THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

HY - Q1 2015 Hyster-Yale Materials Handling Inc Earnings Conference Call

EVENT DATE/TIME: APRIL 30, 2015 / 3:00PM GMT

THOMSON REUTERS

CORPORATE PARTICIPANTS

Christina Kmetko *Hyster-Yale Materials Handling, Inc. - IR Consultant*

Ken Schilling *Hyster-Yale Materials Handling, Inc. - SVP, CFO*

Al Rankin *Hyster-Yale Materials Handling, Inc. - Chairman, President, CEO*

Colin Wilson *NACCO Materials Handling Group, Inc. - President, CEO*

CONFERENCE CALL PARTICIPANTS

Leigh Pressman *Global Hunter Securities - Analyst*

Mig Dobre *Robert W. Baird & Company - Analyst*

Joe Mondillo *Sidoti & Company - Analyst*

Kai Mueller *Berenberg Bank - Analyst*

PRESENTATION

Operator

Good day, ladies and gentlemen. Welcome to the Hyster-Yale Materials Handling, Inc., 2015 first-quarter earnings conference call. (Operator Instructions) As a reminder, this conference call is being recorded.

I would now like to introduce your host for today's conference, Christina Kmetko of Investor Relations. Please go ahead.

Christina Kmetko - *Hyster-Yale Materials Handling, Inc. - IR Consultant*

Good morning, everyone, and welcome to our 2015 first-quarter earnings call. I am Christina Kmetko, and I am responsible for Investor Relations at Hyster-Yale. Joining me on today's call our Al Rankin, Chairman, President, and Chief Executive Officer of Hyster-Yale Materials Handling; Colin Wilson, President and Chief Executive Officer of NACCO Materials Handling Group; and Ken Schilling, our Senior Vice President and Chief Financial Officer.

Yesterday we published our first-quarter 2015 results and filed our first-quarter 10-Q for the three months ended March 31, 2015. Copies of the earnings release and 10-Q are available on our website at Hyster-Yale.com. For anyone who is not able to listen to today's entire call, an archived version of this webcast will be on our website later this afternoon and available for approximately 12 months.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 earnings conference call, if at all. Additional information regarding these risks and uncertainties is 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.

Now for our consolidated quarterly results. Our consolidated first-quarter 2015 revenues were down 7.9% to $622.3 million from $676 million the prior year, and our net income decreased to $13.9 million or $0.85 per diluted share, from $22.1 million or $1.31 per diluted share a year ago, broadly in line with our expectations and as we previously indicated. Included in these results is a full quarter of our recent acquisition, Nuvera, which we acquired in December 2014. I will discuss the lift truck business and Nuvera as two separate segments, starting with our lift truck business.

The lift truck business's revenues were $621.1 million, and net income was $17.5 million for the first quarter of 2015, compared with revenues of $676 million and net income of $22.1 million in the first quarter of 2014. Operating profit was $27 million in 2015 compared with $31.6 million last year.

Our lift truck revenues were significantly reduced by unfavorable foreign currency movement, again as was expected coming into 2015. In fact currency, a $33.2 million detriment to revenue, was a major driver of our revenue decline. As we expected, the transition to the new plant in Brazil was the driver of our decline in shipments and the second largest factor in our decrease in revenues.

In the first quarter of 2015, worldwide new unit shipments decreased to 19,859 units from 20,641 units in the first quarter of 2014. Excluding Brazil, shipments were slightly higher than a year ago as a result of an increase in shipments in both North America and Europe.

Mix did not affect us as much this quarter. Overall, we shipped on average lower-priced units in the Americas, but that was partially offset by shipments of on average higher-priced units in Europe.

We have stated that our goal is to get to 115,000 units over the next three years. To help better understand how we are progressing toward this goal, we begun providing Hyster-Yale bookings this quarter in addition to the already-reported backlog in shipments.

Our backlog increased 10% to 31,900 units over the prior-year first quarter, while our bookings increased 11% to 23,700 units. The factors affecting revenues were also the main contributors to the decrease in our gross profit by $8 million.

In addition to the planned lower production as a result of the transition to the new plant in Brazil, weather-related US plant shutdowns and higher US healthcare costs added to the unfavorable manufacturing variances during the quarter. Nonetheless, we still had a slight increase in gross margin from 16.5% in last year's first quarter to 16.7% this year, with some help from lower-than-expected material costs.

The decline in operating profit and net income was not as great as the gross profit decline due to lower selling, general, and administrative expenses. Again foreign currency had an impact, reducing SG&A by $2.6 million.

We also had generally lower employee-related costs compared with the 2014 first quarter. However, we did incur $1 million of pretax expense in SG&A this quarter as a result of the move to the new Brazil plant.

Now let me turn to the outlook for our lift truck business. Although markets were generally stronger than we had expected in the first quarter of 2015, we still believe growth rates for the global lift truck market will decelerate in the remainder of this year, resulting in nominal growth compared with 2014.

In 2015, modest growth is expected in the Western Europe and Middle East and Africa markets. The North America, Latin America, Asia-Pacific, and China markets are expected to be relatively flat; and declines are expected in the Brazil, Eastern Europe, and Japanese markets.

Nonetheless, despite these market conditions, we expect a moderate increase in unit shipments and parts volume. The increase in unit shipments in 2015 is expected to be driven by Europe and North America, with moderate increases in Asia-Pacific. However, because of the production shutdown for the Brazil plant move in the first quarter of 2015 and Brazil's soft economy, we expect full-year 2015 unit shipments in Brazil to decline from 2014 levels.

Thanks to the currency headwinds and the substantial decline in unit volumes this quarter, we expect revenues to decline modestly in full-year 2015 compared with 2014, despite our continued execution of our strategic initiatives and anticipated market share gains. Also, as a result of these initiatives we expect revenues to be negatively affected by a shift in sales mix to, on average, lower-priced lift trucks.

