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PRESENTATION

Operator

Good morning. My name is Chris, and I will be your conference operator today. At this time, I would like to welcome everyone to the Hyster-Yale Materials Handling, Inc., 2015 third-quarter earnings conference call. All lines have been placed on mute to prevent any background noise. After the speaker's remarks, there will be a question-and-answer session. (Operator Instructions)

Thank you. Christina Kmetko, you may begin your conference.

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

Thank you. Good morning, everyone, and welcome to our 2015 third-quarter earnings call. I am 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 NACCO Materials Handling Group; and Ken Schilling, our Senior Vice President and Chief Financial Officer.

Yesterday evening, we published our third-quarter 2015 results and filed our third-quarter 10-Q for the three and nine months ended September 30, 2015. Copies of the 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For anyone who is not able to listen to today's entire call, an archived version of this webcast will be on our website later this afternoon and available for approximately 12 months.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 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.

Let's turn to the results. As you've seen, our revenues and net income declined from the prior-year quarter. This is primarily because the strong US dollar and Brazil's very depressed economy are significantly hurting our financial results. This high-level view, however, does not provide you with the full picture of what is actually happening in each region, and our goal on this call is to help clarify this.

At the consolidated level, our third-quarter 2015 revenues were down 6% to $652.1 million from $695.8 million in the prior year, and our net income decreased to $20.9 million or $1.28 per share, from $28.4 million or $1.70 a share a year ago.

Nuvera, which we did not own in the prior-year third quarter, accounted for $500,000 of our third-quarter 2015 revenues and offset our net income by $4 million.

The lift trucks business revenues were $651.6 million and net income was $24.9 million for the third quarter of 2015 compared with revenues of $695.8 million and net income of $28.4 million in the third quarter of 2014. Operating profit was $35.6 million this quarter compared with $36.3 million last year.

While revenues were down -- which I'll explain further in a moment -- unit shipments actually increased by 3.2%. If you break shipments down by geographic area, you'll see that shipments in the Americas were up 3.4%, primarily because of a substantial increase in North American shipments, partially offset by a large decrease in Brazil shipments as a result of the weak Brazil economy. Shipments in Europe were up 7.5%. Asia-Pacific, a much smaller segment for Hyster-Yale, saw shipments decline by 11.8%, mainly due to the weakening Chinese market.

Our backlog increased marginally to 27,100 units over the prior-year third quarter, but was down from 30,900 units in the second quarter. Our bookings decreased 5.6% to 18,600 units from 19,700 units last year and from 21,400 units in the second quarter. As expected and similar to the second quarter, our lift truck revenues this quarter were significantly reduced by unfavorable foreign currency movements. In fact, currency -- a $46.6 million detriment, in total -- was the main driver of our overall revenue decline, as well as the decline in Europe's revenues, and it also affected our gross profit in all geographic regions.

On the other hand, our selling, general and administrative expenses were favorably affected by currency movement. That, however, does not give you the full story. And while you can read many of the details in our earnings release, there are some specific items by segment that I want to point out to help clarify our results, as well as our outlook for the rest of the year and looking into 2016.

In the Americas segment, higher unit volumes in the third quarter did not translate into higher sales. While unfavorable currency movements were a factor, they were not the primary cause for the decline in revenues. The primary cause was a shift in trucks sold from higher-priced, higher-margin, Class V trucks -- including big trucks -- to lower-priced, lower-margin Class III warehouse trucks. This quarter-to-quarter mix shift is not unusual.

Also, even with the lower revenues, gross profit and operating profit improved in the Americas. Much of this improvement came from price increases implemented in North America and Brazil, some to offset unfavorable currency and material cost deflation. Also contributing to the improved operating profit were lower selling, general and administrative expenses, primarily because of lower incentive compensation estimates.

While the Europe segment results don't show it, Europe realized improved margins on higher unit shipments in the third quarter, but these benefits were completely offset by unfavorable currency effects.

In Asia-Pacific, third-quarter 2015 revenues declined only moderately, despite a large decrease in units and unfavorable currency, primarily because of an increase in sales of higher-priced big trucks.

Looking forward to the last quarter of 2015 and 2016, we expect currency and the depressed Brazil economy to continue to hurt our segment results. The Americas market, which experienced reasonably robust demand in most countries except Brazil in the first nine months of 2015, is expected to moderate, while the Brazil market is expected to remain depressed.

We anticipate unit shipments and revenues in this segment to be lower in the fourth quarter of 2015 than a year ago, mainly because of the substantial reduction in units expected to be shipped in Brazil and a currently weak Brazilian real compared with the US dollar.

We also expect revenues to decline as we focus on our warehouse strategic initiative, which is expected to result in a gradual shift in sales mix to lower-priced lift trucks. The Americas operating profit is also expected to be somewhat lower than in 2014, due to lower unit margins and unfavorable manufacturing efficiencies, mostly offset by material cost deflation.

In 2016, we expect the Americas market to continue to moderate, with Brazil declining further from its already depressed level. However, despite these market conditions, we expect unit shipments, revenues and parts sales to increase in 2016 over this year, due to our success in winning some large customer accounts this year.

In addition, we expect the Americas full-year 2016 operating profit to increase compared with 2015, largely as a result of the anticipated improvements in Brazil's operating results because of lower anticipated operating expenses from planned cost reductions and the absence of plant move expenses incurred in 2015.

