Hyster-Yale Materials Handling, Inc.

Hyster-Yale Materials Handling, Inc.	HY	Q3 2023 Earnings Call	Nov. 1, 2023
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PARTICIPANTS

Corporate Participants

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

MANAGEMENT DISCUSSION SECTION

Operator: Good morning. My name is Rob and I will be your conference operator today. At this time, I would like to welcome everyone to the Hyster-Yale Materials Handling Third Quarter 2023 Earnings Conference Call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question-and-answer session. [Operator Instructions] Thank you. Christina Kmetko, Investor Relations, you may begin your conference.

Christina Kmetko, Investor Relations & Media Contact, Hyster-Yale Materials Handling, Inc.

Thank you. Good morning, everyone. And thank you for joining us for Hyster-Yale's 2023 third quarter earnings call. I'm Christina Kmetko. And I'm responsible for Investor Relations. Yesterday evening, we published our third quarter 2023 results and filed our 10-Q, both of which are available on our website. We are recording this webcast. The webcast will be on our website later this afternoon and available for approximately 12 months.

I'd like to remind you that our comments today, including answers to any questions, will include statements related to expected future results of the company and are therefore forward-looking statements. Our actual results may differ materially from our forward-looking statements due to a wide range of risks and uncertainties that are described in our earnings release 10-Q and other SEC filings. We may not update these forward-looking statements until our next quarterly earnings conference call.

With me today are Al Rankin, Executive Chairman; Rajiv Prasad, President and Chief Executive Officer; and Scott Minder, our Senior Vice President, Chief Financial Officer, and Treasurer.

With the formalities out of the way, I'll turn the call over to Rajiv to give his perspective on our strong third quarter results and the global lift truck markets.

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

Thanks, Christy. And good morning, everyone. I'm pleased to report that Hyster-Yale had another strong quarter with significant year-over-year revenue and earnings growth. We're continuing to gain momentum as supply chains improve and we're benefiting from actions we've taken over the past several years to drive growth and sustainable profitability. In the third quarter, consolidated revenues grew by 19% or $161 million to just over $1 billion. Our operating profit improved by almost $84 million from prior year loss. These results exceeded our expectations for several reasons. First, product margins expanded faster due largely to lower than anticipated material cost. Second, we sold more high-margin aftermarket parts and we had lower operating expenses than forecasted. On a global basis, our third quarter shipment increased by 5% over prior year. This was driven by a 23% increase in the Americas, where regional supply chains have significantly improved. Shipments declined in EMEA as production rates were hampered by new product launch issues and a handful of critical component shortages, particularly at our Nijmegen lift truck facility. Shipments were lower in JAPIC as a portion of their product coming from EMEA were negatively impacted by production challenges. We continue to experience skill labor shortages in many of our factories. This contributed to planned production and shipment rate constraints in the quarter.

In the fourth quarter of 2023, we are planning to increase production rates and expect Americas shipment to increase moderately. These high shipments would likely be more than offset by fewer EMEA shipments, while we continue to resolve new product launch issues during the quarter. As a result, we expect a modest decrease in consolidated fourth quarter shipments compared with prior year. In 2024, production and shipment rates are expected to improve in all regions compared with 2023 as component constraints further dissipate and we have a smoother production cadence on our new products.

Now, I'll move to discussing global market order activity. The latest publicly available lift truck market data shows that second quarter 2023 booking activity decreased compared with robust prior-year levels. Decreases occurred in all major geographies except China. Our internal estimates suggest that third quarter 2023 global lift truck market bookings also decreased compared with prior year. We believe that rate of decline slowed in Europe but increased in the Americas. The year-over-year decline in global market bookings is expected to continue into the fourth quarter of 2023. With this fourth quarter decline, the full year 2023 market is estimated to experience double-digit decrease from robust 2022 levels. In 2024, the global lift truck market is forecasted to be comparable to 2023 levels. A first half market bookings decline should be offset by a second half increase.

