working capital dynamics. Just maybe if you could expand a bit on where some of the delays in some of the strategic investments are. It sounds like they're not some of the higher-profile programs, but maybe you can give us a little more color there.

<A – Al Rankin – Hyster-Yale Materials Handling, Inc.>: Well, it's – they're frustrating, I will say that. We would much prefer not to be doing this because the programs are clear. We'd like to execute them. But we want to be very, very prudent during this period.

And Rajiv, why don't you comment on the...

<A – Rajiv Prasad – Hyster-Yale Materials Handling, Inc.>: Yeah.

<A – Al Rankin – Hyster-Yale Materials Handling, Inc.>: ...particularities of that?

<A – Rajiv Prasad – Hyster-Yale Materials Handling, Inc.>: So, we've kept – if I just go through our kind of large investment, it's around product, it's around your operational and manufacturing capabilities and the other ones are around ramping up the fuel cell capabilities. And we've kind of taken some reductions in each of those elements and we've kept the most important products. The three areas that we've focused in on the product side has been our scalable – modular scalable platforms. You'll see those will continue to be launched in 2022 and 2023. The next one is electrification. We've launched some new electric – large electric trucks. We'll continue to do that through 2022 and 2023. And then, the other one is some of our advanced technologies such as telemetry, our operator assist systems, automation. And again, we've kept those going, but at a reduced rate than we had initially planned for each of those areas. In our manufacturing footprint, we're looking to optimize the whole complete footprint. We have delayed that program by a number of months, but we've kept that program fully intact. It's just a deferral of about nine months to manage our kind of liquidity requirements.

<A – Al Rankin – Hyster-Yale Materials Handling, Inc.>: So, I think the best way to think about it is not just in terms of the deferrals themselves, but when do they come back. And from – if you think about our forecasts by the time we reach the fourth quarter, it's our hope and expectation that we will be operating at a very profitable, ready in our forklift truck business than in Bolzoni and we'll be making progress on bookings and shipments at Nuvera. So by the time we get to the fourth quarter, we're in a position to pick up...

<A – Rajiv Prasad – Hyster-Yale Materials Handling, Inc.>: Yeah.

<A – Al Rankin – Hyster-Yale Materials Handling, Inc.>: ...the programs that had been moderated kind of in the first three quarters. But we'll make those decisions as we get into the year and make sure that – when we make sure that things are transpiring as we expect them to do because it's been an uncertain year and – last year and there is a lot still to be fully resolved. But we see a pretty clear picture as we look forward along those lines.

<A – Rajiv Prasad – Hyster-Yale Materials Handling, Inc.>: I do want to reiterate that although we've reduced the capital expenditure, it's still at a significant rate. So it's not as if we've eliminated things, but we've just prioritized them.

<A – Al Rankin – Hyster-Yale Materials Handling, Inc.>: Yeah. I would say that's a really important point. The programs that have been slowed are the strategic programs. And so you're talking about a big long-term impact, but moderating for a few months...

<A – Rajiv Prasad – Hyster-Yale Materials Handling, Inc.>: Yeah.

<A – Al Rankin – Hyster-Yale Materials Handling, Inc.>: ...and we're not really doing anything from a near-term operational point of view that is damaging.

<Q – Chip Moore – EF Hutton Group>: Got it. No. That's extremely helpful and makes a lot of sense. And then you do call out an expectation for strong results for the Lift Truck business anyways in 2023. Maybe you can expand on that a bit in terms of some of your thoughts and some of the key variables, and how things set up there.

<A – Al Rankin – Hyster-Yale Materials Handling, Inc.>: Well, again, I think we've really outlined that in very great detail. We felt that it was very important for all of our investors to have a clear understanding of the story because this is not a story of fundamental difficulties. This is the story of short-term, near-term problems with material cost. And now we've got costs moderating. We also have taken – put in place programs that would ameliorate any unanticipated future cost increases if they are above the levels that we're forecasting. So, we've been through this period and we certainly have put in place some additional provisions in our pricing to help protect us.

It's been a long time since this country has faced inflation of the type that we're putting in place now. And so, we're going back to measures that have been used in the past during those kinds of periods, but I think we describe it pretty carefully. You got a backlog shipments ramp up, the supply chain capabilities support to ramp up, margins improve quarter-on-quarter because the lowest margin trucks in the backlog are the earliest ones to be produced because the price increases didn't have their full impact on those. And so progressively, as you get to the fourth quarter, margins keep rising and put us in the fourth quarter and in 2023 in a very good position.

