PARTICIPANTS

Corporate Participants

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

Other Participants

Chip Moore – Analyst, EF Hutton Group
Steve Ferazani – Analyst, Sidoti & Co. LLC
Brett Kearney – Analyst, Gabelli Funds LLC

MANAGEMENT DISCUSSION SECTION

Operator: Hello, everyone, and welcome to the Hyster-Yale Fourth Quarter 2022 and Full Year Earnings Conference Call. My name is Bruno and I will be operating your call today. [Operator Instructions]

I will now hand over to your host, Christina Kmetko. 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 2022 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 Scott Minder, our new Senior Vice President, Chief Financial Officer and Treasurer.

Yesterday evening, we published our 2022 fourth quarter and full year results and filed our 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 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 have described in our earnings release issued last night and in our 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.

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

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

Thank you, Christy, and good morning, everyone. I'll start by giving you the operational perspective, and I will also provide some color commentary on our markets. As you'll hear, we've made significant progress in the past quarter and we expect this positive trend to continue in 2023. Scott will provide you with the detailed financial results and Al will close the call with his strategic perspective and take us into the Q&A.

While Scott will give you the financial pluses and minuses, I'd like to point out that for the first time since 2021 second quarter, we reported both a quarterly operating profit and quarterly net income at the consolidated level. Our fourth quarter profits exceeded the expectations we laid out for our – at our calls, largely due to higher volume, ongoing cost discipline, and improved product margins driven by higher pricing. Those efforts more than offset the negative impact from supply chain shortages and the effect of unfavorable currency movements. Our ability to obtain necessary components and their related production impact has been the significant topic this year. So I'll start there.

Our unit shipments increased nearly 11% sequentially. And we're modestly higher than the fourth quarter of 2021. These increased shipping rates are due to fewer component shortages and less overall supply chain disruptions than in previous quarters, with the Americas seeing the largest improvements. While the Americas' challenges have moderated, significant production constraints continue in Europe. Sourcing difficulties for certain critical components, as well as large labor shortages in some skilled production jobs remain a concern.

As a result, while fourth quarter 2022 shipments grew, capacity utilization levels in Europe and the US fell short of plan. We continue to expect to increase our production rate as these labor issues abate. However, despite the production disruptions in 2022, we produced about 6,000 more units year-over-year, exceeding 100,000 in annual shipments for only the second time in our history.

Looking ahead, we expect to build on fourth quarter's momentum. Full year 2023 production and shipment volumes are expected to exceed 2022 levels. Our backlog is at a very high level and bookings continue at sound levels. These anticipated improvements are largely due to increased component availability and reduced global supply volatility. As a result, we believe that our substantial unit backlog and lengthy lead times will decrease towards more competitive level.

In the fourth quarter, cost pressures remained elevated. This was most acute in EMEA, where cost inflation occurred later in 2022 and remains more significant in part due to the ongoing supply uncertainties around the Russia-Ukraine conflict. In contrast, inflation rates in Americas and JAPIC have slowed significantly. Forward economic indicators suggest more moderate 2023 cost inflation trends, absent any unforeseen shocks.

As we've shared in previous quarters, we've implemented multiple price increases over the last two years to offset persistent inflation. We are gaining ground and looking ahead, we expect the combination of higher price backlogs and moderating cost inflation trends to create a margin uplift through 2023 and into 2024. However, we'll continue to monitor our material and labor costs closely, including the potential impact from tariffs. And we'll adjust pricing as needed to maintain progress towards our long-term unit margin goals.

Now, I'll share my views on the global market. Demand for lift truck remains strong, but has moderated around the globe. While external fourth quarter market data is not yet available, our internal estimates indicate that the global lift truck market declined in the quarters across all geographic regions compared to fourth quarter 2021. Using the same data, global market volumes improved versus the third quarter due to progress in EMEA.

Looking ahead, we expect the lift truck market to decrease in each 2023 quarter when compared to 2022. Despite these declines, markets should remain above pre-pandemic levels even in the context of broad recessionary concerns. Lift truck bookings decreased in the fourth quarter compared to a robust prior year. Several factors contributed to the drop. First, the global market declined compared to record levels. Second, we continue to focus on booking orders with solid margins, and lastly, because of lead times beyond our normal levels. Sequentially, bookings increased modestly versus the third quarter of 2022 largely due to a seasonal rebound in EMEA and better than expected conditions in Americas.

Looking forward to our full-year 2023, we expect lower year-over-year booking trend to continue due to slowing economic activity, combined with a continued focus on booking orders with higher margins. As the year progresses, we work to balance our booking rate and decrease production lead times on a line-by-line basis. Although increased production rate and lower bookings have decreased our backlog by about 10% since its peak in the first quarter of 2022, it remains well above our historical averages.