Our Brazil plant has ramped up well, and we are currently running at appropriate capacity to meet current demand levels. We expect the 2015 lift truck segment operating profit to be similar to 2014, after you exclude the $17.7 million gain on the sale of the Brazil plant realized last year.

We previously projected and we continue to anticipate substantially lower operating profit in the first half of 2015, primarily because of both this quarter's lower operating profit and because of expected lower operating results in Europe in the second quarter, driven largely by currency. However, despite anticipated unfavorable currency effects, improvements are expected to occur in the second half of the year, as the new Brazil plant will be running at its normal capacity for the full period.

Overall, in 2015 we anticipate increases in unit shipments and parts sales to be offset by increases in employee-related expenses as well as higher manufacturing and operating costs associated with the transition to the new Brazil plant and the rollout of global manufacturing information technology systems in 2015.

Also, one other item to note is that the lift truck business has begun and expects to continue to incur modest incremental expense, as it adds sales and marketing capabilities to help capture the lift truck sales opportunities associated with its acquisition of Nuvera. Overall, excluding the gain on sale of the Brazil plant, we expect the lift truck business's full-year 2015 net income to decline from 2014, primarily due to the reasons previously highlighted and higher income tax expense resulting from nonrecurring tax benefits received last year and a higher effective income tax rate this year compared with 2014, attributable to an anticipated increase in the portion of our income in the Americas operations, which have a higher tax rate.

Of course, these tax rate expectations are based on what our current tax laws are today. This could always change if certain tax law extenders are reenacted.

Looking at the geographic segments within our lift truck business, we expect the Americas 2015 operating profit to be moderately higher compared with 2014, excluding the gain on sale of the Brazil facility, and despite the Brazil volume decline associated with the plant transition. The first half of the year is expected to be down compared with the same period last year, mainly as a result of the decline in the first quarter. As a result of the completed transition in Brazil and anticipated favorable foreign currency effects at current currency rates in North America, we expect improvements in operating profit in the remainder of the year.

We expect the operating profit in Europe to decrease in 2015 primarily as a result of substantial unfavorable foreign currency effects at current currency rates and pricing adjustments on certain series of trucks. This is expected, however, to be partially offset by improved volume.

Within Asia-Pacific, we expect operating results to increase, mainly from the anticipated favorable effect of improved pricing and an anticipated increase in unit volumes despite higher expenses expected for market share gain initiatives.

Finally, in spite of a significant amount of expected capital expenditures in the current year, we anticipate cash flow before financing activities in the lift truck business to improve in 2015 due to moderated working capital requirements.

Now let me provide you with some information on our Nuvera results. In the first quarter of 2015, Nuvera reported a net loss of $3.6 million and revenues of $1.2 million. As we mentioned last quarter, we do not expect to reach breakeven at Nuvera until roughly sometime in 2017.

We have now owned Nuvera for four months. We are highly encouraged by the interest we are receiving from our customers, dealers, and potential partners regarding the Nuvera products.

We continue to believe the fuel-cell market for lift trucks has significant growth opportunities, and we are working rapidly to commercialize the Nuvera technology. As a result, we expect a net loss of approximately $14 million to $17 million at Nuvera in 2015 as we focus on commercializing Nuvera's fuel-cell research and technology and integrating this technology into our lift truck product range.

Minimal incremental revenues were realized in the first quarter of 2015, and revenues are expected to be in a similar range in the second and third quarters of 2015, although this could increase as a result of additional PowerTap sales, at approximately $750,000 per unit. We expect increased incremental revenues to start being realized in the fourth quarter of 2015 as we commercialize the PowerEdge product line, which can be substituted for lead acid batteries, and introduce them to the market at an average selling price of between $17,500 and $35,000, depending on the model.

We believe our US customers will qualify for the 30% fuel-cell federal tax credit, which currently expires at the end of 2016, on these units; and this tax credit would allow the customer to enjoy a lower effective cost.

Our startup objective is to book approximately 250 PowerEdge units in 2015, largely in the fourth quarter, as well as additional PowerTap units throughout the year. However, we expect to spend cumulatively up to $40 million to $50 million of expense over 2015 in the next one to two years, including approximately $24 million to $27 million this year for additional development to commercialize Nuvera's technology and to reach breakeven during 2017.

We believe this is a highly efficient method of investing in new energy solutions for our customers. Rather than invest significant after-tax dollars in the acquisition of a new technology company, we are able to invest pretax operating expenses and realize the associated income tax benefits along with these investments.

Our projected losses for Nuvera are on a standalone basis and do not include the synergistic impact of incremental volumes in the lift truck business we expect to achieve, along with the ongoing associated aftermarket revenues for these products. In addition, we believe being able to undertake the development and integration of the fuel-cell technology to meet the rigorous needs of lift truck customers will ensure we have a best-in-class solution that will help drive volume for both Nuvera and for our lift truck business.

Overall, our consolidated business, we continue to anticipate that economic growth will improve in 2015, but are mindful of the uncertainties and risks in certain markets. Further, at this time we expect currency to be a significant headwind.

We will, however, continue to execute our key strategic initiatives. If we see more positive market momentum than we have outlined here, we believe our plants are well positioned to respond with additional volume.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Christina Kmetko - *Hyster-Yale Materials Handling, Inc. - IR Consultant*

While we're waiting for questions, let me provide you with my contact information. If you do have any questions after the call, you can reach me at 440-229-5168. Charlotte, do we have any questions?

Operator

Mike Shlisky, Global Hunter Securities.

Leigh Pressman - *Global Hunter Securities - Analyst*

Good morning. This is actually Leigh Pressman on the line for Mike. I just had a few quick questions for you.

It looks like your margins in Europe exceeded those in the Americas, and that doesn't seem to happen too often. Was there something in your European business besides mix that worked well in the quarter? Or was the Americas much slower than expected? And going forward, can we see the Americas margins improve substantially in Q2?

