01-May-2019

Hyster-Yale Materials Handling, Inc. (HY)

Q1 2019 Earnings Call

CORPORATE PARTICIPANTS

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

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

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

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

OTHER PARTICIPANTS

Joe L. Mondillo
Analyst, Sidoti & Co. LLC

MANAGEMENT DISCUSSION SECTION

Operator: Good morning. My name is Christine and I will be your conference operator today. At this time, I would like to welcome everyone to the Hyster-Yale Q1 2019 Earnings Conference Call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question-and-answer session. [Operator Instructions] Thank you.

Christina Kmetko, you may begin your conference.

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

Thank you. Good morning, everyone, and welcome to our 2019 first quarter 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, President and Chief Executive Officer of Hyster-Yale Materials Handling; Colin Wilson, President and Chief Executive Officer of Hyster-Yale Group; and Ken Schilling, our Senior Vice President and Chief Financial Officer.

Yesterday evening, we published our first quarter 2019 results and filed our 10-Q. Copies of the earnings release and 10-Q are available on our website. For anyone who is not able to listen to today's entire call, an archived version of this webcast will be on our website later this afternoon and available for approximately 12 months.

I would also like to remind participants that this conference call may contain certain forward-looking statements. These statements are subject to a number of risks and uncertainties that could cause actual results to differ materially from those expressed in the forward-looking statements made here today in either our prepared remarks or during the following question-and-answer session.

We disclaim any obligation to update these forward-looking statements, which may not be updated until our next quarterly conference call, if at all. Additional information regarding these risks and uncertainties was set forth in our earnings release and in our 10-Q. Also certain amounts discussed during this call are considered non-GAAP.

The non-GAAP reconciliations of these amounts are included in our earnings release and available on our website.

Before we talk about the quarter results, let me quickly discuss a change we made to our segments as of the 1st of this year. If you recall, in late 2018, we announced that Bolzoni's North America attachment manufacturing would be moved out of its location in Illinois into the Lift Truck businesses Sulligent, Alabama manufacturing facility, as part of a plan to expand Bolzoni's capabilities in the United States.

Effective January 1, 2019, the Sulligent facility became a Bolzoni facility, and as a result, the 2019 financial information and comparative 2018 financial information have been reclassified to reflect the Sulligent facility financial results within our Bolzoni segment. Our earnings release provides the revised 2019 and 2018 first quarter information only. However, the historical financial data schedule that we filed last night as an 8-K and put on our website provides the revised 2018 information for all quarters and the 2018 full year.

Now let me discuss our first quarter results activity. I will discuss the highlights first and then get into the detail. On a consolidated basis, our revenues increased almost 6% to $834.8 million up from $788.5 million in last year's first quarter. Each of our three businesses contributed to this increase. The Lift Truck revenues included $16.4 million of revenues from shipments of 1,300 units at our Hyster-Yale Maximal subsidiary which was acquired in June 2018 and therefore did not have any comparable revenues in the prior year first quarter. Despite this revenue growth, we reported a decrease in both our consolidated operating profit and net income to $3.4 million or $0.20 per share compared with operating profit of $19.2 million and net income of $14.9 million or $0.90 per share in the first quarter of 2018.

Our core Lift Truck business, Hyster-Yale Group, drove the first quarter consolidated revenue increase with revenues of $788 million, up from $743.3 million last year. The revenue increase was generated primarily from the favorable effect of price increases implemented to offset last year's significant material cost inflation and non-comparable revenues from Hyster-Yale Maximal. However, this segment primarily the Americas and JAPIC divisions also drove the decrease in our consolidated operating profit and net income.

Hyster-Yale Group operating profit decreased to $10.8 million in the first quarter, down from $26.6 million last year. There are a number of factors contributing to this decline. In the first quarter, the global Lift Truck market softened particularly in the Americas. I will talk more about that later. The 2019 first quarter unit backlog decreased from the 2018 fourth quarter mainly because of a 2,900 unit decline in the Americas as the rate of bookings in North America, decreased due to the softer market. That said, the average sales price per unit in backlog actually increased over both the prior year first and fourth quarters because of the mix of product within backlog.

