Hyster-Yale Materials Handling, Inc. *Company▲* | HY *Ticker▲* | Q3 2020 Earnings Call *Event Type▲* | Nov. 4, 2020 *Date▲*

PARTICIPANTS

Corporate Participants

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

Other Participants

Michael A. Sesser – Analyst, DWS Investment Management Americas, Inc.
Michael Shlisky – Analyst, Colliers Securities LLC

MANAGEMENT DISCUSSION SECTION

Operator: Thank you for standing by and welcome to the Hyster-Yale Q3 2020 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'd now like to hand the conference over to your speaker today, Christina Kmetko. Thank you. You may begin.

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

Good morning, everyone, and welcome to our 2020 third quarter earnings call. I am Christina Kmetko, and I'm responsible for Investor Relations at Hyster-Yale. Thank you for joining us this morning. Joining me on today's call are: Al Rankin, Chairman, President, and Chief Executive Officer of Hyster-Yale Materials Handling; Rajiv Prasad, President and Chief Executive Officer of Hyster-Yale Group; and Ken Schilling, our Senior Vice President and Chief Financial Officer.

Yesterday evening, we issued our third quarter 2020 results and filed our 10-Q. Copies of our 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 For anyone who is not able to listen to today's entire call, an archived version of this webcast will be on our website later this afternoon and available for approximately 12 months.

Our remarks that follow, including answers to your questions, contain forward-looking statements. These forward-looking statements are subject to risks and uncertainties that could cause actual results to differ materially from those expressed or implied by such forward-looking statements made here today. These risks include, among others, matters that we have described in our earnings release issued last night and in our 10-Q and other filings we make 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.

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

In a moment, I'll discuss our third 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, President, and Chief Executive Officer-Hyster-Yale Materials Handling, Inc. & Chairman-Hyster-Yale Group, Hyster-Yale Materials Handling, Inc.

Thanks, Christy, and good morning, everyone. Thanks for joining us today. The global COVID-19 pandemic continues to [Technical Difficulty] (00:02:28-00:02:32) every aspect of our daily lives and our first priority continues to be keep our global workforce safe and to help reduce the spread of coronavirus. The spread of this virus, as you all know, began in January [Technical Difficulty] (00:02:48-00:02:54)...

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

I'm sorry, Al. You're breaking up. Al?

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

[Technical Difficulty] (00:03:00-00:03:09).

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

Al?

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

[Technical Difficulty] (00:03:12-00:03:29).

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

I'm sorry.

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

[indiscernible] (00:03:35).

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

Hello. Christy?

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

Yes, Al, you're breaking up. We can't hear you. Hello? Rajiv, do you want to give Al's remarks?

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

Sure.

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

For those listening on the call, we're sorry we're having some technical difficulties. So, we're going to pivot.

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

Yeah. So, I'll just continue with Al's remarks. So, the spread of this virus began back in January as you all know. And despite all the progress we've made since then, the questions we were contemplating months ago regarding the depth and duration of the downturn and the speed and shape of the recovery are still very much with us, especially as we see cases rise again globally.

While there are several promising vaccine in process, timing availability and mass distribution capabilities remain open questions. Despite these ongoing challenges, our global workforce has remained focused, agile during this period, effectively navigating and evolving landscape to meet the needs of our customers and deliver solid third quarter financial results.

Christy will provide the financial details next. But overall, our business is still feeling the impact from the COVID-19 pandemic. Although the effects have moderated from those realized in the second quarter, the significant decline in global economic activities as a result of the broad measures taken globally to limit the spread of the virus specifically early in the second quarter continued to affect demand for our products during the third quarter.

As a result, our third quarter consolidated operating profit and net income were significantly lower than in the prior third quarter. Nevertheless, as a result of higher-than-anticipated rate of market growth, subsequent to the pandemic-related global shutdowns and the impact our cost reduction programs, our third quarter 2020 results significantly exceeded our initial expectations. And we are continuing to make important investments for the future.

The third quarter results also included a full quarter's benefit associated with several cost reduction measures implemented throughout the first six months of the year. Benefits from these cost containment actions resulted in a decrease in operating expenses of $19.4 million for the third quarter and $47.3 million year-to-date compared with the respective prior-year period.