Despite the year-over-year unit decline, 2024 market volume should compare favorably to pre-pandemic levels in most regions. In line with the broader market, our Lift Truck third quarter bookings decreased compared to second quarter and prior-year levels. Our continued focus on booking orders with strong margins added to the market-related decrease. As our strategic initiatives continue to mature, we increased our Americas market share over both the second quarter and prior year despite the forecasted market decline. Fourth quarter 2023 bookings are projected to increase modestly year-over-year due to ongoing market share gains. We expect full year 2024 bookings to increase year-over-year after a market-linked decline in the [ph] third (06:33) quarter. Continued market share gains within the year and overall flat global market are driving this improvement.

With the combination of the increased production and lower bookings during the third quarter, we reduced our extended backlog by 8% from second quarter 2023 and by 22% compared to prior year. Our backlog is now at its lowest level since the [ph] first (07:01) quarter of 2021. Planned production increases in the 2023 fourth quarter and 2024, combined with anticipated market decline to the first half of 2024, should enable further reductions to our extended lead times and backlog levels. This will ultimately help us return to pre-pandemic levels over time.

Given current expectations, our lead times and backlog levels will likely remain above optimal levels for much of 2024 on certain product lines, although some product lines, such as our warehouse trucks, are expected to return to more normal lead times and backlog levels within the next year. At the end of the third quarter, our backlog value was $3.5 billion. This represents almost a full year of revenue and should serve as an initial shock absorber for the business if bookings decline more than anticipated.

As we said in the second quarter, we have largely worked through the lower priced [ph] aged (08:11) backlog unit. We're now building and shipping units that are appropriately priced for the current material cost. As a result, the trend towards higher average unit prices and margins in our backlog continued in the third quarter, largely due to benefits from prior-year pricing initiatives to offset inflation. Our average sale price per backlog unit increased 21% over the prior year and 7% over the second quarter.

Third quarter 2023 average booking prices were flat compared with second quarter 2023 and declined modestly versus prior year. The latter was largely due to product mix, specifically a higher percentage of lower priced warehouse truck orders. We'll work to balance our pricing and booking rates based on production lead times on a line-by-line basis, all to maximize profitable growth and free cash flow over time.

Material costs generally stabilized. Going forward for both fourth quarter 2023 and full year 2024, nominal inflationary increases are expected, particularly for labor costs. We expect to maintain our strong price to cost ratio as we ship our higher priced backlog. Overall, we believe our average unit margins will improve in the fourth quarter of 2023 over the prior year and remain at sound levels throughout 2024. Anticipated increases in labor and overhead costs are projected to erode the favorable price to cost ratio over the course of 2024. This is expected to result in modestly lower gross margins compared with 2023. We continue to monitor labor and material costs closely as well as the impact of tariffs and competition and will adjust forward pricing accordingly.

Before I turn the call over to Scott, I'll comment on our working capital levels and cash flow. We continue to focus on reducing working capital, especially our inventory levels. We made more progress during the quarter, but inventory levels remain higher than we would like, largely due to the production challenges I mentioned earlier. We'll continue to focus on ensuring an efficient and consistent flow of materials so we can build more units while optimizing our on-hand inventory. These actions should lead to a reduction in overall raw material inventory.

Intermittent supply and labor constraints [indiscernible] (10:59) isolated production shortfalls and increased inventory, but we have made significant progress in reducing these issues. We expect continued improvement in fourth quarter of 2023 and throughout 2024.

We're also working closely with our dealer partners to balance order and delivery timing with their customers' needs. We're committed to increasing our cash flow and deploying it accretively over time.

It's important to me. It's important to our board, and is a primary focus of our CFO. Over to you, Scott.

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

Thanks, Rajiv. As you just heard, our positive year-over-year revenue and earnings growth trends continued in the third quarter. The business generated significantly improved financial results that were ahead of our expectations. Once again, quarterly revenues topped $1 billion, increasing 19% or 106 [indiscernible] (11:57) year. Revenue growth was led by a 19% increase in our Lift Truck Business, which significantly outpaced the 5% shipment growth rate over the same period. This difference was largely due to a parts volume increase and the benefit from prior price increases in all regions. Favorable sales mix toward higher priced, higher capacity trucks and foreign currency benefits added to the top line growth.