Consolidated unit shipments, excluding non-comparable Hyster-Yale Maximal shipments, [ph] also (00:05:21) decreased from both the prior year first and fourth quarters mainly because of a decline in North America. Overall shipments of lower priced, lower margin units increased during the first quarter, while shipments of higher priced units, including Big Trucks were lower primarily because of ongoing although abating supplier parts shortages. These supplier parts shortages also caused inefficiencies that created higher manufacturing costs and reduced profit.

Finally also contributing to the decrease in operating profit were higher operating expenses, unfavorable currency movements of $3.7 million and operating losses of $2 million at Hyster-Yale Maximal. Price increases, net of material cost and freight inflation including import tariffs and higher parts volume and margins partly offset the decrease in operating profit.

Moving to our Bolzoni segment. Bolzoni reported net income of $300,000 and revenues of $91.8 million for the first quarter of 2019 compared with net income of $1.9 million and revenues of $89.5 million in last year's first quarter. As mentioned earlier, these revenues have been restated to include the sales of traditional products out of Sulligent.

Bolzoni's operating profit decreased to $1.2 million, down from $2.7 million last year. The decrease in Bolzoni's operating profit was primarily due to $1.4 million of costs for severance, plant rearrangement and moving expenses related to the transfer of Bolzoni's North America attachment manufacturing from Homewood, Illinois to Sulligent, Alabama, which commenced in the first quarter. The impact of U.S. tariffs on imported Chinese components also had an unfavorable effect on Bolzoni's results.

Finally in our Nuvera segment. Nuvera reported revenues of $4.5 million in the first quarter compared with $600,000 in the prior year. Revenues increased because of development funding received associated with Nuvera's third-party development agreements and increased recognized sales of fuel cell battery box replacements which we refer to as BBRs.

Nuvera's first quarter operating loss decreased to $8.4 million from $10 million last year. The reduction was mainly because of the product development funding received from third-party. Looking forward, we continue to focus on our six strategic initiatives and the many projects we are undertaking to execute these initiatives, which we believe will help us attain a much higher level of competitiveness, market position and economic performance over the next three to five years.

Our longer term outlook did not change from what we said at year-end, but I have a few updates to our thoughts on 2019. In total, the projects we discussed last quarter have required and continue to require significant upfront expense in capital expenditure investments. We expect further increased investments to continue to be made in the remainder of 2019 and then generally remain at the 2019 levels for the next several years. But we believe the return from these investments has started to be realized and is expected to increase over the next five years.

Before I provide an update on our full year outlook, let me provide some updates on specific, more immediate projects, and how those are expected to affect 2019. We launched a new end rider and a new automated Reach Truck for the North America market in the first quarter of 2019 and new lower-cost Class 3 walkie and stacker global products are expected to be introduced later in the year.

Consolidation of our China production activities into the Hyster-Yale Maximal facility will be ongoing and is expected to be completed by the end of the year. As I already mentioned in the first quarter, Bolzoni began to phase out production at its current Homewood, Illinois facility and we expect to shift the manufacturing to Sulligent to be mostly completed by the end of the 2019 second quarter.

Bolzoni recorded a restructuring charge associated with these plans as of March 31. Payments related to this plan or this restructuring plan are expected to be made throughout 2019. In addition to the restructuring charge, we are anticipating that Bolzoni will incur subsequent charges during the remainder of 2019, of approximately $1.5 million to $3 million for additional costs related to the restructuring.

Finally, the transfer of the responsibility for the development of non-fuel-cell engine components and the overall assembly of BBRs to Hyster-Yale Group is expected to be completed by the end of 2019. Turning now to the overall outlook. In summary, while the second quarter is expected to reflect continued investment in all of our programs, similar to what you saw in our first quarter results, the second half of the year is expected to be significantly improved in comparison to the second half of 2018. Efforts we have taken to abate the most critical supplier issues, which include working with existing suppliers and in some cases finding additional suppliers, are succeeding and improvement has been made in many areas since the end of last year. But there are still some issues that are not expected to be resolved until midyear.

In addition, plans established in 2018 to find offsets for the tariff driven unprecedented material cost inflation witnessed last year will mature during 2019. To augment the plans we have put in place, on April 18, the U.S. Trade Representative posted a notice announcing its determination to grant additional exclusion requests for certain duties on Chinese goods. The exclusions will apply retroactively to the July 6, 2018 effective date and will extend for one year after the notice of exclusion or April of 2020. Certain components of fork lift trucks, including counterweights and forks were listed in the notice as exclusions for the duties, while other components that we and our suppliers import from China are still subjected to certain tariffs. We are currently in the process of determining duties recoverable from the government and suppliers.