In this pandemic-related work environment, the resiliency of our workforce has been impressive and we greatly appreciate their efforts to remain both safe and productive, while keeping cost down. Our Hyster-Yale management team and global workforce have responded confidently and successfully to a variety of challenges [ph] thus far (00:07:17). As a result, we believe our employees and our businesses are well-positioned to manage through the remainder of this pandemic. Everyone's disciplined execution in the current difficult environment has enabled Hyster-Yale to support our dealers and customers, at the same time work diligently to ensure their health and safety.

After Christy reviews the results of the quarter, I'll discuss our business operations and our strategic program. Ken will then talk about outlook and how we are managing our business through this uncertain and evolving environment.

Let me turn the call over to Christy to cover our results for the quarter. Christy?

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

Thank you, Rajiv. I'll start with the quarter highlights and then discuss the individual segment. Our third quarter consolidated revenues decreased to $652.4 million, down 14.8% from last year's third quarter, mainly due to lower bookings in the second quarter and the resulting lower shipments, primarily caused by the pandemic-related global effects and the pace of the subsequent forklift truck market recovery.

Our consolidated operating profit also decreased significantly to $7.3 million from $19.5 million in the prior-year third quarter due to lower results in all of our segments. However, I want to point out that the 2019 third quarter results included $8.7 million of favorable retroactive tariff exclusion adjustments. If you exclude those out-of-period adjustments from the prior-year results, the decline in operating profit associated with the actual business operations was not as substantial, primarily because of lower operating expenses due to the cost containment actions previously implemented.

Net income decreased to $5.1 million or $0.30 per share from $12.8 million or $0.76 per share in the prior-year quarter. I'd also like to note that the third quarter is generally our seasonally low quarter as a result of normal summer plant shutdowns and customary lower third quarter production schedules at our manufacturing plants.

Turning specifically to the lift truck business, Hyster-Yale Group's third quarter revenues decreased 14.7% to $618.7 million from $725.3 million in 2019, primarily due to fewer shipments in the Americas and EMEA segments. Consolidated shipments decreased by approximately 2,900 units due to fewer shipments in all, but Class 1 electric counterbalanced trucks in the Americas and JAPIC segments, and Class 3 warehouse trucks in EMEA and JAPIC. Rajiv will provide more detail about our bookings and shipments in a moment.

Third quarter 2020 operating profit in the lift truck business decreased 42.1% from the prior-year quarter, mainly because of a decrease in gross profit in all segments due to lower units and parts volumes as well as the absence of the favorable retroactive tariff exclusion adjustments I previously mentioned. In the Americas and JAPIC segments, the decrease in gross profit was partially offset by lower operating expenses, primarily as a result of cost containment actions previously implemented. In EMEA, the decline in gross profit was more than offset by the favorable impact of the cost containment actions combined with $1.6 million of government subsidies, which combined resulted in an increase in EMEA's third quarter operating profit over 2019.

At the Bolzoni segment, revenues decreased 16.5% and Bolzoni reported operating profit of $100,000 compared with operating profit of $700,000 for the 2019 third quarter. The decrease in revenues was due to lower sales resulting from the decline in global economic activity subsequent to the pandemic-related shutdowns. The decrease in operating profit was also mainly because of lower sales volumes, but the decline was partially offset by lower operating expenses due to the cost containment actions taken.

Finally, at Nuvera, revenues were $700,000 in the third quarter of 2020, down from $2.4 million in the prior year, and Nuvera's operating loss decreased modestly to $8.7 million from $9.3 million in 2019. The revenue decrease was primarily the result of a decrease in third-party fuel cell development services. The improvement in operating results was driven by lower inventory adjustments in the 2020 third quarter compared with the prior year as well as the favorable effect of cost containment actions.

Those are the results for the quarter. Now, let me turn this over to Rajiv who will provide an update on our operations and our strategic program.

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

Thanks, Christy. As I said, I continue to be very proud of the hard work and disciplined execution of our global workforce as we continue to work through the challenges brought on by COVID-19 pandemic. Across the company, we have focused on maintaining the safety of our employees and preventing the spread of the virus.

We have a good track record in doing that. However, the recent resurgence in cases is creating new uncertainties and added stress. And it is important – is as important as ever that we are diligent and maintain strong safety procedures despite the pandemic fatigue many of us are experiencing. Let me reiterate. I'm very proud of our workforce for their ability to stay focused and effective in these uncertain times, including maintaining the protocols we have established to keep themselves and those around them safe.

