PARTICIPANTS

Corporate Participants

Christina Kmetko – Investor Relations Consultant, Hyster-Yale Materials Handling, Inc.
Rajiv K. Prasad – President & Chief Executive Officer, President & Chief Executive Officer-Hyster-Yale Group, Hyster-Yale Materials Handling, Inc.
Scott A. Minder – Chief Financial Officer, Treasurer & Senior Vice President, Hyster-Yale Materials Handling, Inc.
Alfred M. Rankin – Executive Chairman & Chairman-Hyster-Yale Group, Hyster-Yale Materials Handling, Inc.

MANAGEMENT DISCUSSION SECTION

Operator: Hello, and thank you for standing by. My name is Regina, and I will be your conference operator today. At this time, I would like to welcome everyone to the Hyster-Yale Second Quarter 2023 Earnings Conference Call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question-and-answer session. [Operator Instructions]

I would now like to turn the conference over to Christina Kmetko, Investor Relations. Please go ahead.

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

Thank you. Good morning, everyone, and thanks for joining us today. Welcome to our 2023 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, Executive Chairman; Rajiv Prasad, President and Chief Executive Officer; and Scott Minder, our Senior Vice President, Chief Financial Officer, and Treasurer. Yesterday evening, we published our second quarter 2023 results and filed our 10-Q, both of which are available on our website.

Today's call is being recorded and webcast. The webcast will be on our website later this afternoon and available for approximately 12 months. Our remarks that follow, including answers to any questions, contain forward-looking statements. These statements are subject to several risks and uncertainties that could cause actual results to differ materially from those expressed in the forward-looking statements made here today. These risks include, among others, matters that we've described in our earnings release and in our 10-Q and other SEC filings. We may not update these forward-looking statements until our next quarterly earnings conference call.

With the formalities out of the way, I'll turn the call over to Rajiv.

Rajiv K. Prasad, President & Chief Executive Officer, President & Chief Executive Officer-Hyster-Yale Group, Hyster-Yale Materials Handling, Inc.

Thanks, Christy, and good morning, everyone. I'll start today by providing the operational perspective and some high-level observations on our robust second quarter results and why they exceeded our expectations. I'll conclude with some color commentary on our markets. Scott will follow with our detailed financial results and outlook. And then Al will conclude our prepared remarks with his strategic perspective, and open the call for any questions.

Second quarter consolidated revenue increased by 22% or $195 million year-over-year, while operating profit advanced by almost $75 million from a prior-year loss. This large profit improvement was driven by product margin increases above our initial estimates. The better-than-expected product margins had several drivers. First, we experienced the favorable mix shift towards higher-margin sales channels. Second, material costs were lower than anticipated. And finally, our supply chain conditions in the Americas continued to improve. We eliminated the first week of the planned two-week plant shutdown for the end of June. The North American plant used this extra time to reduce inventory and backlog unit, and ultimately shortened lead times. This extra production week helped Americas increase shipments by 14% over the first quarter.

These positive factors more than offset the negative impacts from the challenges in sourcing certain critical components. Third-party component shortages and related production impacts continued to be a headwind, but have moderated significantly compared to the prior year. Globally, our second quarter unit shipments increased nearly 10% year-over-year and sequentially. This was principally due to Americas supply chain improvement, partially offset by production shortfalls in our EMEA factories. While the environment has improved, many of our factories still experienced production complications due to ongoing skilled labor shortages and shortages of critical components. These challenges resulted in several production lines falling below their planned second quarter rate increase target.

Looking ahead, we're expecting improving production rates in both Americas and EMEA, but still below potential due to continued labor shortages. In Europe, ongoing component supply constraints are likely to negatively impact production rates in the third quarter. However, we're expecting an improvement in the fourth quarter. Despite these ongoing production challenges, we anticipate improving production and shipment volumes as the labor and supply issues continue to abate in the second half of 2023 compared to 2022 and first half of 2023 levels.