In addition, our current lift truck backlog contains certain deal specific pricing agreements at less than target margins to gain targeted accounts and for which margin improvement efforts will take some time to mature. These agreements are expected to reduce profitability in the second quarter and to a lesser degree in the third quarter of this year. However, margins are expected to recover fully from the 2018 material cost inflation and the heavily discounted deals by late third quarter or the fourth quarter of 2019. Margins will also be enhanced over the remainder of this year by the exemption of tariffs on certain Chinese components.

In this context, we expect 2019 operating profit at Hyster-Yale Group to improve over 2018, but results in the first half of the year are expected to be lower than the first half of last year and then improve in the second half.

Beginning in 2020, further improved results are expected with significant continuing increases through 2023. Bolzoni's results are expected to improve in 2019 and in the following years with a target of 7% operating profit margin being reached in the shorter term. Nuvera's results are expected to improve moderately over the course of 2019 with Nuvera's objective being to reduce its loss significantly in the fourth quarter of this year and to reach breakeven in 2020. At each of these three businesses, we expect that the investments being undertaken will lead to increased operating profit through higher volume, decreased product costs and improved pricing, partially offset by a higher level of operating expense. As a result, overall we expect 2019 consolidated operating profit to increase significantly over 2018 with the improvement coming in the second half of the year. Of course, the absolute level of profitability will reflect the actual market demand levels which showed substantial softening particularly in the Americas in the first quarter. While markets are still at historically high levels, we are uncertain about whether this market decline is the beginning of a downturn or a reduction from abnormal prior year first quarter market growth, resulting from customers placing orders early in anticipation of increasing prices for material cost inflation and new tariffs.

Therefore in 2019, we are currently forecasting strong, but moderating lift truck market levels with the U.S. market expected to be down by single digits for the 2019 full year and we expect the resolution to Brexit in a way that does not significantly harm our business prospects.

Before I open up the call for your questions, I wanted to make a comment about our cash position. Our cash position at March 31 was $55.7 million compared with $83.7 million at the end of 2018. Our debt balance was $309.4 million, up modestly from $301.5 million at December 31.

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

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] Your first question comes from the line of Joe Mondillo from Sidoti and Company. Your line is open. Joe?

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

Joe?

Joe L. Mondillo
Analyst, Sidoti & Co. LLC
Q

Yeah, can you hear me?

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

Yep. Now we can.

Joe L. Mondillo
Analyst, Sidoti & Co. LLC
Q

Okay. Sorry about that. Good morning, everyone.

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

Good morning.

Joe L. Mondillo
Analyst, Sidoti & Co. LLC
Q

First question I just wanted to tackle sort of geographic end markets, I know in the press release as well as I think in your prepared commentary, you talked about how the Americas seem to be slowing a little bit, but could we just sort of go over what you're seeing amongst the major end markets and how you're thinking things are trending?

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

Colin, do you want to address that?

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

Yeah. I mean, as we said in the release, the Americas market was down, North America was down over 20% in the first quarter compared to the prior year. But again, the prior year was unusually high because of all of the price increases and buying forward and what have you. Latin America, really the same factor that was down sort of mid-teens. Brazil, that market is recovering very nicely, it was up almost 20% in the first quarter.

If you go across to Europe, the northern part of Europe which includes the UK, surprisingly doing very well. It's up about 5% on prior year. Most of the other regions in Europe itself were sort of down a little bit, 3%, 4%. The big market that was down over there was Middle East, Africa and a big driver there was Turkey, that market basically has collapsed, showing a little bit a sign of a recovery, but significantly down on where it's been.

And then in the JAPIC region, China was very strong, I mean it was up double-digits, so 11%, 12%. Asia and Pacific markets were down around about the 10% mark. And as a region – the entire region was up 6%, 7%. So just one other comment, Joe, about the U.S. market, call activity is very high. Rental activity is high. There is no sort of, sales teams really don't have any sort of negative sentiment. So as we sort of look forward, we're sort of almost keeping to our original plan assumptions for the balance of the year except that the first quarter is in the books and so that's influencing our full year outlook.