And it's important to mention 2023. We wouldn't normally comment on that. But we've got – we're still booking at a very strong rate. So, we think that 2023 is going to be a pretty good year.

<A – Rajiv Prasad – Hyster-Yale Materials Handling, Inc.>: Yeah. We still expect to exit 2022 with pretty high backlogs, so.

<Q – Chip Moore – EF Hutton Group>: Got it. Okay. And maybe if I could get one last one in. I think you'd mentioned expectations for enhanced shipments. Can you just update us on quoting activity, potential for bookings, and maybe if you could tie that in with some of the newer solutions with the Lift Truck business books the electrification.

<A – Rajiv Prasad – Hyster-Yale Materials Handling, Inc.>: Sure. So, the whole program is being built around the Nuvera electrification strategy, and that's to essentially launch a set of port equipment trucks with fuel cells in them in 2023. Now, as the technology is being developed for those trucks, we've felt that there're other segments outside the lift truck industry that those same solutions can help, particularly on the commercial trucking side. And so what the team at Nuvera has done working with the Hyster-Yale group is identified segments where those would be a good fit and also segments where fuel cells are really the only answer because battery-powered trucks couldn't do it.

And as you could imagine there, the higher-load trucks, trucks that have ancillary load built into them, a good example could be a refuse truck for instance. And so, the team's done a great job of mapping those out, both in – those segments out and who the key players are in each of those segments and then we're reaching out to working with each of those segments initially to put together demonstration vehicles and then assuming success, then move on to then productionizing it. So, that's been the main path for driving it centered around what we're doing on the Lift Truck business, but then building that capability around the other adjacent segments that we feel could benefit from the same solution.

<Q – Chip Moore – EF Hutton Group>: Got it. And sorry [indiscernible] (00:42:35) one last one in, just given what's going on overseas in Europe, want to be cognizant of any risks there and how you're managing those. Thanks.

<A – Al Rankin – Hyster-Yale Materials Handling, Inc.>: Well, we have put a team together to look at the entire situation and make sure that we're managing it in a comprehensive way appropriately. Frankly, the biggest issue for us is ensuring that we're in compliance with all of the laws and regulations that are coming out at such a speedy fashion. There's a lot of care that has to go into sourcing and shipments and so on and so forth in the context of the current situation. As to the financial situation, frankly we've probably got more down-payments in trucks for Russia than we do payments that are owed to us for trucks that we've shipped. So from a financial point of view, we're not in a burdensome period and of course we won't be shipping. The one thing it does do that is worth noting is it gives us additional trucks to ship to other people, other customers that we might have shipped into Russia.

And generally speaking in this environment, we would expect to get fuller prices and better margins on those trucks than ones that have been in the backlog for a while that would be – would have been going into Russia. So without getting into more detail than that, we're managing it very carefully, especially – mainly European team but it also includes our operations in China and production locations in other areas as well. So, that's kind of the broad overview of it.

<Q – Chip Moore – EF Hutton Group>: Okay. That's very helpful. Appreciate it. Thanks.

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

<Q – Brett Kearney – Gabelli Funds>: Hi, guys. Good morning. Thanks for taking my question.

<A – Al Rankin – Hyster-Yale Materials Handling, Inc.>: Good morning.

<A – Rajiv Prasad – Hyster-Yale Materials Handling, Inc.>: Good morning.

<Q – Brett Kearney – Gabelli Funds>: I was curious, at this point, where kind of within the supply chain are the primary component constraints you're seeing. I know in past quarters you called out tires, motors, obviously electronics. Is it kind of on the microcontroller side there? If you could just help us think about the main pinch points at this point and then kind of which way those are trending more recently in your view?

<A – Rajiv Prasad – Hyster-Yale Materials Handling, Inc.>: Yeah. So, I think if I look at the most recent issues we're having, electronics still continues to be a concern. And really just moving outside just microprocessors, we've had issues with drivers we use in our controllers, we are starting to see some issues with capacitors and resistors. So, it's starting to affect some of the ancillary components that are required to make these modules. I think we have a good handle on it, but it's an area of concern. The biggest immediate impact is coming from the other part of electrical system, which is the wiring system. We're starting to see constraints with connectors, terminals, in fact even some types of wires. Again, there's a huge amount of work going on working with our suppliers of wiring harnesses to improve the situation but those are there. And then there're some COVID kind of supplier infrastructure disruption-related issues around hoses and things that you wouldn't normally expect to be impacted, but really that's been a different impact because these are generally manual kind of labor used to assemble these systems and they've been impacted by COVID.