Ken Schilling - *Hyster-Yale Materials Handling, Inc. - SVP, CFO*

I think where we are at is you do have a mix issue in Europe and in Americas. We had a shift towards lower-price, lower-margin trucks in comparison to the prior period, so that did drive down our numbers. We do have inventory that is available to be shipped in the second quarter that wasn't recorded in the first quarter; and that will help balance out that mix in the Americas.

Al Rankin - *Hyster-Yale Materials Handling, Inc. - Chairman, President, CEO*

But you had, of course, the impact in the first quarter of Brazil, and that has a huge impact on the gross profit. So I'm not sure you can interpret those numbers in any useful way with regard to the Americas based on the kind of information which is available publicly.

The gross profit was dragged down by the loss of absorption in the Brazil new plant as we phased down the old one and began to phase up the new one. So I think -- and we had some, as far as Europe is concerned, there were some favorable results; but we've got some big currency headwinds coming up in the rest of the year.

Ken Schilling - *Hyster-Yale Materials Handling, Inc. - SVP, CFO*

Yes, the currency cover in Europe really did help hold up our European margin.

Leigh Pressman - *Global Hunter Securities - Analyst*

Okay. That makes sense. Going back to what you were saying about Brazil, I know that you are transitioning your production. Have you seen any impact from the macro or political unrest there? Or has it just been relatively smooth as far as you've seen?

Colin Wilson - *NACCO Materials Handling Group, Inc. - President, CEO*

Well, the market is softer -- this is Colin Wilson. The market is softer than it was last year. Brazilian market in the first quarter was down about 25% on the same period of last year.

Actually, the softer market helps with when you're moving into a new plant. It's enabled us to ramp up our volume in a very smooth way. Our volume now is basically at the level that we need it to be at to meet the current market conditions.

Leigh Pressman - *Global Hunter Securities - Analyst*

Okay, great. Then one last question if I could. Can you maybe update us on some pricing additions you are seeing in the market right now, maybe in the US? Are you seeing any foreign competitors trying to take advantage of the FX rate at this point?

Colin Wilson - *NACCO Materials Handling Group, Inc. - President, CEO*

Well, the biggest challenge you have coming into the US market is distribution. So the ability for foreign competitors just to turn the tap on and become more aggressive in the marketplace is very limited, because they don't have the distribution with the parts and service support.

Those foreign competitors that are here typically are manufacturing in the market of sale; they are manufacturing here. So we are basically competing with them on level playing field terms.

Al Rankin - *Hyster-Yale Materials Handling, Inc. - Chairman, President, CEO*

Yes, I think it's probably fair to say that Toyota has somewhat more Japanese currency content in their trucks than we do. We have a very broad basket of currencies.

On the other hand, we probably have more Chinese content and other low-cost country content in our trucks than they do. So I think it's very difficult to say.

I guess I would say -- Colin, you speak up on this -- Toyota is very aggressive and it's a very competitive market out there. On the other hand, our focus with our share gain programs is not on taking volume through price; it's on meeting customers' needs more effectively than our competitors do and providing the kinds of support capabilities, in addition to product capabilities, that will really solve -- provide solutions for them. So I think that's the way we would probably answer your question.

Colin Wilson - *NACCO Materials Handling Group, Inc. - President, CEO*

Yes. And we do; we import a lot of our bigger units from Europe, so we are getting the help of the tailwind on currency with the product that we import. So we import a lot more than we export.

Leigh Pressman - *Global Hunter Securities - Analyst*

Okay, great. I will leave it there. Thanks, guys.

Operator

Mig Dobre, Robert Baird.

Mig Dobre - *Robert W. Baird & Company - Analyst*

Good morning, everyone. Just tagging on to one of the questions that was asked, in terms of the EMEA margin, it did surprise me as well. It looked really good; and frankly, I was thinking that currency would be a bit of a problem.

It turned out to be a bit of a benefit to you, from what I've heard. I'm trying to better understand that.

Al Rankin - *Hyster-Yale Materials Handling, Inc. - Chairman, President, CEO*

Again, understand we hedge currencies, and then hedges eventually run out. So that's probably the most important thing to think about in terms of the results.

And the way we hedge currencies is not on a global net basis. We hedge currencies basically in each market of sale to try to protect our competitive position in that particular market.

So, for example, if Big Trucks are being sold in Europe, hedging would be designed to protect their competitive position in Europe, and at that point they would not be hedging the dollar. On the other hand, if we are bringing those trucks into the United States, we would be hedging the strong dollar now to protect the ability to buy at a low price. So -- whereas any components that are dollar-based we wouldn't be hedging with such a strong dollar.

So those can cause some real fluctuations. And I would simply add that the distortion is going to increase as the rest of the year goes on.

Basically if you look at the balance of currencies, as we suggested in our earnings release, the Americas will benefit and Europe will have a significant detriment. So it's going to be very difficult to look individually at these different areas of the country as -- or different areas of the world as these currencies fluctuate.

Ken Schilling - *Hyster-Yale Materials Handling, Inc. - SVP, CFO*

Yes. And Mig, I think what you are seeing also is that our top-line euro sales number is getting translated into US dollars; but below the line, where we have our hedges, they are going to affect op profit. So if you are looking at the margin percent, the top line is getting reduced because of currency, but the operating profit line is really being held up from the contracts.

And as Al pointed out, we have heavy cover for the close-in quarter, but that cover rolls off as we go through the year.

Al Rankin - *Hyster-Yale Materials Handling, Inc. - Chairman, President, CEO*

Now we can't, of course -- and we are very clear on this in our earnings release -- we can't forecast what the currency rates are going to be. What we make our comments based on, and I would emphasize this point, is the currency rates that existed as of the last day of the first quarter.

Our convention is that we don't forecast currencies. We pick whatever the currency rate is at the end of the period as we prepare our next forecast, as our mechanism for looking into the future.

And then, of course, some is hedged and some is not. So all of those factors are moving parts, and it's going to be a tough period to try to get a clear understanding because the currencies are moving, as you well know.