Shipments in the EMEA and JAPIC regions were lower. Our manufacturing and supply chain teams continued their work on increasing production rates and unit shipments. We shipped 25,700 units in the third quarter, increasing by 5% compared to prior year, but declining sequentially. This quarter-over-quarter decrease was in line with expectations due to seasonal plant shutdowns in Q3. Third quarter unit bookings were 18,200, decreasing 12% year-over-year and 15% sequentially. These declines resulted from slowing, but healthy markets in our major geographies. As a result of the higher production rates and lower bookings, our backlog declined to 85,300 units. This favorable decrease improves lead times on some of our product lines. As Rajiv noted earlier, lead times are still long, with some extending beyond 12 months.

Moving to earnings, we reported consolidated operating profit of nearly $59 million, representing a 5.9% margin in the third quarter. This was an improvement of almost $84 million compared to a 2022 loss. Our substantial year-over-year operating profit improvement outpaced revenue growth for the quarter, resulting in a 52% incremental margin. Q3 net income was $36 million or $2.06 per share. This compares to a prior-year net loss. Over the past 12 months, our team has worked hard to overcome the significant headwinds from the pandemic periods. We've generated net income of $108 million over four straight profitable quarters to a level not achieved since 2014. What a difference a year can make.

Now, I'll cover our individual business results for some additional color. First, the Lift Truck Business generated operating profit of $65 million, marking an $80 million improvement over our third quarter 2022 loss. Significant product margin increases across all geographies, along with favorable currency movements were the principal drivers. Product margins increased for several reasons. First, improving supply chains, especially in the Americas, allowed for higher production rates of units priced above prior-year levels. Second, material cost decreased versus prior year led by the Americas. And finally, we saw a favorable mix shift toward higher margin products in all regions, as well as a shift to higher margin sales channels.

Lift Truck profit growth was partly tempered by higher employee-related product liability and warranty expenses. Despite overhead cost increases in the third quarter, we remain vigilant over our costs and continue to seek more efficient ways to leverage our assets as the business grows.

Turning to Bolzoni, we reported a 13% revenue increase while operating profit improved to a $2.9 million versus a prior-year loss. Higher revenue and operating profit were a result of increased sales volumes and a significantly improved price-to-cost ratio. Manufacturing efficiencies from higher volumes were partly offset by a mix shift to lower priced, lower margin products and higher employee-related expenses.

At Nuvera, third quarter revenues increased versus prior year due to a shipment of 12 engines required for a hydrogen bus fleet buildout. This growth was partly offset by lower aftermarket component in engine sales to the Lift Truck Business. While revenues improved, Nuvera's operating loss increased modestly year-over-year, mainly due to increased development costs for new products and higher employee-related costs.

Looking ahead to the fourth quarter, we expect our higher margin backlog to support increased Lift Truck revenues over the prior year. We anticipate this increase to drive a fourth quarter operating profit improvement compared to 2022's profitable fourth quarter. Sequentially, we expect fourth quarter profits to decrease somewhat from strong third quarter levels due to an anticipated mix shift toward lower margin sales channels, along with higher manufacturing and operating costs.

Operating expenses as a percent of sales should hold steady with the third quarter's rate. In 2024, we expect Lift Truck operating profit to be similar to 2023, with unit margins continuing at healthy levels.

Moving to Bolzoni, we anticipate fourth quarter operating profit to increase over the prior year's fourth quarter due to ongoing cost discipline. Fourth quarter operating profit should be comparable to the third quarter's level. In 2024, Bolzoni expects operating profit to increase year-over-year, with improved unit margins more than offsetting higher costs.

Finally, Nuvera is focused on increasing product demonstrations and bookings in future periods. As they continue to expand their global presence, recurring orders from current customers are expected to result in higher fourth quarter and full year 2024 sales compared with prior-year periods. The business anticipates its fourth quarter loss to narrow compared with prior year, largely due to higher expected shipments and the anticipated receipt of government funding for fuel cell research and development. In 2024, Nuvera's higher expected sales coupled with moderately higher development costs should produce operating results comparable to 2023. Longer term, increasing engine demonstrations will significantly strengthen the foundation for future fuel cell engine technology adoption and improved financial returns.