In the second quarter, labor and certain material costs continued to increase compared to prior-year levels, principally in EMEA. But the rate of increase slowed substantially. Forward economic indicators suggests stabilizing inflationary pressures throughout the second half of this year. On past earnings calls, we have called out the combination of inflation and our aged lower-priced backlog as profit margin constraints. At the end of the second quarter, we have essentially worked through all lower-margin backlog units booked prior to price increases implemented in 2021 and early 2022.

In the second half of 2023, we expect further stabilizing of material costs, improving production rate, and higher-priced truck production. These benefits should drive increased lift truck gross margins compared to prior year, particularly in Americas and EMEA. We expect this improvement to continue into early 2024. We'll continue to monitor our material and labor costs closely, including the potential impact from tariffs and competition, and we'll adjust pricing as needed to maintain momentum towards our long-term unit margin goals.

Shifting to our global market views, the latest available market data shows that the first quarter of 2023 new unit volumes were down in all major geographies. This compares to strong first quarter 2022 levels. Our internal estimates suggest that the market decline accelerated in the second quarter, with all major geographies experiencing booking declines compared with prior year. Looking ahead, we expect the full-year 2023 lift truck market decline in all regions compared to the prior year. We anticipate this year-over-year decline to accelerate in the second half of 2023 in all markets. Despite this deterioration, markets should remain reasonably strong in most regions when compared to pre-pandemic levels.

Lift truck bookings decreased moderately in the second quarter compared to both first quarter and prior-year levels. A healthy but declining global market and our continued focus on booking orders with solid margins contributed to the drop. While our bookings decreased, we increased market share in the second quarter compared to the prior year as our strategic programs gained traction.

Looking forward, second half 2023 booking levels are projected to be comparable to the prior year. This is due to a so far steadier-than-expected market and further market share gain. We remain focused on booking high-margin orders. We'll work to balance our pricing and booking rate based on production lead times on a line-by-line basis, all to maximize profitable growth and free cash flow over time.

With the combination of the increased production and lower booking during the quarter, we reduced our backlog by 6% from the first quarter of 2023 and by 19% from the early 2022 peak. However, it remains well above optimal levels. We're projecting our unit backlog and lead times to trend towards normal levels over time as our production rates increase and booking levels moderate. However, both are likely to remain above preferred levels for some time.

Our focus on strong bookings margin and building the older lower-margin backlog units have led to higher average unit margins in our remaining backlog. In the second quarter, the average sales price for a backlog unit increased 23% year-over-year and 5% sequentially. We expect these positive year-over-year margin trends to continue for the remainder of the year and into the beginning of 2024 and support continued improvements in our financial results.

While the global economic outlook remains uncertain, our current $3.6 billion backlog of higher-margin trucks, representing almost the full year of revenue, will support our remaining 2023 production schedules and those in the first half of 2024. This high backlog levels could also serve as a shock absorber if bookings decline more rapidly than expected.

Before I hand the call over to Scott, I'd like to add a few thoughts on our working capital and overall cash performance. We remain focused on mitigating the continuing impact from our supply chain and manufacturing challenges, which have increased our inventory abnormally. We'll diligently work to reduce our inventory levels and improve cash flows by tailoring production to available supply levels. While inventory levels remained elevated, they are now decreasing.

We've got a strong team focused on how to make the most units in the shortest amount of time while maximizing the use of on-hand material. We're collaborating with our suppliers to minimize disruptions, ensuring an efficient and consistent flow of material. Labor and supply constraint remain and can cause isolated production shortfalls and inventory increases. However, we expect continued improvement in 2023 and in early 2024. We're also working closely with our dealer partners to balance order and delivery timing with their customers' needs. We're committed to increasing our cash flow and maintaining adequate liquidity. Our teams are laser focused on mitigating the continuing challenges, and we're making progress.

Now, I'll turn the call over to Scott to update you on our financial results and provide our financial outlook. Scott?

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

Thanks, Rajiv. As noted, the overall business generated strong second quarter financial results well ahead of our expectations. These results added to our improving performance trend since returning to profitability in the fourth quarter of 2022. Starting with revenue, we reported $1.1 billion in second quarter sales. This marked an increase of 22% or $195 million over the prior year. This growth was driven by a 23% increase in lift truck sales, significantly outpacing the 10% shipment growth rate over the same period.