Moving on to our operations, as economies continue to reopen in 2020 third quarter, as we mentioned, lift truck market activity improved faster than anticipated, with markets ending the quarter at roughly pre-pandemic levels. Excluding China, which increased 78% over the prior-year third quarter, the global lift truck market was down less than 1% compared with the third quarter of 2019. Compared to second quarter of 2020, the global lift truck market increased 22.5% in the 2020 third quarter, driven by a 28.8% increase in EMEA and a 25.9% increase in Americas, as well as a 19.7% increase in China. These market improvements over the second quarter translated into a solid increase in our 2020 third quarter bookings.

During the third quarter, our unit shipments decreased from prior-year third quarter, but were higher than the second quarter. Third quarter shipments were down because of substantially lower bookings in the second quarter of 2020 due to the pandemic-related shutdowns and the lower production rate that we put in place to match market conditions. While shipments were down from the prior year, third quarter bookings were comparable to the 2019 third quarter, but were up substantially from the second quarter of 2020 as global demand steadily improved throughout the third quarter, specifically in our primary market of Americas and EMEA.

Bookings in each month of the third quarter continued the steady upward trend that began back in May. Also, our September booking increased substantially over August, reaching a level that exceeded the September 2019 bookings. While we continue to carefully manage our backlog and shipment so that our lead times and production rates match market conditions during this period of uncertainty, the strong third quarter bookings led to a modest increase in our ending backlog over the second quarter.

Additionally, as markets and industries where our position is strongest have begun to recover, we have experienced a change in the mix of products which have resulted in a higher average price per unit in both our bookings and backlog for the 2020 third quarter compared with the 2020 second quarter. As market conditions improve, we expect that increased bookings and the strategic programs we continue to pursue will position each of our businesses to recover to sound long-term financial returns.

Now, let me spend just a few minutes talking about our strategic program. Despite the uncertainty regarding near-term economic activity, we continue to be committed to our long-term strategy. The projects required to execute our strategies continue to move forward. But in light of COVID-19 pandemic, the pace of certain projects have been given greater emphasis than others to reduce near-term operating expense and capital expenditures.

While we are continuing to introduce a number of new products during this period, our primary focus in the lift truck business is on a set of new modular, scalable product family covering both internal combustion engine and electric trucks. We have been focused on maintaining the timing of the introduction of the first of these products, which is the standard version of the 2 to 3 ton internal combustion engine lift truck for the EMEA market. This version is expected to be launched in the first quarter of 2021.

The launch of this new heart-of-the-line range of 2 to 3 ton counterbalance truck will continue throughout 2021 with trucks for the Americas market expected to be launched in the second half of 2021. We expect the modular nature of these new products to enhance our ability to meet customer needs at lower cost and with more application specificity, both at the industry level and at the individual customer level. In this rapidly changing environment, we have accelerated our focus on finalizing and implementing our industry strategies and our investment in industry-focused sales capabilities to support our dealers. Given this COVID-19 environment, we have also focused on enhancing our remote-selling capabilities through technology and IT enhancements.

Bolzoni continues to focus on its Americas growth strategy, including strengthening its ability to serve the North America market through the supply of cylinders and various other components from its Sulligent, Alabama plant and introducing a broad range of locally produced attachments with shorter lead times to serve its customer base. Bolzoni is also implementing its One Company – 3 brands structural approach, which will help streamline back-office operations and strengthen its Americas and JAPIC commercial operations.

Nuvera continues to focus on serving heavy-duty applications, particularly bus and truck applications with its 45-kilowatt engine, which was released for sale during the 2020 second quarter. It also continues to focus on lift truck market. During the second quarter of 2020, Nuvera, which had successfully achieved certification of its 45-kilowatt engine for China in 2019, received its first integration certification, which allows the engine to operate in buses.

During the third quarter, testing of these engines in Chinese buses was completed for one company, and that company has now included the certified bus design in its sales catalog. Certification of other bus companies are expected late in the fourth quarter of 2020 and in the first quarter of 2021. As a result of these milestones, Nuvera has accelerated the 45 kilowatt commercialization operation for the global market and is focusing on ramping up the sale of this product in the fourth quarter of 2020 and in 2021.

Nuvera is also developing a new engine that will be approximately 60 kilowatt for the Chinese market that is expected to begin the certification process during the fourth quarter. The engine certification for this engine is expected to be received during the 2020 fourth quarter with vehicle integration certification expected to be completed in late quarter or early in the first quarter of 2021. Overall, it is our intention to emerge stronger from this pandemic and to thrive as business conditions improve. We believe our prioritized strategic programs will put us in that position.