I think that those are the big ones at the moment where I think I would say that we're handling a handful, over 10 suppliers or so whereas in mid-last year we were handling hundreds and kind of late last year we were in the 20 to 30 range. So things have improved, but there's still some strengths in the system.

<A – Al Rankin – Hyster-Yale Materials Handling, Inc.>: I would add to that only that our efforts are not just aimed at relieving some of those shortages. They're also aimed at engineering design changes that are designed to allow us to use more readily available components or materials. It takes a little bit of time to do that, but we have I think made some significant inroads as a result of that. Some of them are less specialized components and – but our engineering team has been able to rethink how to meet those needs with some more readily available components than the ones that we were sourcing. So that's an ongoing effort. It's all hands looking at these issues and trying to be as creative as possible in addressing them.

<Q – Brett Kearney – Gabelli Funds>: Great. That's very helpful. And then maybe just one follow-on, Nuvera, it sounds like product demonstrations are progressing nicely. The team continues to come out with the next generation of new products and engines there. Curious just given how dynamic and new that space is, how you all think about – we've seen in some of these specific to hydrogen just generally these new energy applications kind of different and more creative collaborations between organizations. Curious how you all think about potential partnerships and whether you would involve a strategic partner, obviously minority partnership into Nuvera entity in order to kind of accelerate some of the avenues for growth that you've already identified and are going after.

<A – Al Rankin – Hyster-Yale Materials Handling, Inc.>: Well, I think you've focused on a very important aspect of the development of opportunities for sales of our engines into these specialized segments that we've outlined in some detail in our previous materials. And – but I think it's also important to say that there're many ways to define partnership. Some are simply cooperative efforts with individual players who are helping to provide components or assembly or customer applications of vehicles and certainly that's at one end of the spectrum. But to the extent that we see other kinds of partnerships at the right time that might fit in in terms of closer association, we will be open to that kind of consideration as well, all of it with the aim of putting us into a position to maximize our long-term value in the business.

And I would emphasize that as we do this, the partners that we're working with tend to be very sophisticated, very capable group of players, and they're the kind of people that we've traditionally done business with. These are not venture-type activities in that sense. And we think there's enormous value to be gained in this overall fuel cell area by having the disciplines of a traditional established business in order to drive applications in these areas that Rajiv described earlier as needing a fuel cell in order to do the work that they have to do.

Rajiv, do you want to elaborate on that a little bit?

<A – Rajiv Prasad – Hyster-Yale Materials Handling, Inc.>: Sure. So, I think the – in terms of partnership, we think collaboration is going to be very important moving forward in the hydrogen business, because it's not just about the fuel cell. You have to get the powertrain solution in place and you also have to then provide the fuel system whether that's hydrogen – that's going to be hydrogen, but there're many ways to produce hydrogen and needs to be the right way for the customer. So there is significant work going on collaborating with a wider group of companies. Now, will some of those form into associations? They may do, so – and we're certainly open to it.

<Q – Brett Kearney – Gabelli Funds>: Great. That's very helpful. Thanks so much, Rajiv and Al.

<A – Al Rankin – Hyster-Yale Materials Handling, Inc.>: Yeah. Just one word as you know in the earnings release, we continue to emphasize that we think we're focusing on segments that are a relatively small number of segments where the duty cycle simply requires fuel cells...

<A – Rajiv Prasad – Hyster-Yale Materials Handling, Inc.>: Yeah.

<A – Al Rankin – Hyster-Yale Materials Handling, Inc.>: ...in order to get the job done. Batteries alone really do not have the capability to provide the customer with the solution that the customer really needs and wants and will demand. So, there're many. These industries are going to have different adoption rates. The automobile industry is going to be different from the garbage truck business or other niche segments where if they're going to go green. And a very good example where we have really tremendous strength as in ports.

Rajiv, you might just talk about the collection of products and capabilities that would require fuel cells in order to serve the needs of ports.