As we noted last quarter, increased order selectivity and higher production rate have led to higher average unit price and margins in our backlog. Said differently, we've been producing the oldest and lowest margin units and adding booking and shipping units with much improved economics with each passing quarter. To quantify this benefit, the average sales price of a backlog unit increased by nearly 35% year-over-year and almost 7% sequentially.

As we continue to work through our backlog in 2023, a majority of the remaining lower margin units priced in prior years are expected to be produced in the first half of the year. As a result, average unit margins are expected to improve in 2023 and early 2024 as we evolve further into our extended backlog. Beyond this baseline perspective, we are considering various economic scenarios over the next 12 to 24 months, including the potential for a global or significant regional recession as part of our planning process. Our current backlog of higher margin trucks extends through 2023 and into 2024. This should provide a shock absorber against any recession-related market downturns, helping to sustain our business through a recession. It's worth noting as part of this analysis that our current order cancellation rate is quite low by historical standards, reflecting the underlying need for new replacement lift trucks and the sound value proposition we provide to our customers. We expect this demand trend to continue.

I'll summarize my comments by saying we remain focused on mitigating the impacts from our supply chain challenges. Our teams are working closely with our suppliers to obtain what's needed for production when it's needed. As we increase production rates across 2023, we believe that higher unit prices and margins baked into our backlog should provide a significant operating profit improvement.

Ongoing order bookings discipline will support this profitability trend over the longer term. As our higher shipments can increase and the market decline drives lower bookings, we expect our backlog to contract and reduce lead times back to normalized levels. This process will take time and we'll remain focused on profitability and cash generation throughout.

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

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

Thanks, Rajiv. As Rajiv mentioned, we had a solid quarter, returning to profitability and ahead of our expectations. I'll start with some high level comments on our consolidated financial results, and then add perspective on the three individual businesses. In the fourth quarter, our consolidated revenues of $985 million were a quarterly record. They increased almost 19% or more than $155 million year-over-year. This growth was due to a roughly 20% increase in the Lift Truck business, which significantly outpaced its 1.5% shipment growth over the same period.

I'll give some additional Lift Truck details in a moment. Versus the third quarter, shipments increased nearly 11% while bookings remained flat around 21,000 units. Overall, our backlog dropped by nearly 6% and ended the year at 102,100 units, down almost 9% from its peak level in the second quarter 2022.

Looking at profitability, the company reported a consolidated operating profit of roughly $20 million for the fourth quarter. This compared to an operating loss of $107 million in the fourth quarter 2021. The 2021 operating loss included a non-cash goodwill impairment charge of about $56 million related to the Lift Truck business in Asia.

We reported net income of $7.6 million for the fourth quarter 2022, compared with a net loss of $103 million in the prior year. In addition to the prior year's goodwill impairment, the 2021 net loss included a $19 million charge to establish valuation allowances on deferred tax assets.

Now let's look at the results in more detail. Our Lift Truck business generated an operating profit of $27 million in the fourth quarter, which was ahead of our expectations. This compared to an operating loss of $93 million in the prior year. Excluding the impairment charge I mentioned earlier, this substantial improvement was largely due to increased prices in excess of material and freight inflation in the quarter. This favorable price to cost ratio helps to compensate for inflation in excess of our prices for units booked in 2020 and 2021. Higher unit and parts volumes, along with increased fleet revenues also helped to drive the favorable comparison. The Lift Truck business is fourth quarter operating profit improved substantially year-over-year, despite a $16 million increase in manufacturing costs caused by component shortage related inefficiencies, higher labor related costs, and $10 million of unfavorable foreign currency impacts.

As Rajiv mentioned, despite continued progress on clearing lower margin products, production of units booked prior to more recent price increases acted as a drag on our fourth quarter margins. We expect production of these lower margin units to reduce significantly in the coming quarters.

Turning to Bolzoni. In the fourth quarter, the business reported an operating profit of $2 million versus a loss of roughly $2 million in the prior year. The benefits from price increases and lower material and manufacturing costs more than offset the negative impact from lower sales volumes, primarily related to components used by our Lift Truck business. A loss of $2.4 million on the sale of a subsidiary and unfavorable currency movements also negatively impacted the quarter.

In Nuvera, the fourth quarter 2022's operating loss of about $9 million decreased by 15% compared to the prior year loss of $11 million. 2021's operating loss included a $1.2 million charge to reduce inventory values. Excluding the prior year charge, increased revenues and improved margin drove the modest year-on-year improvement.