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

A

The only thing I'd add to that is that in some sense, we had become concerned over the course of last year certainly, and to some degree the year before that the markets around the world were increasing at a rate that was too rapid to be sustainable. From our vantage point, we'd rather see more moderate growth on a regular basis in our markets. And so, some pullback from those very high levels in my view is probably desirable. Of course, the question is the one we posed in the release and Christy mentioned at the end of her comments, which is our working assumption at the moment is this is kind of a pullback. We don't see indications that it's heading toward significant major downturn. But that's something we'll watch very, very closely, but the levels that we're at now are by historic standards pretty significant market levels and probably more sustainable than the ones we had last year and the year before.

Joe L. Mondillo
Analyst, Sidoti & Co. LLC

Q

Okay. Just one follow up on this topic. For North America, just wondering, how did the orders trend throughout January to April, did they get worse or did they finish a little better? How did the orders trend throughout that time period? And where was the weakness in terms of class of trucks?

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

A

Weakness in terms of class of trucks for the first quarter is very, very weak Class 2. But again, I think that's because a lot of trucks got purchased last year, so Class 2 was down on the quarter compared to the same period last year by over 35%. The Class 4 and 5 markets were down about 20%, Class 1 market down about 15%. So, again if you – us included, I mean with some just very, very large orders placed in the first quarter. So the comparable can be a little bit for the...

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

A

First quarter of last year.

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

A

...first quarter of last year, the comparables can be a little bit misleading as to what's actually happening in the market. As far as it trending, we saw it stuffed early on. I mean as we look at where we are now, our bookings have been increasing as we've gone out of the first quarter into the second quarter.

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

And remember that Class 2 is not an area of real market strength for us.

Joe L. Mondillo
Analyst, Sidoti & Co. LLC
Q

Okay. Okay, great. That's the great color. Thank you. And then I wanted to touch on sort of price cost and supplier constraints. First on price costs, what quarter did you sort of see the worst of the net effects of that headwind? And I assume going forward, you see sort of improvement on a quarter-to-quarter basis throughout this year.

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

Yeah. I think we're calling out the third quarter of last year as really our most difficult quarter, because we still have steel and aluminum pricing issues that we had not yet pricing to offset the increase in material cost driven by the first round of tariffs. And then of course, we had the imposition of the Chinese component tariffs. Since that point in time, of course the price increases we put in place have begun to phase in and begin to balance those out.

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

I think on the big deals, the deals we took at aggressive pricing, I think we're right in the middle of it now. I think it will be there for the second quarter, and then as Christy said, that'll ease off in the third quarter. So you have the two factors playing together. One is the price cost recovery from the inflation on the tariffs and then it's the rat going to the snake on the big deals. So as far, we're calling out, third quarter is the sort of a halfway back and then fourth quarter we should be right on track.

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

And I think another part of the answer is that in the first quarter actually there was an improvement overall in the relationship of price and cost. So we are starting to get ahead of the game in the first quarter itself and that continues in the quarter throughout the year with the largest impact coming which is a very significant impact in the fourth quarter.

Joe L. Mondillo
Analyst, Sidoti & Co. LLC
Q

Okay. So by 4Q, considering where commodity prices are and where you're forecasting commodity costs, or your cost side, you anticipate sort of back to neutral or back to normal by 4Q on a price cost basis?

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

Well, I think that the second half, we've called out is a better half than the first half. And all of those trends come together. And don't forget we haven't calibrated at this point the impact of the duty regulation exemption and just as we were hurt in the – when those duties were imposed because our backlog didn't have prices that took those duties into account. Once those are relieved, we certainly expect to net maintain some benefit on the way up just as we got hurt on the way down. So there's a factor in here that isn't calibrated that is worth keeping in mind as a part of all of this process.

Joe L. Mondillo
Analyst, Sidoti & Co. LLC
Q

Okay.

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

We're also seeing a little bit relief on the PPV – on the purchasing side. I mean we're seeing a little bit less inflation coming through now than we were originally expecting in the plan.

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

So it's actually running – the material costs are actually running a little better than we had been anticipating already.

Joe L. Mondillo
Analyst, Sidoti & Co. LLC
Q

Okay. Good to know. Looking at the...

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

But that number – that's significantly better as the year goes along.