<A – Rajiv Prasad – Hyster-Yale Materials Handling, Inc.>: Sure. As I said earlier, I think we have a plan to launch our latent container handler, empty container handlers. As we have stated, we have a partnership with a producer of terminal tractors that will also have a fuel cell solution. This group of products will be released in 2023 to support really strong input we're getting from ports' desires to go green. And so, that's why we've prioritized this as a focus item for us.

<A – Al Rankin – Hyster-Yale Materials Handling, Inc.>: That's a good example of collaboration or what you might call partnership. And...

<A – Rajiv Prasad – Hyster-Yale Materials Handling, Inc.>: Yeah.

<A – Al Rankin – Hyster-Yale Materials Handling, Inc.>: ...that's the sort of thing we expect to do in other segments of the market as well as in the port area where I suppose Rajiv you'd say it's most fully developed at this point.

<A – Rajiv Prasad – Hyster-Yale Materials Handling, Inc.>: Yeah. Yeah.

<Q – Brett Kearney – Gabelli Funds>: Great. Thank you so much for all the insight.

<A – Rajiv Prasad – Hyster-Yale Materials Handling, Inc.>: Thank you.

Operator: Your next question is from [indiscernible] (00:54:55). Your line is open.

<Q>: Good morning. In your goal of 140,000 units produced and 7% operating margin, what kind of results from Nuvera does that goal anticipate [indiscernible] (00:55:17)...

<A – Al Rankin – Hyster-Yale Materials Handling, Inc.>: That's a goal...

<Q>: ...from Nuvera.

<A – Al Rankin – Hyster-Yale Materials Handling, Inc.>: That's a goal for the forklift truck business and the one for Bolzoni is quite similar to that one. That is not a goal for Nuvera. We think the three businesses need to be thought about and, if you will, valued in a very different way. Two of the businesses are mature, developed businesses, the attachment business Bolzoni and the Lift Truck business, Hyster-Yale Group. And those are the group – those are the companies that are aiming at the 7% in the utilization of capacity, which is you're citing a forklift number, right, in terms of that portion of the business. And we see really very significant progress toward those numbers in the fourth quarter and in 2023.

So, as to Nuvera, the focus is really in building value by developing bookings in the segments that we've talked about and getting a track record of quality, performance and reliability of our – particularly right at the moment, our 45 kW and 60 kW engines. So, we think that that will lead to the value there, and it's much less a question of 7% operating profit or thinking about it in that way. Ad I think that's kind of the best overview I can give you.

<Q>: Okay. Thank you.

Operator: This is going to be our last question from Jeff Farkas from Marathon Asset Management. Your line is open.

<Q – Jeff Farkas – Marathon Asset Management>: Hi. Thank you. First of all, I guess on your backlog, can you just discuss how firm that is, there's definitely a concern on the street with many equity analysts regarding over-ordering? Just talk a little bit about, number one, when someone places an order, are they putting down some type of a non-refundable deposit, and then at what point in time do they have – is it – yeah, just start with that.

<A – Al Rankin – Hyster-Yale Materials Handling, Inc.>: There is a deposit program, but it's focused mainly around our dealer business, and we haven't seen any signs that there's a lot of pre-buying or, if you will, ordering because the backlogs are long. I'm sure there's some of that. But whatever it is, it gives us the opportunity to ride through 2022 and we're in some cases booking into 2023 now. So, we don't see any near-term issues of the concern that you have identified. Now, there could be cases, particularly with certain kinds of customers where they – we sit down and negotiate together because the lead times are long. And frankly, in some of those cases, given the margins, if they're dissatisfied, we've got plenty of customers to serve with better margins. So, it's hard to determine whether that's a problem or an opportunity.

<A – Rajiv Prasad – Hyster-Yale Materials Handling, Inc.>: Yeah. I mean, we certainly haven't had any extensive cancellations to date and we've had a pretty strong backlog throughout last year. Will there be any in the future? We don't think it's going to be material, but that's future looking and it's difficult to say. But some customers do give us [indiscernible] (00:59:44) in a purchase order, so – and that's the way business in our industry is done and...

<A – Al Rankin – Hyster-Yale Materials Handling, Inc.>: That's why we say...

<A – Rajiv Prasad – Hyster-Yale Materials Handling, Inc.>: Yeah.