I'll now turn the call over to Ken for an update on our thoughts regarding future quarters and measures taken to enhance liquidity. Ken?

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

Thanks, Rajiv. While recent market and booking activity is encouraging, and growth since the 2020 second quarter shutdowns has been better than expected, the level of our future bookings is still uncertain. The trend line for bookings is improving, but improvements are occurring at a decreasing rate, and the COVID-19 cases are increasing.

Overall, we continue to operate on the assumption that the economic and market environment will remain difficult throughout the remainder of 2020 with COVID-19 cases expected to increase in areas entering the winter season, and in 2021 as well, until an effective COVID-19 vaccination or alternative therapy is widely available. While we may not be able to control the macroeconomic factors that drive the demand for our product, we are aggressively executing on actions that are within our control to keep our employees healthy as COVID-19 cases, once again, spike in many of the countries around the globe and on moderating any resulting additional near-term financial impact from the continuing COVID-19 pandemic.

Beginning late in the first quarter, we put in place plans to mitigate the impact of declining markets and bookings, and the consequential impact of reduced manufacturing activity from pandemic-related shutdowns by initiating cost reduction measures, which were designed to lower costs and enhance liquidity.

Despite currently improving markets, we expect these measures to remain in place until the market and economic uncertainty dissipates and results improve, which we anticipate will occur over the course of 2021. We expect these cost reduction actions to achieve $60 million to $75 million in operating expense savings in 2020 compared to 2019, of which approximately $47 million have been realized through the end of the third quarter.

As Rajiv has mentioned, we also adjusted production levels at our manufacturing plants during the 2020 second quarter to align them more closely with the anticipated reduced demand and targeted booking levels. Throughout the third quarter, we increased production moderately to adjust for improved market levels, and we anticipate increasing production further in the fourth quarter given the expected bookings and backlog, barring, of course, any new government shutdowns.

Based on our current backlog levels and [ph] planned (00:23:58) production levels, we expect to have adequate component supply and minimal open production slots over the remainder of the year. This is expected to position us with both competitive lead times and acceptable ongoing backlog. We will continue to focus on adjusting production levels quickly to match the market and booking changes, and working closely with our suppliers to ensure appropriate component supply as our production levels change. Given these factors, we expect our fourth quarter 2020 operating profit and net income to be significantly higher than both 2020 third quarter and the prior-year fourth quarter.

Let me take a step back and explain that our expectations for the 2020 fourth quarter were established prior to the most recent spikes of COVID-19 cases as seen in a number of countries, including our largest markets. This environment could develop into a headwind for our current fourth quarter booking expectations. Further, we or some of our suppliers may need to shut down. Renewed measures have already been taken in a number of European countries to mitigate the spread of virus, and similar actions are likely to be taken by other countries.

At this time, the new measures put in place have not had a significant impact on our plants or our suppliers. However, we are monitoring the evolving situation, including monitoring closely a number of suppliers based in areas where cases are spiking. We are prepared to take further actions if necessary to maintain the health and safety of our global employees and to address any production and supply chain issues, which may develop. More broadly, as a result, the pandemic-related uncertainties continue to limit our ability to forecast booking levels for 2021.

In addition to our focus on cost containment actions, we have also focused on actions to enhance our cash flow before financing, including reducing our working capital and reducing or deferring capital expenditures, which we now expect capital expenditures to be approximately $61 million for the full year 2020. Our 2020 third quarter cash flow before financing improved significantly over the second quarter and over the prior-year third quarter, helping to generate $46.3 million of cash flow before financing for the nine months ended September 30, 2020.

Enhancing our liquidity potential also continues to be a priority. At September 30, 2020, our cash on hand was $89.9 million and debt was at $297.7 million compared to cash on hand of $60.5 million and debt of $337.7 million at the end of the second quarter. Encouragingly, our net debt improved $69.4 million to $207.8 million from $277.2 million at the end of the second quarter.

In addition, as of September 30, we have unused borrowing capacity of approximately $260 million under our existing revolving credit facilities compared with $218 million at the end of the second quarter. Looking to the future, in the context of an improving booking trends, we plan to increase our investment in working capital to support the forecasted growth in our business.

Al, if your line is now secure, can you – I'll return the call back to you.