At the consolidated level, we expect fourth quarter operating profit and net income to improve significantly compared to a profitable fourth quarter 2022, but be below third quarter 2023 levels. For full year 2024, we expect profitability levels similar to 2023. We've made substantial progress toward our long term goals of a 7% operating profit margin and a greater than 20% return on total capital employed, or ROTCE, at the combined Lift Truck and Bolzoni businesses. In fact, the Lift Truck Business exceeded 20% ROTCE for the 12 months ended on September 30. While market uncertainties remain, we expect to make further progress in 2024 on our financial goals and look to sustain the business at these levels moving forward.

Moving from returns to cash flow, we made progress during the quarter on improving working capital efficiency and cash generation. During the third quarter, we reduced our net debt by $44 million compared to June 30. This was largely due to working capital improvements. As a result, our cash balance increased to $78 million. We ended the third quarter with approximately $254 million of unused borrowing capacity, compared with $216 million on June 30. As a result of the improved profitability and lower debt balances, our financial leverage as measured by debt to total capital was 61% improving sequentially by 300 basis points. As we continue to improve free cash generation, we expect further financial leverage reductions.

Third quarter 2023 total inventory and days inventory outstanding decreased modestly from the second quarter but remained above our desired levels. Finished goods inventory decreased as we cleared units left in shipping at the end of the second quarter. Conversely, raw materials inventory increased primarily due to EMEA production challenges. We remain focused on further efficiency gains, reducing inventory days on hand as our production rates continue to rise. We're deploying technology tools to help maximize the use of on-hand inventory, ultimately reducing excess inventory levels over time. While supply and labor constraints can cause intermittent problems, we anticipate continued inventory improvements in the fourth quarter and more significantly in 2024.

We generated cash flow before financing activities of $52 million in the third quarter, bringing our 2023 year-to-date total to $85 million. This is a significant improvement over the $7 million generated for the same nine-month period in 2022. Third quarter capital expenditures were $9 million and totaled $19 million through September 30. We've maintained capital discipline this year due to ongoing economic uncertainty. As a result, we're lowering full year 2023 CapEx estimates to $42 million. That's $23 million below the initial forecast of $65 million. We expect to generate additional cash in the fourth quarter and make further progress in this area in 2024.

As our cash flow improves, we'll deploy these resources accretively to reduce debt and to make additional strategic growth and efficiency investments. We're making solid progress on our objectives and our financial results clearly demonstrate it. We'll continue to focus on things that we can control and leverage our [ph] process discipline (22:07) to effectively work through things that are outside of our control.

Now, I'll turn the call back to Rajiv to discuss progress on our core strategies and programs. Rajiv?

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

Thanks. Both Scott and I mentioned that we've generated significant cash flow before financing activities today. We expect to generate additional cash in the fourth quarter and make further progress in this area in 2024. As our cash flow improves, we'll deploy these resources accretively to reduce debt levels and make additional investments in our strategic growth and efficiency programs. Investing in and executing our core strategies remains a top priority for driving our long-term profitable growth.

Hyster-Yale's strategies remain generally consistent with [ph] past descriptions (23:00), but I will provide a few key updates for each business. The Lift Truck Business' primary strategic focus remains on launching its modular and scalable products globally. They're also working on several other key projects to increase and enhance lift truck electrification, increase the adoption rate for our advanced lift truck technologies, transform our sales process using an industry-focused approach to better meet our customer needs, and to augment further our independent dealer capabilities.

We're making solid progress on each of these programs. Over the past two years, we have launched our modular, scalable 2-ton to 3.5-ton internal combustion engine lift trucks in the EMEA and Americas markets. This production ramp is occurring gradually given our current extended backlogs. Customer feedback to-date has been strong and bookings and shipments accelerated in 2023. We expect to launch these products in the JAPIC market during the fourth quarter.