Joe L. Mondillo
Analyst, Sidoti & Co. LLC
Q

Right. Looking at the backlog and this just sort of goes back to sort of the questionings on how the 1Q orders have trended. You mentioned the bookings in dollar per unit has improved. I assume that suggesting that your bigger trucks are – you're receiving more orders are at a faster rate than some of your smaller trucks at least in the booking side of things. And I'm wondering why – it seems a little surprising to me because you have Europe is not doing so great, North America seems to have slowed a little bit in 1Q from 4Q and I'm just wondering what you're sort of seeing and why you think the demand for those heavy high-priced trucks are seemed to be...

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

Well, let's distinguish between heavier and lighter. It's not really heavy trucks that we're necessarily talking about here. Remember that our strength worldwide does not lie in the warehouse side of the business which is Class 2 and Class 3. And those are the lower-priced trucks, so to the extent that the market is slowing particularly in those areas, our backlog tends to get richer because we're strong in counterbalance truck. So it's not just big trucks. It's generally Class 4 and Class 5 and also Class 1 where we have very – a better market position and those trucks are holding up somewhat better.

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

I think another factor Joe, is that last year and beginning of this year, we had a lot of supplier issues at our plant in Nijmegen. And so, our ability to ship trucks was impeded. Those issues are basically behind us, but it takes a while to get those trucks over and shipped and invoiced. So some other reason for the size of the backlog is that we've had the orders and we haven't been able to satisfy them and a lot of those units will actually be shipped in the second quarter of the year and the third quarter as we get. Again we're back on date in terms of supplying to our customers' expectations. We haven't been there for some time. I think the demand for big trucks in the U.S., that was very, very strong last year. And we're expecting it to sort of continue at a strong level. Maybe it's a little bit off last year's pace, but last year's pace was a record by some margin in terms of how many big trucks got sold.

Joe L. Mondillo
Analyst, Sidoti & Co. LLC
Q

Okay. I also wanted to ask on your sort of the cost/investment side of things. And I know over the last couple of years you've been certainly investing in the long-term and it seems like 2019 and this is not a huge surprise this quarter. You talked about it last quarter that investments and costs are going to rise in 2019 again. Is there any way to, I don't know quantify or help us understand to what degree those costs are rising? Are they going to rise sequentially from where they were in the first quarter? Anything that you can do to sort of help us kind of think about that?

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

Yeah. I think the best data we have out there, Joe, is in our capital expense disclosure in the Q that was issued. We don't break out the remainder of 2019 by quarter, but you will see the number and you will see that we have $76.5 million of expected CapEx and we break it down by Lift Truck, Bolzoni and Nuvera, so you can see that detail as well.

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

And then...

Joe L. Mondillo
Analyst, Sidoti & Co. LLC
Q

Okay. And what...

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

...there are SG&A expenses associated with accomplishing what those capital expenditures are for. And that whole process is continuing to go on. And I think what we said is we expect additional costs in 2019 and then we expect them to stabilize in 2020. So I think that's really the best way to think about it, is that we're putting in place broadly all the capabilities and that we need to have out there. So that is sort of the one-time set of programs if you will or the level of them any way that is associated with the new products that we're going to be introducing particularly beginning in 2020. And that's the major program and that's what most of the capital expenditures are associated with. And there's a great deal of expenses associated with those programs right at this point.

Then secondly we've also called out the fact that we've strengthened our own coverage capabilities to supplement our dealers coverage capabilities on certain kinds of accounts and reinforce that with industry strategies and a particular focus on how our products in particularly, including the new products that we have coming, can be tailored to meet the needs of those customers. And so that process could be pretty much completed this year and in 2020, we'll be running at that level.

Joe L. Mondillo
Analyst, Sidoti & Co. LLC

Q

Okay. So then your CapEx is assuming that there's a pretty significant increase in CapEx for the remainder of the year – is it fair to assume that SG&A will ramp up sequentially as CapEx does as well?

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

A

Well we've been putting this in place over the course of the last couple of years, so it'll probably begin to moderate in the second half of the year. We do have some product development activity increasing in the course of 2020 that's associated with the product development, because those products are being launched in the course of 2020 and 2021. So they'll be some increases there, but the SG&A will be pretty much. The regular sales and marketing costs will be pretty much this year.