We remain focused on selling a rich mix of trucks, with pricing that reflects the value our products deliver to our customers. We're working toward increased production in shipping rates as supply chain constraints lessen. In the second, we shipped 27,700 units, increasing 10% versus both the first quarter of 2023 and the prior year. As Rajiv noted, improved component availability allowed our North American factories to work through a portion of their planned summer shutdowns, increasing production and shipments versus expectations for the quarter.

Second quarter bookings remained at a healthy level of 21,300 units, but decreased by roughly 9% year-over-year and 5% sequentially due to slowing market trends. As a result of our elevated production and lower bookings, our backlog declined to 92,800 units at the end of the second quarter. This favorable decrease helps to improve lead times on key products, some of which remain longer than 12 months.

Moving to earnings, the company reported second quarter operating profit of roughly $60 million. This compares to an operating loss of nearly $16 million in the prior year. Since the company's return to profitability in late 2022, we've maintained cost discipline as we've steadily grown revenues. As a result, the second quarter's operating profit improvement rate outpaced the revenue growth rate, resulting in a 38% incremental margin for the quarter. Second quarter net income and earnings per share were $38 million and $2.21 respectively. These compare to losses of $19 million and $1.15 per share in the prior year.

I'll spend the next couple of minutes covering the results by business, which provide additional color to our consolidated results. First, the lift truck business generated a second quarter operating profit of approximately $63 million on sales of just over $1 billion, resulting in a 6% operating profit margin. This compare to an operating loss of roughly $12 million last year. The substantial year-over-year improvement was due to a positive price to material and freight cost ratio, an improved sales mix, and additional volumes in the quarter.

The positive second quarter pricing impact helps to offset accumulated net inflation from prior periods. It provides a buffer against projected labor cost increases and uneven material cost trends in certain products and geographies. While second quarter employee-related costs were above prior-year levels, it's worth noting that overhead or SG&A cost, stated as a percentage of sales, were in line with the prior year. The lift truck business remains vigilant over its costs and continues to seek out more efficient ways to leverage its assets as the business grows.

Turning to Bolzoni. The business reported an operating profit of $5.4 million in the second quarter, 59% ahead of prior year. Sales increased by about 12% over the same period. Revenue and profit growth were aided by price increase benefits and higher sales volumes. Like the lift truck business, the Bolzoni team controlled costs, particularly at their manufacturing sites.

Nuvera's second quarter 2023 operating loss increased by about $1 million year-over-year to $9.2 million. Elevated employee-related and product development costs, including those for the larger higher power 125-kilowatt engine, accounted for this change.

Looking ahead to the balance of 2023, we expect our robust backlog of higher-margin trucks to support significantly improved revenues and operating profits compared to the prior year. At the product level, we anticipate fewer component and labor shortages to drive increased manufacturing efficiencies. Ultimately, this should lead to higher lift truck and attachment production and shipments.

At the cost level, we expect stabilizing material and freight inflation, the ongoing benefits from our cost savings programs, and pricing discipline to counter any additional inflation, including labor costs. Finally, our strategic programs, which Al will touch on in a moment, should further enhance margins as they mature. As Rajiv noted, we're gaining traction with these initiatives as evidenced by our improving market share.

Breaking 2023 second half into quarters, we anticipate a normal seasonal slowdown in the third quarter, largely related to July planned shutdowns around the globe. As Rajiv noted earlier, our North American plants worked the first week of their planned shutdown in June, benefiting the second quarter's output. As a result, we expect third quarter operating profit and margins to decrease sequentially from the strong second quarter result. This is largely due to normal seasonal patterns and ongoing EMEA production challenges. Fourth quarter results are anticipated to increase meaningfully versus the third quarter, largely due to the absence of planned production outages and anticipated EMEA improvements.

Moving to Bolzoni, we anticipate a modest revenue decrease in second half 2023 compared to the first half of the year due to a projected market decline, particularly in EMEA. As a result, second half 2023 operating profit and margins are expected to moderate from the strong first half performance. Despite the sequential decline, results should significantly exceed the second half of 2022 due to Bolzoni's ongoing margin improvement efforts.