We exited 2022 at the high profit quarter of the year. As we look ahead, we expect to build on that progress in 2023. These improvements are supported by what you've heard from Rajiv. Fewer parts shortages and increased manufacturing efficiencies as component shortages moderate leading to increased lift truck and attachment production and shipments, lower inflation rates, and the ongoing benefits from our cost savings program and disciplined sequential price increases to counter inflation.

Our strategic programs, which Al will touch on in a moment, should further enhance margins as they mature. As a result of these improvements, Lift Truck business expects a significant year-over-year increase in revenues and to generate a substantial operating profit in 2023. We expect Lift Trucks 2023 quarterly operating profit to build on 2022's fourth quarter while following its normal seasonal pattern.

Moving to Bolzoni, we anticipate continued moderation in component shortages, increased customer demand, and further pricing gains in 2023. As a result, Bolzoni is expected to improve margins and generate higher operating profit in 2023 compared to 2022.

Finally, as Nuvera continues to ramp up product demonstrations and bookings, we expect the benefits from sales growth to be offset by higher costs. As a result, the anticipated 2023 operating loss is expected to be roughly in line with 2022's level. Taking a longer-term view, these demonstrations provide testing opportunities in live applications, and lay the foundation for future technology adoption, and improved financial returns at Nuvera in the years to come.

Before I hand the call over to Al, I'll quickly cover the balance sheet results. In 2022, we generated positive cash flow before financing activities of $5 million versus the nearly $280 million use of cash in 2022. That's a big improvement, but more is required.

As of year-end, the company had cash on hand of $59 million and total debt of $553 million. This compares to cash on hand of $69 million, a total debt of $545 million at the end of the third quarter. While our net debt showed a modest increase sequentially, year-end levels were below the peak reached in June of 2022. We ended the quarter with available borrowing capacity of approximately $183 million versus $191 million at the end of the third quarter.

Our leverage ratio measured by debt to total capital reduced by 900 basis points versus the third quarter, mainly due to our return to profitability. As production ramps up using components already on hand, we expect inventory to decline throughout 2023, resulting in a significant reduction in inventory days on hand by year-end.

The assumptions underpinning our outlook predict particularly production rates are highly sensitive to events that could impact global supply chains. However, we're focused on controlling the things that we can, and we're better prepared to manage the things that are outside of our control. We'll keep you updated as 2023 unfolds.

Now I'll turn the call over to Al to give his strategic perspective. Al?

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

As you just heard from Rajiv and Scott, we're making progress operationally and financially. Our fourth quarter earnings reflected the improving profit quality of the robust backlog for which we are now producing trucks, and we continue to have solid back bookings despite softening market conditions. Looking forward, we expect continued gains from building more higher-margin backlog units. We believe this will lead to substantial consolidated operating profit and net income in 2023, with the quarters building on the fourth quarter of last year as Scott indicated. The steps we've taken to improve profitability to-date are producing tangible results.

They're evident in our fourth quarter results and even more so in our 2023 outlook. Our efforts to reduce inventory and generate cash are progressing, albeit at a slower pace. We're laser-focused on increasing our cash flows and maintaining adequate liquidity with ongoing action plans to improve future results. We've already made progress in the first quarter of 2023 to-date.

We expect these improved results to accelerate, particularly in the second half of the year. To achieve our objectives, we're working intensely to reduce inventory levels as our supply chain becomes more consistent and our production rates gradually increase. We've got very capable people from around the company focused on how to make the most units in the shortest amount of time while maximizing the use of on-hand materials and reducing manufacturing inefficiencies.

We're collaborating with our suppliers to minimize disruptions and ensure an efficient and consistent flow of materials. We're working closely with our dealer partners to balance order timing with their customers' delivery needs. It's a complex global Hyster-Yale Lift Truck challenge, but our teams are focused on it and we're making progress as we are operationally at Bolzoni and Nuvera as well.

While we pursue working capital reductions, we'll maintain discipline over our cash flows. We anticipate higher 2023 capital expenditures compared to the significantly restrained 2022 levels, particularly in the second half of the year. The projected spending increases are necessary to ensure that we adequately maintain our facilities and reasonably invest in projects that enhance our long-term profitable growth opportunities. As a result of these actions, we expect a significant increase in cash flow before financing activities in 2023 compared with 2022.

Despite the near-term headwinds, we'll remain focused on executing our core strategies and we'll continue to invest for long-term profitable growth over time. Our strategic initiatives remain consistent, but I want to provide a few key updates for each business. The Lift Truck business' primary strategic focus continues to be on introducing its new modular and scalable products as well as projects geared toward truck electrification and providing technology advancements. We're also focused on transforming our sales process by using an industry-focused approach to meeting our customers' needs. Progress on these key initiatives continues.