Mig Dobre - *Robert W. Baird & Company - Analyst*

Right, right. Well, and this adds, I think, some variability to modeling and to expectations that I'm trying to think through, which is why I am asking the question. If you do have some hedges but some of them are rolling off, the cadence here -- is it fair to expect that, call it, second-quarter EMEA margins are going to be better than, like, third- or fourth-quarter EMEA margins? Just based on this currency issue, assuming constant dollar.

Al Rankin - *Hyster-Yale Materials Handling, Inc. - Chairman, President, CEO*

I think you're going to see margins deteriorating over the course of the year in Europe, and improving over the course of the year from -- at least insofar as currency effects are concerned -- in the Americas.

Mig Dobre - *Robert W. Baird & Company - Analyst*

All right, that's helpful. I appreciate that.

Then in terms of Nuvera, can you give us some color on the number of units embedded in your outlook, in your breakeven outlook to -- or rather I should say target for 2017? I appreciate the color on PowerEdge versus PowerTap and some of the pricing and so on. But what kind of units are you implicitly aiming for over the next few years?

Al Rankin - *Hyster-Yale Materials Handling, Inc. - Chairman, President, CEO*

I think at the right time we will probably begin to give some information on that, but we don't feel that the right time is here yet for us to do that. We've got a lot of activities underway in Nuvera in terms of commercializing the product in a proper way.

However, we tried to give you some basic understanding of the value of each of the units of the fuel-cell product. And you know the running rate of the --

---

Ken Schilling - *Hyster-Yale Materials Handling, Inc. - SVP, CFO*

SG&A.

Al Rankin - *Hyster-Yale Materials Handling, Inc. - Chairman, President, CEO*

-- of the SG&A and the development expense. If you think through some sort of margin structure and some sort of total volume, given the prices that we've given you, the average prices, I think you can probably reach some kind of perspective. And over time we will be having more to say about that.

Colin Wilson - *NACCO Materials Handling Group, Inc. - President, CEO*

We're giving you the first quarter projected bookings.

Al Rankin - *Hyster-Yale Materials Handling, Inc. - Chairman, President, CEO*

Yes. What we've told you is that at this point -- is we've given you, as is our convention, more visibility about 2015. We're not saying much about the further future. But I think you can model some perspectives and see, generally speaking, what the numbers need to be.

Mig Dobre - *Robert W. Baird & Company - Analyst*

Yes, sure. I think that's always been one of the big questions that I had about Nuvera. One of them was the ASP, and you provided that, and I appreciate it.

The other thing was really the gross margin on this product. But I understand that you might not be in a position to provide it now.

Al Rankin - *Hyster-Yale Materials Handling, Inc. - Chairman, President, CEO*

(multiple speakers) But I think you know what our objective is, and I think you've got enough pieces to play with it a little bit, around the context of reaching running rate profitability at some point in 2017.

Mig Dobre - *Robert W. Baird & Company - Analyst*

All right. My last question is really on the overall European environment. We are hearing basically that there is some improvement that we are seeing, but it's only in select geographies in Europe. Obviously, you've got your own specific mix, maybe a little less exposure to Germany, for instance.

How are you thinking about the next 12 months, just from a pure activity and what you are hearing from customer? Is this just speculation on our part, or are we actually starting to see some green shoots of activity over there?

Al Rankin - *Hyster-Yale Materials Handling, Inc. - Chairman, President, CEO*

Go ahead, Colin.

Colin Wilson - *NACCO Materials Handling Group, Inc. - President, CEO*

Well, if you look at the total EMEA market, Europe, Middle East, and Africa, it was up. It was up double digits in the first quarter.

Western Europe was up quite strongly; but again, that was country specific. Eastern Europe was down, again, double digits; and that was predominantly Russia. And Middle East Africa was broadly flat.

So we tend to look at Europe as a single entity, and it's not -- you've got to really look inside it. The economies in Spain and the UK and Germany are doing quite well. Other economies continue to struggle.

Again when you move East, very, very bleak in parts of particularly Russia. But I think overall, we do see a stronger overall environment than we were seeing last year, for sure.

Al Rankin - *Hyster-Yale Materials Handling, Inc. - Chairman, President, CEO*

Yes, I think another way to approach the question is the -- it does seem to us that the level of pessimism about the economies in Western Europe is a little bit lower than it was six months ago or in the fall. One thing I would say again is that we're pretty careful in our planning not too bet on increases in the market.

But we've got quite a wide window as to acceptable shipping times for trucks that are ordered. Obviously there is quite a lead time between the time that a booking is made and a time that the shipment is made. So our inclination is to run our factories in a very prudent way, to load them conservatively; and if backlog increases, so much the better.

But we do not want to have situations arise where we have to take slots out of our manufacturing. It's very disruptive. It's disruptive to our suppliers. And we're happy to have that revenue show up later rather than sooner under those circumstances.

So we're pretty careful about that, because I think the other part of the concern or comment I would have is, while there may be some sign of, as you put it, green shoots, it's still cloudy. It's still uncertain. And it's not at a level that I think any of us feel comfortable counting on these numbers.

Colin Wilson - *NACCO Materials Handling Group, Inc. - President, CEO*

The other thing, Mig, is you've got to look back. You can look at the year-over-year comparison, or you can look at the current level of demand compared to the peak.

So I mean you take countries like Germany and the UK, they are at or above the pre-recession levels. Those markets have fully recovered and are better than they were the last peak.

Countries like Spain, which have got pretty high growth rates right now, but I mean, they are way, way, way off where they were before the recession.

Al Rankin - *Hyster-Yale Materials Handling, Inc. - Chairman, President, CEO*

Italy as well.

Colin Wilson - *NACCO Materials Handling Group, Inc. - President, CEO*

Italy as well. So they are improving, but it's still a long way to go. But there are green shoots.

Mig Dobre - *Robert W. Baird & Company - Analyst*

Sure; I appreciate that. I guess I will squeeze one last in. On the US specifically and your US business, throughout the quarter, we have heard a lot of the heavy manufacturers struggling, frankly, with a number of difficult end-markets. Mining is weak; Ag (agriculture) is pretty much in collapse; construction equipment is also very stop and go; and obviously, oil and gas is problematic.