Joe L. Mondillo
Analyst, Sidoti & Co. LLC

Q

Okay. And then I have a couple of questions on Nuvera. Wondering when does BBR revenue fully move over to Hyster-Yale Group. And then also in terms of the backlog at Nuvera that you have right now with those third-party – those two third-party agreements. Could you help us understand sort of the cadence and how that backlog flows over the next two or three years? And not necessarily looking for any quantified numbers, but without any other orders beyond that, I'm just wondering what the timing of this is and over what period?

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

A

While I think that there are so many factors that are at work at Nuvera that's sort of separating out any one is makes it more complicated and rather than less to understand the situation in terms of the financial outcome. I think what we said was that we're going to be – what Christy outlined in her remarks was that, for the next couple of quarters, we're going to continue to see significant investments, but we were a little bit lower in the first quarter than we were in the first quarter of 2018.

And then in the fourth quarter, it's hard to pinpoint exactly what's going to happen say in the fourth quarter versus the first quarter of next year because there are a lot of moving parts here. But we see significantly improved profitability in – our reduced losses in the fourth quarter. And then as we've indicated, our objective is to have a breakeven year in the course of 2020.

And I think those are the key factors that you should keep in mind because they involve our point of view with regard to the product development agreements that we're doing to different kinds of sales to different types of customers, including both the BBR customers, but also other customers for heavier duty type applications. They include significant cost reduction. They include significant improvements in the warranty expense associated with our products as we fully commercialize them. So there are a whole series of things that are coming together and over the course of this year and particularly in the fourth quarter and in 2020. And that's the way I'd really think about it.

Joe L. Mondillo
Analyst, Sidoti & Co. LLC

Q

Okay. And what is the risk, I guess, one of the reasons why I'm asking about the timing of the backlog, I'm just wondering what the risk is of us seeing this big couple of orders or a couple of agreements that you have...

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

A

Let's talk about – you talk about a big couple of orders, we need to be clear with you about that. We don't have a couple of big orders. Those are contracts for development of products and then subsequent sale of products. So they're not exactly dependent on sales in the time periods that we're talking about here. They are actually developing products that will be sold into different markets and we're being paid for that work, because the purchasers believe that the technology that we have in Nuvera is a superior technology, one that is particularly suited to the types of applications that those customers have.

And so I don't think that thinking of them as big contracts are – is the right way to do it, their development contracts with follow-on production. On the other hand, the BBR business, we do expect to contribute and we see the opportunity in the sales efforts that we're making to have the sort of numbers of trucks booked and sold that will accomplish the objectives that I just outlined.

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

A

Hey, Joe...

Joe L. Mondillo
Analyst, Sidoti & Co. LLC

Q

Okay.

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

A

... I mean it really is just reflective of our strategy, where Nuvera is morphing into a fuel-cell engine company both from a contract development perspective with third parties as well as the producer of fuel-cell stacks and engines. We will become – from the lift truck company's perspective, we will become a customer of Nuvera and so there still will be sales to Hyster-Yale Group before those components that will become part of BBRs that Hyster-Yale Group will sell into the market.

Joe L. Mondillo
Analyst, Sidoti & Co. LLC

Q

Right. Yeah, I understand that, that's why asked initially.

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

A

[indiscernible] (00:37:25) the point that Ken just made because the only sale that I think Christy noted that by mid-year, we expect all of the production of the battery box replacement systems to be up and operating in Greenville. And at that point, Nuvera will no longer be in the business of manufacturing BBRs. They will be manufacturing only fuel cells and fuel cell engines. They will sell a fuel cell engine to Hyster-Yale Group. Hyster-Yale Group will then turn that fuel-cell engine into a battery box replacement or other forms of fuel-cell engines for forklifts and then it's up to Hyster-Yale to carry out the selling service and support of those BBRs in the field just like we do on any other engine.

Joe L. Mondillo
Analyst, Sidoti & Co. LLC

Q

Okay. Just one last follow-up question and I'll hop in queue if there's anyone that wants to ask any other questions. The Nuvera fuel-cell engine business just to – so I understand because I think it's important in terms of these third-party agreements. Is there a risk that they're paying you right now in your terms to design and produce these engines that can work with their products? Is there a risk that there is not as much follow-on revenue that maybe you anticipate in 2020 or beyond?