The initial modular scalable products are currently being introduced in the Americas, and we expect to introduce them in the JAPIC markets in mid-2023. Last quarter, I indicated that our first hydrogen fuel-cell-powered container handler using Nuvera fuel cell engines had started its pilot phase in the Port of Los Angeles. After successfully performing in lighter applications, this truck has advanced to more difficult applications and continues to perform well.

The Lift Truck business also is developing an electrified fuel cell-Reach stacker, which is expected to be delivered to the Port of Valencia, Spain, in the first half of 2023 for testing. The Lift Truck business and Nuvera are working jointly with Hamburger Hafen und Logistik AG to provide two 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. The terminal tractor is expected to be delivered to the customer for testing in mid-2023.

Beyond the Lift Truck business, Bolzoni continues to work on streamlining and strengthening its operations. They're increasing their revenues in the Americas, while also enhancing their ability to serve key attachment industries and customers in all global markets. In conjunction with this, they're working to expand their broad industry sales, marketing and product support capabilities. Nuvera continues to focus on ramping up demonstrations and increasing bookings for its 45kW and 60kW engines. They're also developing a heavy duty 125kW engine capable of operating and more power-demanding applications.

In 2022, Nuvera announced several projects with various third-parties who are testing or planning to test Nuvera engines in heavy-duty applications. In addition, Nuvera is ready to launch two new products, a 360kW and a 460kW fuel cell power generator, which offer a modular zero emission power solution for commercial and industrial applications.

In summary, we've come through a difficult year. We ended 2022 on a high note. We're focused on controlling the things – we focus then on controlling the things we could, including particularly our cost structures and our prices. And we worked diligently to manage the external factors that we couldn't control. Our return to profitability in the fourth quarter represents a significant milestone in our business recovery plan. We have innovative products and we've built deep customer relationships. These provide a strong foundation for our business.

We're encouraged by our progress, but believe that there's more work ahead. We're poised for more significant business improvements as a result of work in 2021 and 2022. We expect continued progress on our key strategic programs in 2023. We've got the right business structure with the core strategies in place to achieve our long-term financial goals over time.

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

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Our first question is from Chip Moore from EF Hutton. Chip, your line is now open. Please go ahead.

<Q – Chip Moore – EF Hutton Group>: Hey. Good morning. Thanks for taking the question. Congrats on all the progress this quarter. I wanted to ask about your commentary around operating profits improving from Q4 each quarter in 2023. Can you maybe speak to the cadence of that improvement as you work through the last of the lower margin backlog that you've got? I think you talked about maybe thinking that up in the first half. And as a follow-up, what are you factoring in for Europe as well?

<A – Al Rankin – Hyster-Yale Materials Handling, Inc.>: Well, let me just comment on the quarterly cadence. As you'd point out, we had a good fourth quarter. I think we see every indication that the fourth quarter can level and continue the first quarter. We're very encouraged with and we see after the first quarter continuing improvements over the course of the quarters. During the year some of the quarters of considerable significance, but recognizing also that our third quarter is always seasonally lower quarter than other quarters in the year or at least the surrounding second and fourth quarter.

So we're very encouraged with the progression. We see it moving in the right direction. I think he had a second of Europe. Maybe you'd comment on Europe, Rajiv.

<A – Rajiv Prasad – Hyster-Yale Materials Handling, Inc.>: Yeah. So Europe continues. As I said in my remarks, that Europe continues to have some constraint supply chain issues. We're working through those. We expect through the year for Europe volume to increase. We've got our plans have – in a gradual increase of that volume as we've discussed with our supply chain, that's where – that's the way we feel the market's going to evolve. So gradual increase, I think, in both markets in terms of volume.

I think, as Al said, the margins and I think we'll again said in our remarks, we're in the first half of the year will be mostly through the bookings from prior years and at a good margins. So we expect that bookings from prior years, and at a good margins of – we expect that to flow through both in Europe and in North America.

<A – Al Rankin – Hyster-Yale Materials Handling, Inc.>: Yeah. I think, we had pretty good margins – the adjusted standard margin level in the fourth quarter and I think, we see them getting better as we look through the year. But as Rajiv said, there still are some laggard, low margin trucks in the first half. On the other hand, there were quite a few of those trucks in the fourth quarter.