Now, my understanding is you don't have direct exposure to some of these things, but your customers do. I am wondering, are you seeing any hesitancy at all with regards to their own capital investment considering the challenges that they are struggling with?

Al Rankin - *Hyster-Yale Materials Handling, Inc. - Chairman, President, CEO*

Let me just give you a generic answer. The market for forklift trucks is extremely diverse in terms of SIC code dispersion. The best overall calibrator, if you will, of continued forklift truck improvement tends to be GDP growth.

Mig Dobre - *Robert W. Baird & Company - Analyst*

Well, yes, but we had none in the first quarter.

Al Rankin - *Hyster-Yale Materials Handling, Inc. - Chairman, President, CEO*

And so -- well, that's why we've been pretty conservative about our growth prospects in North America. On the other hand, we don't see anything affecting us in the downward direction the way so many other industries have been --

---

Colin Wilson - *NACCO Materials Handling Group, Inc. - President, CEO*

Right.

Al Rankin - *Hyster-Yale Materials Handling, Inc. - Chairman, President, CEO*

-- affected. So --

Colin Wilson - *NACCO Materials Handling Group, Inc. - President, CEO*

I think a lot of the buying decisions -- the first quarter was pretty robust in North America for lift trucks. But I think a lot of those decisions were started last year, back end. That's why we've taken a little bit more of a cautious view on the balance of the year.

So even though the first quarter was up, we're basically saying we don't see that continuing throughout the year. But we don't see it going down either.

Mig Dobre - *Robert W. Baird & Company - Analyst*

Okay, thank you.

Operator

Joe Mondillo, Sidoti & Company.

Joe Mondillo - *Sidoti & Company - Analyst*

Hi, guys. Good morning. My first question related to the Americas segment. In terms of more specifically the guidance that you gave, which you say in the press release and I think you also reiterated in your commentary, you expect to be moderately higher in 2015 compared to 2014. My question is: so with the expectation that you also say that you are anticipating flattish growth on the top line at that segment; and with operating income at the segment down 35% in the first quarter; and then all the headwinds related to product mix, flat demand, and also the Brazilian facility that's most likely going to at least affect maybe April or May, how you get to year-over-year growth even if you exclude the Brazil gain in the second quarter of 2014.

Al Rankin - *Hyster-Yale Materials Handling, Inc. - Chairman, President, CEO*

Well, we see some volume coming back, and that's going to be a very significant portion of the last three quarters. But we've got a variety of other things that should help move us forward as well.

So we expect our gross profit in the remaining three quarters to be up. We expect the volumes to be up over those three quarters.

We will have extra SG&A expenses; but on the other hand, the currency benefit that we were just talking about a little bit earlier was a detriment in the first quarter, and it should be in all likelihood positive in the remaining three quarters of the year. So you put all that together and you come up with what we said as an outlook in total for the next three quarters.

I think part of the difficulty here is there are a lot of moving parts, particularly as a result of currency and its effects. I would add, too, the material cost has an impact that is, at the moment, surprisingly favorable; and that may change later in the year.

And then of course, our objective as we've said is that the volume goes up not just because of the market but because of improved share position as well. So you put all those factors together, and that's how we come out with the forecast we give you.

Joe Mondillo - *Sidoti & Company - Analyst*

Is there any way you can quantify the currency hindrance in the first quarter and, assuming today's rate or at the beginning of the quarter -- at the beginning of the second quarter as rate, you can let us know what the benefit of the hedges would be throughout the rest of the year?

Al Rankin - *Hyster-Yale Materials Handling, Inc. - Chairman, President, CEO*

I think we're only going to put out what we have in the Q. Ken, what level of detailed disclosure is there in the Q?

Ken Schilling - *Hyster-Yale Materials Handling, Inc. - SVP, CFO*

Joe, we call out the bits of currency both in margin and in SG&A expenses, and I think those will be helpful hints as you go along.

Kind of feathering back to your prior question, the best forward-looking information we give you is our backlog, and our backlog is up. So we are calibrating our backlog to help us understand where we're going to be going forward for the rest of the period. We've got 31,000 -- sorry --

Joe Mondillo - *Sidoti & Company - Analyst*

900.

Ken Schilling - *Hyster-Yale Materials Handling, Inc. - SVP, CFO*

Yes, 31,900 trucks in backlog; that is up significantly. So that's a good indicator for us to help us calibrate.

Al Rankin - *Hyster-Yale Materials Handling, Inc. - Chairman, President, CEO*

And don't forget about Brazil. The big negative was in the first quarter. Now there may be some level of phase-in during the second quarter, but the big negative was in the first quarter.

You know, much remains to be seen about the remainder of the year. Colin indicated that the market is weak, and we are concerned about the market in Brazil. On the other hand, we introduced new products; we have a lot of plans to enhance our already very strong position in the Brazilian market. So we are hopeful that our volumes in Brazil may do better than the marketplace itself, and we have been building backlog.

Colin Wilson - *NACCO Materials Handling Group, Inc. - President, CEO*

One other thing. The first-quarter volumes were impacted by two, I would call them temporary issues. One was Brazil and the other one was volume.

We did have a buildup in inventory that was sold that we hadn't shipped towards the end of March, and that inventory is now getting bled off in the second quarter. So I think the backlog increased and yet our volumes were down, but that again -- the backlog is sold trucks. So it was -- we have the orders; we just didn't get them out before the end of March.

Joe Mondillo - *Sidoti & Company - Analyst*

Right. In regard to product mix, you talked about how that's going to be unfavorable for you for the rest of the year. Just looking at the Americas, is that going to be the same kind of dynamic as the entire Company is going to see? Or are they going to see maybe a better mix than maybe Europe or elsewhere?

Al Rankin - *Hyster-Yale Materials Handling, Inc. - Chairman, President, CEO*

Mix compared to the previous year is going to be pretty reasonable or even favorable in the Americas. And it's going to be somewhat unfavorable at least as we are looking at it today in Europe, but not hugely. I don't see mix as being a huge factor in the equation.