We're making similar enhancements to the 2-ton to 3.5-ton electric truck platforms and expect these products to launch beginning later in 2024. The modular, scalable product platform is expected to enhance the business in several ways. First, by reducing costs and working capital levels as our supply chain move closer to our flagship factories. Second, by helping to optimize our manufacturing footprint in each region. And increasing revenues by providing customers with a more customizable product that better meets their needs.

We recently increased the number of electrified big trucks in third-party testing. During the third quarter, we delivered an electrified fuel cell Reach Stacker to the Port of Valencia in Spain. This joins the electrified fuel cell Container Handler currently operating at the Port of Los Angeles. We anticipate delivering two new electrified fuel cell products, a Terminal Tractor and an Empty Container Handler to a customer in Hamburg, Germany, in the first half of 2024. Our big truck group is also actively exploring additional electrification projects within the European Union and the US.

Finally, the Lift Truck Business has key projects focused on applying ongoing technology advancements to its operator assist system and automated lift truck solutions. During the third quarter, we entered into a joint development agreement with a leading technology service provider to advance our robotics software technology for vehicle automation.

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

Nuvera remains focused on placing 45-kilowatt and 60-kilowatt fuel cell engines into heavy-duty vehicle applications, where battery-only electrification does not provide an adequate solution.

These applications should offer significant and more near-term fuel cell adoption potentials. Nuvera is also developing a larger 125-kilowatt fuel cell engine for even heavier duty applications, which is projected to be available in 2025.

Nuvera has announced several projects with various third-parties to test Nuvera engines in targeted applications beyond the [ph] Hyster board (27:16) equipment I covered earlier. Nuvera expects to have additional products in test application in China and India, and marine application in the Netherlands and in a German port by mid-2024. Additionally, Nuvera plans to launch modular fuel cell-operated power generators for stationary and mobile applications. These initiatives are a top priority and I'm pleased with the progress we've made so far.

Now, I'll turn the call over to Al for closing remarks. Al?

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

Thanks, Rajiv. In closing, I'd like to note that demand for our products is robust and we're investing in new products that we expect to drive profitable growth. Our strong 2023 results are due to the ongoing implementation of key strategies, the cost structure enhancements made since the pandemic began, and the significant manufacturing, marketing, IT, and other process improvements made in the past few years. All of these actions, which we've covered in more detail earlier, better position our company for substantial profitable growth over the longer term. Our more mature Lift Truck and Bolzoni businesses are the foundation for this improvement, while the Nuvera Fuel Cell business' substantial growth prospects are yet to be realized in the future.

I want to emphasize a point that Scott made earlier. We've now had profitable results for the last four quarters. The team has done an outstanding job. The foundation for sustainable and significant profitability over the long term has been put in place. We have the right team and the right structure to execute our key strategic programs to sustain strong performance over time and to achieve our long-term goals. I also want to note that we will be hosting an in-person Investor Day in New York City on Thursday, November 16. Rajiv, Scott, and I will be there, as will our Hyster Group Chief Operating Officer, our Hyster-Yale Group Emerging Technology Business Leader, and the heads of our Bolzoni and Nuvera businesses. We'll provide more detail on our strategic plans and programs at that time and how they will position us for further success. If you're interested in attending, please be in touch with Christy.

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

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] And there are no questions today. I will turn the call back over to Christina Kmetko for some final remarks.

Christina Kmetko, Investor Relations & Media Contact, Hyster-Yale Materials Handling, Inc.

Okay. Thank you. We'll close with a few final reminders. As Al mentioned, our Investor Day is on November 16, just a couple of weeks away. If you're interested in attending, please reach out to me today so we can get your name on our final participant list. We'll be webcasting only the audio and slide for this event. 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 release. I hope you enjoy the rest of your day and I'll now turn the call back to Rob to conclude the call.

Operator: This call will be available for replay beginning today in approximately two hours after the completion and will run through until Wednesday, November 8, 2023, at 11:59 PM Eastern Time. The number to access the replay is 800-770-2030 or 647-362-9199. The conference ID number to access the replay is 82174. That will conclude today's conference call today. Thank you all for joining. You may now disconnect.