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

<A – Al Rankin – Hyster-Yale Materials Handling, Inc.>: So just to put that in perspective. I think another dynamic too to really focus on is that on the one hand, we will be increasing our production levels in a moderate way over the course of the year. We think that, that is in line with a pace that our suppliers can work constructively with. And in that context, as the year progresses, we're certainly hoping and expecting that our suppliers will resolve their supply problems and be able to supply components on a much more timely basis. That should allow us to become significantly more efficient in our manufacturing operations than we have been in the fourth quarter and that we expect to be in the first part of the year.

And so there are a lot of things that are moving in the right direction. But we're continuing to work closely with our supply base to closely with our supply base to make sure that their capabilities are what we need. And the environment for doing that is improving. It's improving because suppliers are solving their own shortage problems. And I think to some degree, it's improving because excess demand in the system is moving, is moderating. And so that gives suppliers more capability to serve our needs and to work us through this period of our extended backlogs, perhaps in the context of a more moderate economic prospects and growth, or even the potential for a decline in some areas of the world as we look through 2023.

<Q – Chip Moore – EF Hutton Group>: Thanks. That's very helpful. And I guess to follow on that, Al, if we think about a potential deeper recession. You talked a bit about this sort of shock absorber of the backlog position. And you also mentioned, I think, very low cancelation rates. Maybe speak to historical replacement cycles. And it feels like maybe this is a unique cycle in terms of what you could see in a recession scenario for the company.

<A – Al Rankin – Hyster-Yale Materials Handling, Inc.>: Well, it's unique for us in the sense that we have never had a backlog anywhere near these levels. So, that's the silver lining for some of the troubles that we've been working our way through here. We think that the – as Rajiv indicated in his remarks, that the global markets will be turning down. We don't see a deep or long recession because there's an awful lot of pent-up demand, as Rajiv suggested, for forklift trucks and for enhanced productivity on the part of our customers. So I think we don't see a deep global recession and a big drop off. We see just a downturn that brings us back to much more sustainable long-term levels. But in the meantime, whatever downturn there is, we've got a good chance of riding through it because of our backlog.

But understand also that as we produce and – from our backlog, we're adding to our backlog each month. And at least at the current time, we're continuing to book more good margin trucks than we anticipated in our plan. So that's been continuing in January and February and we hope that that trend may continue. But at the moment, while the backlog is reducing, it's more moderate than what we were expecting and it means that we're extending further out into 2024 on most product lines, it's not 100% of them, but on most product lines are certainly the high value.

<A – Rajiv Prasad – Hyster-Yale Materials Handling, Inc.>: And I think most markets are performing better than we expected, but we expected that more declines and generally, the markets are firmer than we thought they were going to be.

<Q – Chip Moore – EF Hutton Group>: Great. If I could sneak one more in on Nuvera, great to see those successful pilots under way. Can you comment maybe around bidding activity more broadly? And then I think you mentioned that new, much larger engines coming to market, maybe you can expand on that and look at the target.

<A – Rajiv Prasad – Hyster-Yale Materials Handling, Inc.>: Sure. I mean, the way Nuvera is going to market is they have some – we have some focused segments that we think will really need to transition to fuel cells in their electrification journey. These are typically the heaviest duty type of larger trucks, and a good example of that is our port equipment. That's why we're focused on transitioning those first. But there are other industries that do that. If you think about electrified buses, we're also looking at – you've seen power generation, both static, which is the new offering from Nuvera. But they're also working with partners who've got mobile generators, incredibly enough to charge lithium-ion battery cars and other vehicles. So, just a mobile charger that had a fuel cell on board with lithium-ion batteries and acts as a charger for vehicles.

So some new segments are appearing that they're connected to. We think that putting the demos out is the best way that they've found to really get customers engaged and to pursue their target market. So the best way to monitor how Nuvera is doing is to look at announcements that Nuvera will be making around demonstrations and partnerships as we move forward.

In terms of the size of the engines, we are seeing demand for larger engines, more for truck applications, and also starting to see some marine applications that they're involved in along with locomotive. And each of those need larger platforms to support the power needs. So that's why we're developing the 125-kilowatt engine. A combination of those will be used in those applications.

<Q – Chip Moore – EF Hutton Group>: Got it. Appreciate it. I'll hop back in queue. Thanks.

Operator: Our next question is from Steve Ferazani from Sidoti. Steve, your line is now open. Please go ahead.

<Q – Steve Ferazani – Sidoti & Co. LLC>: Good morning, everyone. Thanks for all the detail on the call. I did want to revisit a little bit of the previous callers' initial questions in terms of backlog and go a little bit further in terms of looking at your orders in dollars per unit the last three quarters remained pretty, pretty steady. I'm trying to think of not only the stickiness of backlog, but how you're thinking about pricing, given your backlog remains so significant and how much business you might be just turning away right now versus starting to pick up again and maybe being a little bit more flexible on pricing.