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

Thanks, Ken. Before I turn the call over for questions, let me say that Hyster-Yale is very strong and we have an outstanding group of leaders and employees who have effectively managed production and supply chain disruptions and kept Hyster-Yale on a positive path in the period since the pandemic began. We can't let up as the pandemic is still with us, but I'm reassured by the strength and resilience of our people and believe we would deliver solid sales and earnings performance over the long term.

Now, let me open up the call for any questions that you may have.

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] Our first question comes from [ph] Ramya Sri with Infosys (00:28:44). Your line is open.

<A – Christy Kmetko – Hyster-Yale Materials Handling, Inc.>: Hello?

Operator: [ph] Ramya Sri (00:28:54), your line is open.

<A – Christy Kmetko – Hyster-Yale Materials Handling, Inc.>: We can't hear you if you're asking questions. I'm sorry.

Operator: Your next question comes from Michael Sesser with DWS. Your line is open.

<Q – Michael Sesser – DWS Investment Management Americas, Inc.>: Hi. Thanks. Can you guys comment on the significance of the completing the certification for that 45-kilowatt engine that you remarked about?

<A – Al Rankin – Hyster-Yale Materials Handling, Inc.>: Rajiv, do you want to take that?

<A – Rajiv Prasad – Hyster-Yale Materials Handling, Inc.>: Yeah. Sure. So, to apply these engines in China, you have to go through two types of certification. One is at the engine level and the other one is at the vehicle level. The engine-level certification is called SMVIC. And once that's approved, then you can start working with vehicle integrators to integrate those engines and certify the whole vehicle with a fuel cell system, and that's called MMIT certification. So as we stated, we have done that with 45-kilowatt engine and one OEM in China, which is now available for orders.

Now, what's also happening in China is there's some changes to the subsidy regulations. So, a large number of customers are waiting for that to stabilize. What it may require is a higher power engine. And that's part of the reason why we're developing the 60-kilowatt engine, which is going into the certification process right now – or going through it right now. So, now, we feel that the 45-kilowatt is the right solution for these kind of medium-sized buses, so 8 to 10, 11-meter buses. So, we will continue to market that elsewhere. We're talking to other customers in Asia and Europe about that engine. And then, we're starting to talk about the 60-kilowatt engines with our customers in China.

<Q – Michael Sesser – DWS Investment Management Americas, Inc.>: So, based on the way things have evolved over the last year or so since you guys did the Analyst Day, how has your long-term outlook for Nuvera changed or has it not changed at all?

<A – Rajiv Prasad – Hyster-Yale Materials Handling, Inc.>: Our outlook for Nuvera is very good. We feel we're at the kind of right point for acceleration. If you've seen in the marketplace, there is hydrogen fuel cells starting to be talked about as the primary replacement for internal combustion engines, particularly in the short- to medium-term for heavy-duty vehicles, which are buses, vans, trucks and some of the larger vehicle platforms. And we are having discussions with a large number of OEMs about these solutions. So, we feel good about where we are. And I think, as the market turns up, we think we're well positioned to participate in some key platforms that will integrate fuel cells.

<Q – Michael Sesser – DWS Investment Management Americas, Inc.>: So, given that...

<A – Al Rankin – Hyster-Yale Materials Handling, Inc.>: I think I'd just add to that, that the real significance of passing those certification tests is that our commercialization programs can go into high gear. The most immediate markets of volume appear to be in China, but other markets are emerging in segments in both the Americas, North America and in Europe. But at Nuvera, the focus is beginning to shift from ensuring that we have the right engine and the right engine variance that is a 60-kilowatt engine to commercialization and really beginning to drive revenue over the next couple of years. So, we're moving into quite a different phase at Nuvera as a result of passing those certifications.

<Q – Michael Sesser – DWS Investment Management Americas, Inc.>: Great. And so, what should we be looking – as investors, what should we be looking – what milestones should we be looking for to track the progress of this commercialization and the revenue ramp?

<A – Al Rankin – Hyster-Yale Materials Handling, Inc.>: Well, we'll be reporting in our regular quarterly meetings on the level of orders and the kind of shipments that we think we may be seeing. And we'll be very careful how we do that to make sure that the timing of those is fully agreed upon by not only us and our customers, but by the end users of the products. So, that's what you want to be watching for, but we're not going to forecast way in advance. We're going to let the process work through, get the orders and then make the shipments.

<Q – Michael Sesser – DWS Investment Management Americas, Inc.>: Okay. And just maybe two final follow-up questions. Given where you are now, where the focus is shifting to commercialization, are you thinking about strategic partnerships or is Hyster-Yale the best entity to pursue the commercialization?