Finally, Nuvera sales are expected to increase in the second half of 2023 versus prior year due to booked orders from current customers. Anticipated sales growth benefits are likely to be moderated by higher costs. As a result, 2023 second half operating loss is expected to improve versus the prior year and first half 2023's operating losses. Taking a longer term view, product demonstrations continue to ramp up and provide real-life testing opportunities. These lay the foundation for fuel cell engine technology adoption and improved financial returns.

As Rajiv highlighted earlier, our second quarter financial results included progress on our cash-focused objectives. We're gaining momentum on our cash generation and working capital reduction efforts. Second quarter net debt decreased by 4% year-over-year to $477 million largely due to working capital improvements. As we move through the second half of 2023, we expect our inventory optimization efforts to continue driving improved results.

We ended the second quarter with available borrowing capacity of approximately $216 million, above the first quarter's level, in part due to a temporary revolving credit facility expansion to better accommodate current working capital levels. Despite the increased borrowing capacity, our second quarter debt level declined by 3% from the first quarter. As a result of our improved profitability and lower debt, financial leverage, measured by debt to total capital, decreased by 300 basis points versus the first quarter of 2023.

In the second quarter, total inventory decreased by 4% or $35 million sequentially, while our days inventory outstanding metric improved by 3 days. Finished goods and raw materials inventories both decreased, aided by the additional North American production week. While we're making progress, we remain focused on further working capital improvements. These include increasing inventory efficiency and reducing inventory days on hand as our production rates continue to rise.

Before I hand the call off to Al, I'll close by saying we're focused on what we can control, namely our overhead costs, working capital, cash flows including our capital expenditures, and our market positioning. We're prepared to manage the factors that we can't control, leveraging our extensive unit backlog to sustain our business should global demand be negatively impacted. We'll keep you updated as the rest of the year unfolds.

Now, I'll turn the call over to Al for his strategic perspectives. Al?

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

Before I talk specifically about the business, I'd like to note the different executive titles Christy mentioned in her opening remarks. As part of our long-term succession planning, in May Rajiv was appointed President and Chief Executive Officer of Hyster-Yale Materials Handling, our public company. In addition to this new role, he also continues to serve as President and CEO of one of our operating companies, Hyster-Yale Group. As part of this succession planning process, I have now moved to the role of Executive Chairman. Rajiv, in his new role, will lead the company's operating and strategy activities, and I will support him with a particular focus on strategic matters, joint oversight of key staff positions, and board leadership. I'd like to congratulate Rajiv on this new role.

Moving now to Hyster-Yale's earnings, you just heard from Rajiv and Scott that the first half of the year has gone very well and that we continue to make significant progress both operationally and financially, including working down our elevated inventory balances. Our second quarter earnings reflect the improved profit quality of our robust backlog, and we continue at add reasonable bookings despite softening market conditions.

Looking forward, we expect our second half 2023 operating profit and net income to be significantly higher than the second half of last year. However, seasonal plant shutdowns, ongoing production challenges in EMEA, and anticipated shift in sales and channel mix are all expected to have an impact on the lower third quarter results Scott mentioned. That said, Rajiv did note that we've essentially completed the build-out of the lower-priced lower-margin backlog units held over from prior periods. As a result, we expect continued year-over-year margin expansion in the second half of 2023, particularly in the Americas and EMEA. This, in combination with our improving production rates, is expected to generate substantial operating profit and net income for the 2023 full year. In this context, we're anticipating solid progress toward our 7% operating profit margin goal and greater than 20% return on capital employed goal at both the lift truck and Bolzoni businesses.

I would add a word of caution to this outlook. While the year has started strong and while we are maintaining our positive full year view, uncertainly certain is a cautionary factor in several areas including fragile EMEA supply chains, continuing labor availability issues, stubborn labor and other cost inflation, and possible cost increases for some critical components. In that context, we will be proceeding carefully in managing our business in the second half of 2023.