<A – Rajiv Prasad – Hyster-Yale Materials Handling, Inc.>: Yeah. So I think certainly as the share of the market is down because of the approach we're taking, because of the approach. We've been very strict on our pricing and margin requirements given our backlog condition and our ability to deliver trucks. So – and we've seen the market accept that. Again, Al said this is an unusual market that we haven't seen before. And we've got customers now talking to us about their 2024 needs. And as we move towards taking this industry-based solution approach to solving our customer's problem, we're kind of working with them to really put the right truck in the application. And because of the modular, scalable solutions that we have, we can, at the right price, you can get the right cost for the application and that will support our margins.

So I think it's not just the firmness on the pricing, but also some of the initiatives we've put in place over the last three years is really supporting our approach. Now there are customers who are not yet adapting that approach and still trying to bid and buy on pricing terms. And those are the ones that we're not staying away from, but we're trying to work with them to find the right solution for the value proposition they're looking for. And this is where our investment in China could be and in Fuyang is the production facility will become more and more important as we put the right trucks and the right solution at our target margin. Again, our focus...

<Q – Steve Ferazani – Sidoti & Co. LLC>: Right.

<A – Rajiv Prasad – Hyster-Yale Materials Handling, Inc.>: ...is to, we have an economic model and we want to in a place these trucks that customers at target margins, not the most margins we can get, but at target margin.

<A – Al Rankin – Hyster-Yale Materials Handling, Inc.>: Now this is going to be a very, very much a reinforcement indeed, almost duplicative comment. But it's really important from our vantage point that as our backlogs and current pipe begin to contract, and we need to be more competitive more broadly in the marketplace. We expect to have new products, particularly including the Fuyang products coming on in a time cycle, which very much fits the need pattern that we anticipate as the backlog comes down.

So that's a very fortunate condition from our point of view, but it's also, the result of the – some of the strategic programs that I outlined, particularly the modular and scalable product program. And the way it comes on line first with the two to three ton pneumatic products and then it cascades into other trucks, including the more standard types of trucks that are below the base levels of our most recently introduced [indiscernible] (00:42:32) modular and scalable trucks. So it's a good fit. We're encouraged.

<A – Rajiv Prasad – Hyster-Yale Materials Handling, Inc.>: Yeah. We're very passionate about putting the right truck in the application and getting our target margin. That's the way we want to develop the market and our commercial strategy.

<A – Al Rankin – Hyster-Yale Materials Handling, Inc.>: So the way I think to think about it is that we expect to maintain good margins, but we'll do it in a little different way than we're doing it right at the moment.

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

<Q – Steve Ferazani – Sidoti & Co. LLC>: Make sense. Thanks, guys. Thanks. Thanks for the detail in there. When I think about, and I know this isn't a one quarter or two quarter story, but when I think about the expectations, the working capital trends down for multiple factors But if supply chain constraints ease, and you touched upon sales to orders, certainly, that trend should grow in 2023, which would indicate much healthier cash flow. As we think about that priority, immediate priority reducing debt, is that reasonable to think that way?

<A – Al Rankin – Hyster-Yale Materials Handling, Inc.>: Producing what?

<A – Scott Minder – Hyster-Yale Materials Handling, Inc.>: Reducing debt.

<A – Al Rankin – Hyster-Yale Materials Handling, Inc.>: Oh, yeah. Just to make it crystal clear here, our focus is on producing trucks for which we already have the parts or a significant proportion of the parts. And so if we can find those one or two parts that are missing on individual trucks, we can work through without bringing in a lot of new additional inventory. And it isn't so much a focus on bringing down debt, but as working capital comes down, the debt automatically reduces because we just – we don't have the need for the debt in order to finance the working capital that we've already paid for. So there are a number of things that are going to be at work here. On the one hand, receivables are going to trend up. On the other hand, inventory is going to move down for the reasons that we described.

And one of the things that's also going to be happening is that payables are going to be moving up because, at the moment, so much of the inventory that we have we've already paid for. And we'll come back to more normalized levels of payables as we move through the course of the year. So that's kind of the dynamic that's at play. And we would expect that the cash flows in the business would more than sustain any other uses of cash and allow us to bring the debt down at the same time.

<A – Rajiv Prasad – Hyster-Yale Materials Handling, Inc.>: I mean, maybe Scott can say a little bit more about this, but our debt, we have two types of debt. We have our term loan, which is really there for the long term. Then we have our revolver which we use operationally. And our revolver has been higher than normal over the last couple of years that we have gone through this challenge. We want to bring that back to our normal state that we draw during the trough period in the month and by the end of the month it's in good state, good shape, pretty much not drawn.