<A – Al Rankin – Hyster-Yale Materials Handling, Inc.>: Well, we're always thinking about alternatives to move forward in the best possible way. We wouldn't comment on those in advance, except to point out that there are many segments in the total addressable market and that some sort of alliances will probably be necessary, including sales arrangements − dedicated sales arrangements with potential customers in different segments, as we move forward. So, it's going to be an orderly process of figuring out the best way to sort through the most attractive segments of the market and how best to participate in them.

Rajiv, do you have anything to add to that? I think, that probably lays out the approach we're taking.

<A – Rajiv Prasad – Hyster-Yale Materials Handling, Inc.>: Yeah. I think that's a good summary, Al.

<Q – Michael Sesser – DWS Investment Management Americas, Inc.>: Okay. Just final follow-up. Given the increased attention to hydrogen fuel cells as a technology, do you have any thoughts on where Nuvera [ph] fits (00:36:39) within the competitive landscape?

<A – Rajiv Prasad – Hyster-Yale Materials Handling, Inc.>: Yeah. Maybe I can take this one, Al. So if you think about the fuel cell, there's some critical attributes that you need to have, and we feel good about the attributes that Nuvera has. For instance, one of the critical one is power density, both from how much power a unit weight of fuel cell can generate and also the unit volume. As you can imagine, both weight and volumes are very critical for OEMs and we feel we are leading in that area because of our open flow field architecture.

The other area is robustness. As you know, our kind of basic structure of the fuel cell is based on stainless steel, where a number of our competitors are using different types of substrates, such as graphite, which we feel is less appropriate for motive power. The last area is, working within the Nuvera and Hyster-Yale Group, we've applied fuel cells to forklift trucks. And in that process, we've learned a significant amount about how to manage the fuel cell as it transitions into an engine and have significantly increased the robustness of the solution. So, I think those three parameters we feel we're in either leading or amongst the leaders in those parameters, which are critical to both OEM and system integrators.

<A – Al Rankin – Hyster-Yale Materials Handling, Inc.>: And let me just add to that, that the backdrop for everything that Rajiv just outlined is a very significant patent position in a fuel cell solution which is different from our competitors. And we think that gives us a very good position for the long-term success, especially in the heavier duty mode of applications of various kinds, but also in other segments of the market.

<Q – Michael Sesser – DWS Investment Management Americas, Inc.>: Great. Thank you for answering all my questions.

Operator: Your next question comes from Mike Shlisky with Colliers Securities. Your line is open.

<Q – Mike Shlisky – Colliers Securities LLC>: Hey, guys. Good morning. And may I say a great job on the opening comments, that's the true definition of teamwork [ph] I've expected (00:39:10) from the Hyster-Yale for quite a long time now. Great work on that.

I will ask you questions about lift trucks, but I wanted to [ph] come (00:39:19) up with a few questions of my own on Nuvera. I guess, first of all, just a bit more on the opportunity in the US for some of the on-highway applications of the fuel cell systems. I guess, do you have to get a different kind of certification for any of your engines if you wanted to have them on US highways? That's my first question.

<A – Rajiv Prasad – Hyster-Yale Materials Handling, Inc.>: Yes, I'll take this one. It's Rajiv. So, again, certifications are by regions, so kind of a set of requirements drives integration into commercial trucks in North America. A different set of requirements are driven by Europe, and in Japan, Japan has its own set of requirement. And you do need to certify – there is a lot of consistency in certification, but they are a little different for each market.

<Q – Mike Shlisky – Colliers Securities LLC>: Okay. And then, I would love to hear your comment on the fuel cell – fueling infrastructure across the US. Have you got any feel for whether there are any major companies out there that are developing the kind of infrastructure that you would need to fuel a fuel cell truck all along on a long-distance route? Or are you expecting most of the adopters of any on-highway equipment to be returned to base operations with their own infrastructure.

<A – Rajiv Prasad – Hyster-Yale Materials Handling, Inc.>: So, maybe I'll take this first and then I'm sure Al will have some comments. From my point of view, with the way we should look at hydrogen is a number of stages. Firstly, hydrogen is widely – is an abundant material. It's in a large number of – it's in water. It's in a carbon fuel. So, availability of hydrogen is not an issue. The dissociation of hydrogen from a molecule to an atom is also pretty straightforward. You electrolyze it or use something like a reforming methodologies to separate out the hydrogen. So, that's well-understood. So, making hydrogen is not an issue. The third area is around the distribution of hydrogen. Again, hydrogen distribution could be very analogous to carbon fuel to gasoline. You could use the same type of stations to distribute it. So, I think there's nothing in the physics, the chemistry or the economics of hydrogen that's a barrier. It's case of demand driving it.