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

A

Well, I suppose there's a – from an intellectual point of view, there's always a risk, but I think there's sort of two comments. One, and one of these contracts, there are commitments to certain levels of volume and an underpinning in those contracts which means that very substantial revenue should be generated. And the other one, the real production is a bit outside the periods that we're talking about here and comes into play later. And it's sort of development and [ph] quasi (00:39:54) development for the other contract and I think that's the best way to think about all this.

So we don't see at this point huge risk in that area if we have any concern about the volumes, it's our – making sure that we have the ability to have be able to manufacture them, to have the supply base, to support the manufacturing at the levels that we have contracts for and that's what we're really intensely focused on at this time.

Joe L. Mondillo
Analyst, Sidoti & Co. LLC

Q

Okay. Well thank you. I apologize if my questions were a little not as clear just trying to understand the business as much as possible. Thanks.

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

A

That's fine. Thanks.

Operator: There are no further questions at this time. Ms. Christy Kmetko, I turn the call back over to you.

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

Joe, did you have other questions you wanted to ask? Okay.

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

Let me just make a couple of concluding comments. I hope that all of you on the call have read the second part of our earnings release which we've called the Investor perspective. And we've done that because we wanted to distinguish it between an outlook, which is very much focused on 2019 and really focused on the fact that we are making a lot of capital expenditure investment and a lot of expense investment right at the moment. And we see increasing payoff from those in 2020 and 2021 and 2022, and really having many of these programs coming together with reinforcing impact.

Now as you'll remember, we had an Investor perspective on our fourth quarter earnings release. And so, there are some adjustments. There are no radically different changes. I would just point out what those were, the more significant ones because there are many that in our words, it weren't particularly material that we felt just with better language or conveyed what we wanted to say more thoughtfully.

I think we did say that, well we continue to shoot for breakeven in the fourth quarter at Nuvera that we now think that we won't get all the way there. We'll be in a position of being significantly improved in having a lower loss. And so that's a bit of a change. The second point that I would call out to you is that at Bolzoni, we have some one-time restructuring charges that were incurred in the first quarter. There'll be some additional ones, but I think it's very important to look at that in a highly positive sense because we have made the decision to put Sulligent in the hands of Bolzoni as a component manufacturing plants where we make our cylinders and a variety of other things.

And Bolzoni will be taking responsibility. It has taken responsibility for that plant and is moving and closing the Homewood plant which as you can imagine leads us to some significant cost reductions in total because we're taking a plant out of the system. At the same time, we've also given Bolzoni a responsibility to begin to think about selling components as they do with their attachments like cylinders to other participants in both the forklift truck business and other industries. So on the one hand, there is a charge, but also there is a formalization of a very important project that's going to build the value for the company and I'd call that out for you.

I'd call out the decision by the U.S. trade representative with regard to the exclusion request that we had for certain duties, that granting of an exemption for us is a new development that was not in the Investor perspective. And it's a very focused exemption and we'll be analyzing just how it affects us over the next month or so, but it's a significant issue.

And then we've already commented the other thing I'd call out is that we do have language about the market levels. And that while on the one hand, we're comfortable with the current market levels so we're going to be watching very closely to see exactly how the market will evolve, but at the current time, our thinking is that we still are going to be in a strong market, but not quite as buoyant as it had previously been. So all of those are sort of adjustments to our Investor perspective. But in total, they don't change the fundamental story, which is one of a large number of programs beginning that we've been working on for several years, beginning to come together with an influence on the bottom line toward the end of this year and then into next year in all three of our businesses, and further in a significant way in 2022 and 2023.

So, I think I'd close with that overview on the Investor perspective and what's changed. And generally speaking, I think they are adjustments to the perspective not a fundamental change to the perspective that we laid out at our fourth quarter earnings announcement. I would ask if Ken or Colin want to add anything. And in concluding, those would be my thoughts anyway. Christy, anything else from you?

Christina Kmetko

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

No, just that if you do have any follow-up questions, my phone number is in the earnings release and I would be happy to follow-up with you. Thanks so much for joining us and have a good day.

Operator: Thank you for participating in today's Hyster-Yale Q1 2019 earnings conference call. This call will be available for replay beginning at 2:00 Eastern through today, through 11:59 Eastern on May 8, 2019. The passcode for the replay is 9773727. Again, the passcode for the replay is 977372 7. The number to dial for the replay is 1855-859-2056. This concludes today's conference call. You may now disconnect.