<A – Al Rankin – Hyster-Yale Materials Handling, Inc.>: ...this kind of negotiation because it's firm on our part. We have to deliver at the price that was set in most cases and firm on their part to abide. And as a practical matter, you're always trying to work with your customers, and you sit down and you talk.

<A – Rajiv Prasad – Hyster-Yale Materials Handling, Inc.>: Yeah.

<A – Ken Schilling – Hyster-Yale Materials Handling, Inc.>: Yeah. And I think I'd point out that the vast majority of our trucks are ordered for a customer for a specified application and are highly configured to that application. So it's difficult – it's not a commodity buy as much for those customers to simply pick up and go to somebody else. And across our industry, there are long backlogs as well. So there isn't someone to go to that can immediately fill that opportunity if they would choose to move on. They're identified for a specific application in a specific location.

A lot of our customers, particularly in North America, have lease contracts on their trucks. So there is a need to rotate those trucks out as they get close to lease term. So, I think that gives us a lot of confidence in the quality of the backlog, And frankly, our experience over time has been that we haven't seen large changes or large cancellations in the backlog over 10, 20 years.

<A – Rajiv Prasad – Hyster-Yale Materials Handling, Inc.>: Yeah. I mean the other thing we're noticing is the average age of the fleet in the field is increasing. So, that goes along with what Ken is saying.

<Q – Jeff Farkas – Marathon Asset Management>: Great. And then on pricing, I guess can you just give a sense of – you've indicated there're a number of times that you've increased pricing last year. But in the sense of magnitude, like how much are you increasing pricing and it seems like you made mention of the contracts now are based upon an inflationary environment. So just to clarify, it seems like you can change – can you change pricing in those new – in that backlog to reflect any changes in your costs going forward? And if so, when was that implemented?

<A – Al Rankin – Hyster-Yale Materials Handling, Inc.>: Well, I think the most important way to think about it is that all the evidence at the moment is costs are moderating at these high levels. We're seeing some start to come down, but we're not going to forecast that. So, we're looking forward really through the end of this year at what we think the costs are going to be. Our hope is that they're going to come in lower. But we are booking our trucks to the costs that we see through our forecasting models. What happened last year, of course as you well know from many companies' experience is that when demand exceeded supply, the prices went up a lot and we didn't forecast prices going up that much. So, what we don't see is prices coming way back down. We think there's enough tightness in the marketplace to sustain these higher prices for the time being, or at least that's our assumption for the moment. So, that's kind of the dynamic of the situation, both as to the past and as to the future.

Now, what we have done is to provide some protection for ourselves going forward so that if trucks are bought way out in the future and inflation indexes exceed certain expected levels, there's some opportunity to make some adjustments if they get way out of whack. So, that's not a capability that we had before. As we indicated, the prices are an obligation on the part of both buyer and the seller. So, that's in large measure how it works for us at the moment.

<A – Rajiv Prasad – Hyster-Yale Materials Handling, Inc.>: But that's been a recent implementation, so...

<A – Al Rankin – Hyster-Yale Materials Handling, Inc.>: And that's very recent implementation. And frankly, we'll have to see how long we need to keep that in place. It's a critical protective mechanism, it's not a desirable mechanism from our point of view, and there are certain kinds of bookings that have more flexibility to be repriced in a difficult environment than others. So, it depends to a degree on who the customer is and especially whether the end customer has been really involved in setting the price.

<Q – Jeff Farkas – Marathon Asset Management>: Great. [indiscernible] (01:05:04) questions, but thank you very much.

Operator: I will now turn the call back over to Al Rankin for closing remarks.

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

Well, I think we've had a good set of questions, and we went into considerable detail in our earnings release, as I indicated, so that we would get a good, thoughtful understanding out in the marketplace of two critical evolutionary changes that are occurring. One is the progress of margins at both the forklift truck business and Bolzoni over the next – over the four quarters of 2022 and into 2023. And the other is the reduction – bringing our working capital back to more normal levels by matching what comes in with what we actually need with our revised production schedule, which takes into account the pace at which we think suppliers can support our ramp-up of production over the course of 2022. So, that should help us to bring our working capital and our debt more in line with the needs – the kind of levels that we ought to have for the business on an ongoing basis.

So, those are my closing thoughts and we thank you, all, for participating.

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

Thank you.

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