Joe Mondillo - *Sidoti & Company - Analyst*

Okay. Then also I wanted to ask you regarding Nuvera. I was just wondering how you are looking at how this Nuvera venture is going to affect your overall cash flow. What kind of cash -- I mean you don't have to quantify what your actual estimate or what you guys are guiding to or your internal estimates. But I'm just wondering directionally-wise: how much working capital do you need? How much CapEx do you need for Nuvera? And how does your -- how do you look at the overall --?

Al Rankin - *Hyster-Yale Materials Handling, Inc. - Chairman, President, CEO*

The biggest factor are the SG&A losses. I don't think the rest of it is particularly material.

Ken Schilling - *Hyster-Yale Materials Handling, Inc. - SVP, CFO*

Yes, we will clearly tax-benefit those against the income of US income we have with the Company. So the cash burn will typically be the after-tax cost of the development costs and the SG&A burn. CapEx is included in our CapEx forecast, Joe, for Nuvera; so those numbers are integrated.

Joe Mondillo - *Sidoti & Company - Analyst*

And what was the CapEx for the year?

Ken Schilling - *Hyster-Yale Materials Handling, Inc. - SVP, CFO*

Did we talk about that at the Investor Day? I thought we did.

Christina Kmetko - *Hyster-Yale Materials Handling, Inc. - IR Consultant*

The Nuvera CapEx?

Ken Schilling - *Hyster-Yale Materials Handling, Inc. - SVP, CFO*

Yes, Nuvera CapEx?

Christina Kmetko - *Hyster-Yale Materials Handling, Inc. - IR Consultant*

I would have to go back and look.

Ken Schilling - *Hyster-Yale Materials Handling, Inc. - SVP, CFO*

So let me check on that.

Joe Mondillo - *Sidoti & Company - Analyst*

I'm just talking about the overall --

Al Rankin - *Hyster-Yale Materials Handling, Inc. - Chairman, President, CEO*

(multiple speakers) CapEx. We don't have major CapEx coming up in --

---

Ken Schilling - *Hyster-Yale Materials Handling, Inc. - SVP, CFO*

No.

Al Rankin - *Hyster-Yale Materials Handling, Inc. - Chairman, President, CEO*

There may be some, but it's not major.

Colin Wilson - *NACCO Materials Handling Group, Inc. - President, CEO*

It's all there already.

Al Rankin - *Hyster-Yale Materials Handling, Inc. - Chairman, President, CEO*

Then as to working capital, there will be some buildup starting in the fourth quarter. But again I think the major cash impact is from the after-tax losses that Ken just described.

Joe Mondillo - *Sidoti & Company - Analyst*

Right. I guess what I am trying to understand and what your outlook is, relative to the $50 million of free cash flow that you generated in 2014, do you see that being higher or lower in 2015?

Al Rankin - *Hyster-Yale Materials Handling, Inc. - Chairman, President, CEO*

Well, I think we gave some guidance in the earnings release on cash flow for the year.

Ken Schilling - *Hyster-Yale Materials Handling, Inc. - SVP, CFO*

We expect it to slightly improve in 2015.

Al Rankin - *Hyster-Yale Materials Handling, Inc. - Chairman, President, CEO*

We expect it to be improved compared to the previous year.

Ken Schilling - *Hyster-Yale Materials Handling, Inc. - SVP, CFO*

And, Joe, that's really based upon working capital estimates.

Joe Mondillo - *Sidoti & Company - Analyst*

Okay, okay. Then just lastly, in terms of Nuvera --

Al Rankin - *Hyster-Yale Materials Handling, Inc. - Chairman, President, CEO*

I would just say that -- yes, I would just leave it at that. Okay, sorry. Go ahead.

Joe Mondillo - *Sidoti & Company - Analyst*

Okay. One clarification I have on Nuvera, and then I have another question on Nuvera. But in terms of the clarification, the 250 PowerEdge units that you anticipate, is that the pricing that you mentioned in the release of $17,500 and $35,000?

Ken Schilling - *Hyster-Yale Materials Handling, Inc. - SVP, CFO*

Yes.

Colin Wilson - *NACCO Materials Handling Group, Inc. - President, CEO*

Yes, it is. The range is broad because right now we're looking at putting them -- the lower end would be for more of our Class 3 product, and the higher end would be for more of our medium-capacity electric Class 1 trucks.

Joe Mondillo - *Sidoti & Company - Analyst*

Okay. Regarding -- the second question I had was, relative to the $6 million of operating income losses that you saw in Nuvera, how do you see exiting the year in the fourth quarter relative to that $6 million?

Ken Schilling - *Hyster-Yale Materials Handling, Inc. - SVP, CFO*

I think we've given you the operating expense forecast for the full year, and the net income -- net loss, I should say, forecast for the full year. We gave you a range in the release. So I think what we would say is we are on track with that forecast and with that estimate of net loss after-tax.

Al Rankin - *Hyster-Yale Materials Handling, Inc. - Chairman, President, CEO*

Yes. I mean if we can book the units that we suggested we are going to book, we're going to ship units; and that will reduce the operating loss from Nuvera in the fourth quarter. I don't think there is any reason to think that the op loss is going to be materially different in the first couple of -- in the next two quarters, that is, the second and third. And then the fourth quarter you begin to see the benefit of some additional volume.

But I think that the impacts are not going to be huge in 2015 in terms of the fourth quarter. We are just going to be starting to ramp up then and get going.

Colin Wilson - *NACCO Materials Handling Group, Inc. - President, CEO*

We'll really see the (multiple speakers) kicking in 2016.

Al Rankin - *Hyster-Yale Materials Handling, Inc. - Chairman, President, CEO*

Right.