Now, we do feel the biggest application of – if we take North America as an example, the biggest implementation of fuel cells in North America has been on forklift trucks, because you can have local fueling. We expect that to trend out. So, we expect hydrogen, as I've talked about, it's been around buses which come back to some sort of central fueling source; delivery trucks, vans, which come back to a central source. So, we think in the short to medium term, it is going to be more in vehicles that do have a some sort of refueling center to come back to, like a depot. But, over time, there's a huge amount of work going on with the various groups in each of the regions to create a hydrogen infrastructure. And as I said, the barriers to that aren't big. It's just what will drive it is the need of it.

<A – Al Rankin – Hyster-Yale Materials Handling, Inc.>: Yeah. The only thing I'd add to that is that once hydrogen is produced, it's relatively straightforward to put it under pressure and ship it. So, in that sense, it's analogous to gasoline. And as Rajiv have suggested, there are going to be these specialized depots and manufacturing plants that have their own refueling systems. And those may be the hubs for further expansion of refueling as hydrogen becomes more adopted. So, there's a lot of flexibility. I don't think there's going to be any one solution. But there are no real technical challenges. It's going to be a very practical matter of getting it transported to the end user in the most efficient way possible as the volumes increase. And as the volumes increase, there are going to be more outlets of different kinds. So, it's going to be very much an evolutionary process.

<Q – Mike Shlisky – Colliers Securities LLC>: Okay. That's great color. Thanks so much. Thank you so much for that. I wanted to also turn to some of [ph] kind of (00:44:40) comments there at the end. You mentioned you were just kind of tracking some of your suppliers during the pandemic had some new markets shut down. Can you maybe comment on how your orders fared during October and then how have your orders fared during any particular – in any particular regions or areas that actually have shut down? Have you seen any kind of shutdown in activity over the last couple of weeks here?

<A – Al Rankin – Hyster-Yale Materials Handling, Inc.>: Rajiv, do you want to comment on that?

<A – Rajiv Prasad – Hyster-Yale Materials Handling, Inc.>: Sure. Thanks for the question. So, what we have seen is continued – in a market, as we've made in our comment, some of that has continued into October. But we have started to see some impact, particularly in Europe, where as you know some of the lockdowns have recently taken significant impact. And what we are seeing is not that our pipeline is deteriorating, but what's happening is that our customers are taking longer to make decisions. So, that's pushing out some of the orders that were in our plans.

But to a certain extent, we did anticipate this when we saw the initial rise in Europe. We're in a good position. As you can see from the backlog, we have a good backlog in Europe. So, we feel that we can go through this in good shape. North America continues to be strong. And then, China is – as we've said, China is very, very strong and is driven by some economic drivers that the government's driving as well as some of our competitors are being very aggressive in China, which is increasing the volume in China. Asia is a little split. Some parts of Asia are doing very well. Other parts are essentially shut down. So, that's a mixed story.

<Q – Mike Shlisky – Colliers Securities LLC>: Okay.

<A – Al Rankin – Hyster-Yale Materials Handling, Inc.>: Let me just add one other backdrop to the answer to that question. In the first round of COVID-19, the [ph] deed (00:47:00) was obviously not well understood. There were lots of questions. And as a result, the concept of a lockdown tended to embrace almost all elements of the economy, relatively few were left open. I think what we found is that factories, warehouses, physical operations can adjust to COVID conditions. They can have reasonable social distancing, very good health protection measures, testing, strict oversight and rules. That's certainly what we're doing in all of our plants.

But the broader result is that, as we look at it, in the second round, we don't think the focus of the lockdown of activities is going to be on manufacturing the way it was in the first round. So, that gives us real encouragement that any slowdowns that we see are really of the type that Rajiv mentioned, delays and communication processes, and sign-offs and things of that nature. But the need is there, and if the factories continue to work as we think is most likely, that the opportunity is going to be increasingly there over the next year.