So that's what we are working towards. We think we'll get there in the second half of the year sometime. So that's the primary mission. Then any excess cash we have beyond that will be used for some of the strategic initiatives that we had planned, which we have held off on due to this dynamic that we've gone through over the last couple of years.

<A – Scott Minder – Hyster-Yale Materials Handling, Inc.>: Rajiv, this is Scott. I think you've covered it well. By the end of 2023, we expect to have lower debt balances as the working capital comes down and we use the cash, as Rajiv outlined, beyond debt paydown or to fund our growth initiatives and to maintain our factories to ensure we can efficiently produce the increasing levels throughout the year.

<Q – Steve Ferazani – Sidoti & Co. LLC>: Perfect. Thanks, everyone, for that. Last one for me just on Bolzoni. I think you'd agree probably that Europe has held up a lot better than we were probably thinking six months ago. I'd say that I'm guessing that you've seen the same thing. Noting the Bolzoni, a lot of that business is in Europe, how much does that improve as lift truck not just from you, but from your competitors picks up as supply chains ease or is that really more with the replacement – with replacement parts? How do we need to think about Bolzoni?

<A – Rajiv Prasad – Hyster-Yale Materials Handling, Inc.>: No. We've got to think about Bolzoni as a sum ratio of lift trucks and because it's an attachment that goes on lift truck and typically they're involved in new truck sales because it's a new attachment that goes with a new truck. And as our shipments rise and our competitors' shipment rise, that would be good for Bolzoni because, typically, their lead times are shorter than lift truck lead times. So, customers and dealers typically order those later than they order lift trucks. Once they have a solid delivery date for the lift truck, they'll go back 8 or 10 weeks from that and order the attachment.

So we do expect the attachment to very much correlate with lift truck sales, especially Class 5, and in North America Class 4 and 5 trucks, and increasingly now Class 1, but counterbalance trucks in the, I would say, in the 2-ton to 5-ton range. So that'll be a good in a correlation. The other thing I would say...

<Q – Steve Ferazani – Sidoti & Co. LLC>: Got you.

<A – Rajiv Prasad – Hyster-Yale Materials Handling, Inc.>: ...is the Americas, Bolzoni Americas team is doing very, very well beyond our expectations. They're starting to gain traction and we're booking very well.

<A – Al Rankin – Hyster-Yale Materials Handling, Inc.>: I'd just add that you should note the numbers that Scott went through in some detail in the fourth quarter because Bolzoni performed on an underlying basis really very quite well in the fourth quarter. And there was just a one-time sale that resulted in a write-off of goodwill that was allocated to that particular, small distribution entity at the time of the acquisition. So, it's a very non-operating and rather, artificial write-off that just happens to come from the way a goodwill was allocated at the time of the acquisition. So, there's momentum behind Bolzoni not just in the future, but also in the fourth quarter.

<Q – Steve Ferazani – Sidoti & Co. LLC>: Thanks for responses, everyone. Appreciate it.

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

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

<A – Christina Kmetko – Hyster-Yale Materials Handling, Inc.>: Thanks.

Operator: [Operator Instructions] Our next question is from Brett Kearney from Gabelli & Company. Brett, your line is now open. Please go ahead.

<Q – Brett Kearney – Gabelli Funds LLC>: Hi. Good morning. Thanks for taking my question and congratulations on a demonstrated progress after all the hard work the last couple of years.

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

<Q – Brett Kearney – Gabelli Funds LLC>: You've seen opportunity to kind of accelerate momentum on investing behind the strategic initiatives this year. Curious if you could help us think about kind of the major buckets of capital – CapEx investments, the company will be making this year. And now you talked about, increasingly solving for productivity challenges that customers are facing. Obviously, the modular scalable program is an important piece of that. Can you also touch on, you know, Al, some of Hyster's advanced operator-assist systems and telematics offerings, kind of tie into the challenges you're solving for your customer base?

<A – Al Rankin – Hyster-Yale Materials Handling, Inc.>: Let me ask Rajiv to address that, but with a preface from me. It's still early in the year. We want to be darn sure that everything we think is sustainable is sustainable. But there are some things that we would very much like to do in which we certainly hope to do as we move through the year assuming it continues to move in the direction that we expect. And indeed, in our own thinking, we take those in. See the kinds of progressions that we described to you even with those things taking into account.

But I think you'll see the initiatives start to play out in the second half more than in the first half because we're going to watch to make sure that all the pieces of the equation continue to hold together. But against that backdrop, let me ask Rajiv to expand on some of the momentum, I think, is the best to word to describe it and we feel we have going our technology projects.