Joe Mondillo - *Sidoti & Company - Analyst*

Okay. I guess what I was just trying to get at was that, given the guidance for the full year, given the guidance of $1 million a quarter for the next two quarters of revenue, it looks like potentially the operating losses may be bumped up a little bit in the second and third quarter. And that would mean that the fourth quarter probably -- I mean, if you do hit the revenue goal in the fourth quarter, hopefully and obviously you would see a lower -- a tick down in the operating losses in the last quarter. I was just -- I didn't know if you had an idea of --

---

Al Rankin - *Hyster-Yale Materials Handling, Inc. - Chairman, President, CEO*

That's the right way to think about it.

Joe Mondillo - *Sidoti & Company - Analyst*

Okay, okay. Thanks.

Operator

(Operator Instructions) Kai Mueller, Berenberg.

Kai Mueller - *Berenberg Bank - Analyst*

Hello. Good morning from London. Thank you very much for the presentation. Just a few questions on the markets and then also some stock specific, and also the currency headwinds.

First of all, on the European market, you said that you've seen units selling for higher prices. What do you think that could be? And what is your mix effect on that?

And then the next point would be you said mix going forward could be unfavorable. What is that based on in particular for the European markets? And how does that compare to the US?

Colin Wilson - *NACCO Materials Handling Group, Inc. - President, CEO*

Well, I mean what we said was that our margin percent in Europe were higher because of the fact that our selling price was being translated into lower dollars because of the currency, and we were largely hedged on the cost side.

As far as our mix of products sold is concerned, I don't think we made any specific comments about that. The European market was actually weaker from a mix perspective, but that really didn't impact our shipments in the first quarter. I think our shipments were broadly in line with what they have been in previous quarters from a percentage.

That was the -- what was the second question?

Kai Mueller - *Berenberg Bank - Analyst*

You said going forward the mix could be unfavorable in terms of products mix. I'm struggling to understand why that is. Are cheaper trucks being brought out in Europe at the moment, or what exactly do you have to understand that?

Ken Schilling - *Hyster-Yale Materials Handling, Inc. - SVP, CFO*

I think part of the way to explain that is that we look at Europe as three different markets, three separate markets. We have Western Europe, we have Eastern Europe, and we have Middle East and Africa. And we call that all EMEA, that territory.

Eastern Europe is down right now due to Russia. Eastern Europe is where we will see some increased shipments potentially as we go forward, as well as Middle East and Africa. Those tend to be less sophisticated trucks in those markets than you typically see in the Western European market.

The other thing you've got to realize -- I think you may have seen that at Investor Day -- is that the European market is much stronger Class 3 market than the US is. So as we gain participation in Class 3 walkies, as is part of our crack the code in warehouse, we would expect to sell some lower-priced trucks in the European market.

Al Rankin - *Hyster-Yale Materials Handling, Inc. - Chairman, President, CEO*

I wouldn't put too much emphasis on average prices and mix and stuff like that. I would just remind you that we have trucks that sell at the low end. Colin, a Class 3 truck could sell for --

---

Colin Wilson - *NACCO Materials Handling Group, Inc. - President, CEO*

$3,000-ish.

Al Rankin - *Hyster-Yale Materials Handling, Inc. - Chairman, President, CEO*

-- $3,000 or $4,000. And we have some trucks at the high end that could sell for $0.5 million.

Colin Wilson - *NACCO Materials Handling Group, Inc. - President, CEO*

Yes, right. $600,000, $700,000.

Al Rankin - *Hyster-Yale Materials Handling, Inc. - Chairman, President, CEO*

So there is a lot of room for things to move around. And at the high end, you're not talking about large numbers. So a few trucks shipped in any one quarter can have a difference in the numbers and the impact for us.

And that's not very easy to forecast with precision. We can look at a whole year and have a pretty good perspective, but we don't necessarily have a good perspective on when those trucks will be booked and shipped.

Kai Mueller - *Berenberg Bank - Analyst*

Okay, I understand. Then in terms of the US market, do you see more Class 3 trucks to be sold going forward? Because it's interesting actually that the market is so heavily in terms of IC and not very much warehouse equipment. What is your view going forward from that?

Al Rankin - *Hyster-Yale Materials Handling, Inc. - Chairman, President, CEO*

Well, look, the one comment I would make and then maybe Colin wants to add something, is: keep in mind that one of our objectives -- and it's particularly true in North America -- is to enhance our share position in Class 2 and 3. We have as one of our share gain programs enhancing our position in the warehouse market. Well, that is mainly a Class 2 and 3 market.

There are some trucks in Class 1 electric involved, but -- so over time we certainly want to have a stronger position in those markets. But other than that there's not a lot moving around for mix, in the short term, anyway.

Colin Wilson - *NACCO Materials Handling Group, Inc. - President, CEO*

The US market is a lot more -- 1, 4, and 5 cluster is fairly strong. Class 3 is growing over time, but it's nowhere near as significant a percentage of the market as it is in Europe. But there is definitely a shift over time towards Class 2 and 3. Actually, 1, 2, and 3, away from 4 and 5.

Kai Mueller - *Berenberg Bank - Analyst*

What do you think are the drivers behind this, in particular?

Colin Wilson - *NACCO Materials Handling Group, Inc. - President, CEO*

Well, the drivers behind the shift away from Class 4 and 5 are many. But I mean a lot of it is with the environmental legislation that's coming in, that's forcing companies to think differently about the power source. It's one of the key drivers behind our investment in Nuvera and our development of products with lithium-ion batteries.

Kai Mueller - *Berenberg Bank - Analyst*

Okay; I understand. In terms of actually -- as you highlighted, Nuvera, just to mention that. What I find interesting, you highlighted the price points of these Nuvera PowerTap sales being between $18,000 and $25,000. You have to understand that a truck that would normally sell -- and let's say, an IC truck or electric truck,that would sell for $30,000; including a battery would now be selling for about $50,000 to $60,000.

Because that unit alone would be that price? Or is that the price of the whole truck?

Colin Wilson - *NACCO Materials Handling Group, Inc. - President, CEO*

Well, we've got to think about the price of a battery. The price of a battery, let's just say it's in the $7,000, $8,000 range. A fuel cell, you need one. If you are in a heavy-duty application, you need three batteries.