<Q – Mike Shlisky – Colliers Securities LLC>: Okay. That's great color as well. Can I also ask about your parts and service business? Do you get the sense in the quarter that you're seeing enough parts business coming in that you're encouraged that your machines are being used in the fields adequately or appropriately and enough? Or do you think you've got some more to go, you think, on parts and service in the fourth quarter?

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

<A – Al Rankin – Hyster-Yale Materials Handling, Inc.>: Well, first...

<A – Rajiv Prasad – Hyster-Yale Materials Handling, Inc.>: ...that one, Al.

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

<A – Rajiv Prasad – Hyster-Yale Materials Handling, Inc.>: And then, you could make some comments.

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

<A – Rajiv Prasad – Hyster-Yale Materials Handling, Inc.>: [ph] We think (00:49:20) that we're continuing to see good parts requirements in the marketplace. There's another way we can – at least in North America, we can have a good sense for what the demand is for our lift trucks in terms of the usage, because we have telemetry on around 50,000 units in North America, pretty much in every industry. And again, we did see a drop in daily usage on forklift trucks when we were in April and May. But since then, we've seen a steady improvement. And now, since around August, September, we've flat-lined every day to what we'd consider to be mature productivity for these customers. So, I think that's where we find ourselves. Again, in Europe, as Al said, there is – the lockdown is much more associated with home and rather than work and we're continuing to see good demand in Europe as well.

<Q – Mike Shlisky – Colliers Securities LLC>: Okay. And maybe I can just throw one last one in here. [ph] I was interested (00:50:33) in your comments, Rajiv, about introducing some of the modular products over the next year or so, that's been coming for a while now [indiscernible] (00:50:42) currently working. Can you clarify maybe two things. One, has that project has been pulled forward, thanks to COVID-19? Have you had more time to focus on it? I wasn't sure if your comments meant that you're going to be able to do this faster or better than you had planned.

And then, perhaps secondly, are any competitors already offering products like this that have these modular capabilities? And are there any changes that you've seen in performance with these products compared to the old versions and any changes to how you fix them or how you service them?

<A – Rajiv Prasad – Hyster-Yale Materials Handling, Inc.>: Yeah, that's a big question and...

<Q – Mike Shlisky – Colliers Securities LLC>: Long question, yeah.

<A – Rajiv Prasad – Hyster-Yale Materials Handling, Inc.>: ...has COVID impacted the development? I think, marginally. We've had our development center operating throughout the pandemic. A large number of our engineers are working from home, which has allowed our testing centers to be reconfigured so that people can socially distant and complete that test. And as normal development issues come along, they've resolved it. We do have a ramp introduction planned for this platform. And so, it will progressively introduce new versions, the start of it, both in terms of models, but also in terms of geography. So, we expect these products to be launched in the first part of 2021 and then throughout over the next two or three years, depending on geography and the types of models. So, it's a pretty extensive program. Over the next five years, it will replace everything we do. So, it's very, very significant in terms of the investment the company is making, but also the improvement it brings with it. And so, I'll turn to that.

The trucks that we're designing are very customer-centric in two ways. So, firstly, for the operator, the productivity is greatly enhanced. The ergonomics is greatly enhanced. The power sources made available are varied, kind of from ICE to fuel cells and different types of batteries. Then, on the other side, the modularity side, what it allows us to do is, to configure the right solution for our customers' application, an optimal solution, which invariably will give them the lowest cost of ownership. So, the modular and scalable nature of this design allows us to do that. Do we have competitors who can do it? There are some competitors who have taken a modular approach, but we haven't come across any competitors that have taken it to the degree we have with our modularity and scalability, and the way we're applying it to our complete product range.

<Q – Mike Shlisky – Colliers Securities LLC>: Okay. Well, thanks so much for answering my questions. Appreciate it.

Operator: [Operator Instructions] The next question comes from [ph] Ramya Sri with Infosys (00:54:07). Your line is open.

<A – Christy Kmetko – Hyster-Yale Materials Handling, Inc.>: Hello?

Operator: [ph] Ramya Sri (00:54:18), your line is open. We have no further questions at this time.

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

Okay. Again, thank you, everybody, for joining us today. We do appreciate your interest. And if you do have any additional questions, please give me a call. My phone number and information is on the earnings release. Thanks so much. Have a great day.

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

Thank you.

Operator: This concludes today's conference call. Today's replay will be available starting 2:00 PM Eastern Standard Time until Wednesday November 11. Participants may listen to a replay by dialing 800-585-8367 or 416-621-4642, using passcode 6560609. Thank you. You may now disconnect.