<A – Rajiv Prasad – Hyster-Yale Materials Handling, Inc.>: Sure. Maybe just in terms of buckets for capital investment. We've got some catch up things to do which were – which we need to do in a number of our plants and also some of our development centers, which we'll do in the second half of the year. As we launch the modular scalable trucks, we are optimizing the footprint of our production capability. We want to have supply resiliency both for incoming material but also for trucks. So we will produce very similar of the same trucks and multiple plants. So that needs to be done and then with our product and technology plans as well as our commercial strategies that we're going to invest in. So those are the loose bucket buckets. In terms of our technology if – what we see – the difficulties that we see for our customers, productivity is definitely one, and really there is a huge amount of desire to understand their application, to figure out what the trucks are doing, and therefore data is required to do that in terms of what the trucks are doing, who's operating the truck. Are there any issues on the truck? And so our solution to that is to put telemetry on our truck. So you have real-time information on what the truck is doing and who's driving it and how it's performing.

The next area is really around safety. What's happening at our customers is they get – seeing a high turnover of operators and difficult-to-recruit operators. And so they're moving to less experienced operators, and that's creating issues in their application – in their operations.

And that's where our operator assist systems have come in. They're really backup – kind of become a bit of a support system for an inexperienced operator, ensures that they're not going to have – the people around the truck can be detected, goods around the truck can be detected, and the truck can be slowed down automatically. If trucks are passing each other, that can slow down to ensure there's no collision, so a lot of support system that the operator keeps the truck in its stability triangle where it's the safest to operate.

So the system does that in support of the operator. The operator is still responsible, but these support systems work behind the scene. And certainly customers are seeing huge benefit from this type of system.

Now, the ultimate for operator availability is to automate trucks and we have a comprehensive automation program running. We have well over now 300 trucks, automated trucks running. And we're learning from that and we're developing our next-generation system, which we call internally-developed automation or IDA. And those are getting ready to be – we're trialing those in our facilities and sometime in late 2023, early 2024, we'll start to launch them.

And versions of those trucks will come out over the next three or four years. So automation is a critical part. And then of course, the work I've already said around these large trucks putting fuel cells in electrification to reduce the carbon footprint of our truck is a critical part of our strategy. So whether that's with advanced batteries such as lithium-ion or with fuel cells, that's a huge transition and it's a difficult transition for our customers, we understand that. And so we're putting in all the infrastructure to help our customers transition from their current fuel system, whether that LPG, diesel or battery – lead acid batteries to either advanced batteries or fuel cells. So those are the primary technology drivers. Now there's a lot of other work going on and we'll talk about that in the future.

<A – Al Rankin – Hyster-Yale Materials Handling, Inc.>: Just to elaborate a small bit about the automation side. The backdrop, of course, is the point that Rajiv has made many times, which is the most expensive aspect of the operating cost of [indiscernible] (00:57:04) driver. And so, that's sort of the core backdrop. And then if you put it in the context of the computing power that can be deployed in today's world, on a vehicle and in the context of the management of the vehicle, and then put that together with the increased sophistication of sensors that has developed over the last, I don't know, Rajiv, five years...

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

<A – Al Rankin – Hyster-Yale Materials Handling, Inc.>: ...seven years, particularly pushed along by the automotive industry, which drives for low cost. And so, we're in a position of being able to bring automation forward in what I would call a highly controlled warehousing or manufacturing environment, where the sophistication of the software systems can really manage that environment very effectively and we can use the sensors that are being used on automobiles, but without the huge number of variables that automated automobiles have to face in a real world environment that is not inside a warehouse or a factory.

So we see a very great opportunity as we look forward and we think that these are going to be very much sort of project approaches and not just a sale of a product. But they'll also be packaged in a way that allows them to be deployed by our dealers efficiently and relatively easily into installation. So it's a pretty exciting arm of the business as we look forward. And we do think that, I think, Rajiv, you would agree that we think our approach to – in our internally developed technology is distinctive and has competitive advantage of consequence. Yeah. So that's the backdrop for what we're up to in that area, a little bit of elaboration.

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

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

<A – Al Rankin – Hyster-Yale Materials Handling, Inc.>: You're welcome.

<A – Christina Kmetko – Hyster-Yale Materials Handling, Inc.>: Thank you.

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

Okay. And with that, we'll conclude our Q&A session. 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 now I'll turn the call back to Bruno to conclude the call. Thank you.

Operator: Ladies and gentlemen, this concludes today's call. Please remember, a telephone replay will be available during seven days. Thank you for joining. You may now disconnect your lines. Thank you.