So we are developing our fuel cells to last -- basically our target life is 20,000 hours. You buy a fuel cell, you put it in the truck; it is just like an engine.

You've got -- it takes you three minutes to refuel. You need one. You don't have any degradation of performance as the shift goes on. It's a totally clean energy solution.

So we don't profess that we should be putting fuel cells into very light-duty applications unless there is significant environmental concerns. We do believe that not only will the fuel cell provide an economically friendly solution, it will be very economical for heavy-duty applications.

Kai Mueller - *Berenberg Bank - Analyst*

Okay. Then in terms of these tax credits that you say are running out, is there any chance they get renewed? And how much would you think that still plays a --?

Colin Wilson - *NACCO Materials Handling Group, Inc. - President, CEO*

We would have to ask Mr. Obama that. But our business case and our business plan does not assume that they will continue. So if they do continue, that will be a boost to the prospects of the business.

Al Rankin - *Hyster-Yale Materials Handling, Inc. - Chairman, President, CEO*

I have never felt -- this is really a view gained over many years -- that it is ever wise to form a business case around government subsidies. They come and go; they are subject to political whim.

It is far better to have a fundamental, sound case. And if there is some other benefit along the way, that's fine.

Kai Mueller - *Berenberg Bank - Analyst*

Okay. Then I understand also that these units at the moment, your business case is very much North America; but this should very much be able to be shipped to your Asian markets, to your European markets, and globally really going forward?

Colin Wilson - *NACCO Materials Handling Group, Inc. - President, CEO*

Our business plan, we have a business plan that has actually some very I think conservative assumptions. It's largely based upon North American demand, but we are looking at fuel cell as being an opportunity for us globally.

We see it being an opportunity in Europe. We see it being a significant opportunity in Asia. So as those markets develop and as the demand increases, again that would be incremental.

Al Rankin - *Hyster-Yale Materials Handling, Inc. - Chairman, President, CEO*

The one thing I would add, though, is that North America and Western Europe have the most high-intensity applications of the type that Colin just spoke of, that would require three batteries for an electric truck. And in Asia, those are fewer and farther between, just by nature of the kind of activity that forklift trucks in industry are performing there.

So there are some differences in how these things may be applied. There may be some markets in Japan that are high intensity where we can sell them.

But I think the better answer to your question is anywhere there are the sorts of high-intensity applications, we will be prepared to sell into and expect to do so.

Kai Mueller - *Berenberg Bank - Analyst*

Okay, excellent. Then maybe just one you just (technical difficulty) how is the Asian market environment going? You performed fine out there. What is the development?

Because there is a lot of noise coming out of China saying -- especially on the IC front; that would be affecting, I guess, your UTILEV brand. The IC truck market is dropping heavily, but has now recovered. Have you seen any recent news flows out there, and how does it really go into your view on the region?

Colin Wilson - *NACCO Materials Handling Group, Inc. - President, CEO*

If you look at the entire region, China did have a very, very poor quarter. Growth in China slowed as you know; it's around about the 7% level. The government is looking to boost the economy.

But market demand in China overall was down significantly in the quarter, double digits, again. The foreign brand share wasn't down quite as much. We look at the market both ways. Sorry, the foreign market wasn't down quite as much, and I think that's because again those type of companies are probably less cyclical than the broader Chinese economy.

So we have a presence in China. We are not huge in China, so it really doesn't affect our business overall. We've (technical difficulty)

Al Rankin - *Hyster-Yale Materials Handling, Inc. - Chairman, President, CEO*

Our business is much stronger with the Western companies in China, the so-called foreign brand market that Colin was referring to. We don't have a broad and significant position in the low-duty utility type truck in China. In fact, some of the people we work with collaboratively have really the strong positions in those markets.

I think we're inclined to be very, very careful about how we participate in China, especially in the near term. You can make an argument that early history in all countries in the forklift truck business has been ultimately highly cyclical. You reach a point of saturation, and a completion of an industrialization cycle, and then a falloff in volume.

So that may be -- that may lie ahead. But that's really not the part of the market we're participating in. We have business with General Motors and people like that in China, and that's really where the core of our market is with the kinds of products that we think are -- that meet their needs in the rest of the world.

Ken Schilling - *Hyster-Yale Materials Handling, Inc. - SVP, CFO*

Our performance in the Asia-Pacific segment is more in part being driven by the Asian countries outside of Japan and China in the current quarter.

Al Rankin - *Hyster-Yale Materials Handling, Inc. - Chairman, President, CEO*

Correct.

Ken Schilling - *Hyster-Yale Materials Handling, Inc. - SVP, CFO*

I think that kind of helps calibrate that for you.

Colin Wilson - *NACCO Materials Handling Group, Inc. - President, CEO*

And Pacific, which we lump in together.

Al Rankin - *Hyster-Yale Materials Handling, Inc. - Chairman, President, CEO*

Yes. Okay?

Kai Mueller - *Berenberg Bank - Analyst*

Okay. Thank you.

Operator

Thank you. I'm not showing any further questions. I would like to turn the call back over to Christina Kmetko.

Christina Kmetko - *Hyster-Yale Materials Handling, Inc. - IR Consultant*

Okay. Thank you, everyone, for joining us today. Again if you do have any follow-up questions, please feel free to give me a call. That wraps it up for us.

Al Rankin - *Hyster-Yale Materials Handling, Inc. - Chairman, President, CEO*

Thank you very much.

Colin Wilson - *NACCO Materials Handling Group, Inc. - President, CEO*

Thank you.

Operator

Ladies and gentlemen, this conference will be available for replay after 2:30 PM Eastern Time today through May 7, 2015, 11:59 PM Eastern Time. You may access the remote replay system at any time by dialing 855-859-2056, and then enter the access code 30687978. International participants dial 404-537-3406. (Operator Instructions)

That does conclude our conference for today. Thank you for your participation in today's conference. You may now disconnect.