As a result of the operating initiatives that have been outlined by Rajiv and Scott, we expect a significant increase in 2023 cash flow before financing activities compared with 2022. And we expect this trend to continue in 2024. As our cash flow and liquidity improve, we'll expect to reduce debt levels and invest in the strategic growth and efficiency programs that were slowed somewhat over the past few years.

Executing our core strategies remains a key focus area. We continue to invest for long-term profitable growth. We're making solid progress toward our long-term operating profit margin and return on capital goals at both the lift truck and Bolzoni businesses as we return to more normal operating conditions. We expect this trend to continue in the second half of 2023.

Hyster-Yale's strategies remain generally consistent with past descriptions, but I do want to provide a few key updates for each business. The lift truck business's primary strategic focus continues to be on launching its new modular and scalable products globally, as well as on projects geared toward truck electrification and implementing advanced technology capabilities. We're also transforming our sales process around an industry-focused approach that better meets our customer needs, and we're working to further enhance our independent dealer capabilities.

We believe we are making good progress on all of these programs. Our initial set of modular, scalable lift trucks were introduced in EMEA and Americas markets in 2022, and we expect to introduce them to the JAPIC markets during the second half of 2023. Over the longer term, these products should reduce supply chain costs and working capital as well as better meet our customer needs.

Hydrogen fuel cell powered container handler, which uses Nuvera fuel cell engines and is now being tested in the Port of Los Angeles, continues to perform well. The lift truck business is also developing an electrified fuel cell Reach Stacker for the Port of Valencia in Spain. In addition, Nuvera and the lift truck business are working jointly with a large German customer [ph] to provide two (26:56) Hyster electric container handling vehicles. These vehicles include the first ever empty container handler powered by Nuvera fuel cell technology and the first Hyster terminal tractor in Europe. Each of these trucks are expected to be delivered to their customers for testing in the second half of 2023. Our big truck group is also exploring options for other electrification projects, especially within the European Union.

Bolzoni continues to work on streamlining and strengthening its operations as a single, integrated operating entity. The company is particularly focused on increasing its revenues in the Americas, while also more generally enhancing its ability to serve key attachment industries and customers in all global markets. In conjunction with this, Bolzoni is working to expand its broad industry sales, marketing, and product support capabilities.

Nuvera continues to focus on placing 45-kilowatt and 60-kilowatt fuel cell engines in heavy-duty vehicle applications where battery-only products do not provide adequate solutions. These applications are expected to provide significant and nearer-term fuel cell adoption potential. Nuvera is also focusing on developing a heavy-duty 125-kilowatt engine, which can operate in more power-demanding applications.

Nuvera has announced several projects with third parties in the past year who are testing or planning to test Nuvera engines in targeted applications. These include the trucks being worked on with the lift truck business, as well as marine applications in the Netherlands and bus applications in China. Additionally, Nuvera plans to launch modular fuel cell-powered power generators for stationary and mobile applications.

In summary, we believe the improving 2023 results are due to actions we've taken since COVID-19 pandemic began, the implementation of key strategies and projects we have in place, and significant process improvements made over the past few years. We believe that all of these factors position our company for substantial longer term growth. Our more mature lift truck and Bolzoni businesses are foundation for this improvement, while the Nuvera fuel cell business has substantial growth prospects that have yet to be realized. We expect in the remainder of 2023 to build on our progress to-date. While we have more work to do in executing our key strategic programs to achieve our long-term goals, we believe that we have the right business structure in place with the right core strategies to achieve our strategic and financial goals over time.

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

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QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] And we have no questions at this time. I'll turn the call back over to Christina Kmetko.

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

Okay. Looks like we do not have any questions. We'll close with a few final reminders. A replay of our call will be available online later this morning. We'll also post a transcript on the Investor Relations website when it becomes available. If you have any questions, please reach out to me. You can reach me at the phone number on the press release. I hope you enjoy the rest of your day. And I'll now turn the call back to Regina to conclude.

Operator: This call will be available for replay beginning today in approximately two hours after the completion and will run through 11:59 PM Eastern Time on August 9, 2023. The number to dial to access the replay is 800-770-2030 or 647-362-9199. The conference ID number to access the replay is 82174. That will conclude today's conference call. Thank you all for joining. You may now disconnect.