Europe is experiencing a bit different trend than the Americas. We expect the overall Europe, Middle East and Africa market to grow moderately in the fourth quarter of 2015 compared with the prior-year quarter. This is driven mainly by expected increases in Western Europe, while the Eastern Europe, Middle East and Africa markets are expected to generally decline, with the Russian market not expected to recover at all from its currently depressed level. However, despite the market outlook, we anticipate unit shipment increases in the Western Europe and Middle East and Africa markets during the fourth quarter of 2015 compared with last year, as a result of the implementation of our strategic initiative.

Nonetheless, we expect Europe's fourth-quarter revenue to decline compared with a year ago, as the benefits from improved volumes are expected to be more than offset by unfavorable currency translation and a shift in the mix to lower-priced lift trucks.

Operating profit in the Europe segment is expected during the fourth quarter to decrease substantially from the prior-year quarter, primarily as a result of significant unfavorable foreign currency movements at current currency rates, partially offset by improved unit volumes. During 2015, Europe had currency hedges in place that mitigated the unfavorable effect of the strengthening US dollar. However, as these hedges expire, the new hedges are not expected to be as favorable based on the rates today in offsetting increased dollar-based costs currently being incurred. As a result, unfavorable currency movements are expected to have a larger unfavorable impact on results in 2016.

We anticipate that markets in the Europe segment will continue to grow in 2016, driven by a moderate decrease in Western Europe and a slight growth in the Middle East and Africa, partially offset by a decline in Eastern Europe. As a result, we expect units and parts revenues to increase. However, despite these improvements, we expect operating profit will decrease substantially, as a result of the reduced favorability of the hedge contracts in place, coupled with unfavorable currency movements.

Finally, we expect the Asia-Pacific market in the fourth quarter of 2015 to be down, predominantly due to depressed demand in China and Japan, only partially offset by modest growth in the other markets. China is expected to be off its prior peak levels in the fourth quarter of 2015, following a double-digit decline in the first nine months of the year from the comparable period last year. As a result, we anticipate an overall decline in unit shipments and revenues in Asia-Pacific in the fourth quarter, with unfavorable currency translation also contributing to the revenue decline.

We also expect fourth-quarter 2015 Asia-Pacific results to be lower than the fourth quarter of 2014, due to a shift in mix to lower-margin products. The expected unit volume decline and higher operating expense is expected as a result of market-share gain initiatives.

Moving to 2016, the Asia-Pacific market is expected to continue to weaken. However, as a result of the implementation of our strategic initiatives, we expect shipments, revenues and operating results to increase compared with this year.

So to sum up our outlook for our overall lift truck business, for the fourth quarter of 2015 we expect global markets except Western Europe to be soft, and as a result, unit shipments and revenues to be down. We expect the fourth quarter of 2015 lift truck segment operating profit to be substantially lower than last year's fourth quarter, and net income to also decrease, primarily due to the operating profit decline and to a higher effective income tax rate due to higher profit contributions from the Americas.

Looking forward to 2016 and based on what we know today, we are expecting global markets to remain roughly stable next year, driven primarily by the Western European market, with a moderating Americas market and weakening Asia-Pacific market. However, despite these market conditions, we do expect overall revenues, unit shipments and parts sales to increase in 2016 compared with this year. Operating profit, on the other hand, is expected to be similar to 2015, as we expect the increases in sales and parts volumes to be offset by an anticipated shift in sales mix to lift trucks with lower average profit margins, as well as increased operating expenses. We expect next year's net income to decline moderately from this year's, primarily as a result of a higher effective income tax rate in 2016.

Finally, we expect cash flow before financing activities in the lift truck business to be positive in 2016, but down substantially compared with last year, and we expect 2016 cash flow before financing activities to improve compared with this year.

Now let me provide you with some information on Nuvera's outlook. So far, Nuvera's results have been in line with our expectations. We continue to be encouraged by the interest we are receiving from our customers, dealers and potential partners regarding Nuvera's products, and we remain steadfast in our belief that the fuel cell market for lift trucks has significant growth opportunity.

Nuvera has made progress in the commercialization of its technology, but further work is needed, and we are working rapidly to complete this. As a result, we expect an operating loss of approximately $5.5 million to $7 million at Nuvera during the fourth quarter of 2015, while we focus on commercialization and integrating this technology into our lift truck product range.

Modest revenues are expected in the fourth quarter of 2015 from sales of Nuvera's PowerTap units. We expect to start booking PowerEdge units, the battery-box replacement for lead acid batteries in our Class I, II and III lift trucks models during the fourth quarter. In fact, Nuvera secured an agreement with its first Total Power Solutions customer in early October and expects to begin shipping PowerEdge units to this customer in the first half of 2016, along with lift trucks and the PowerTap hydrogen-generation system.

The PowerEdge products are expected to be sold at an average selling price of between $17,500 and $35,000, depending upon the model. However, while bookings are expected in 2015, revenues from these units are now not expected until 2016.

As a result of PowerEdge unit production beginning in 2016, we expect Nuvera to generate significant PowerEdge unit revenues next year and to increase its focus on reducing manufacturing costs per unit as production increases. Overall, we expect Nuvera to generate an operating loss in 2016 of approximately $23 million to $26 million, primarily as a result of the cost to commercialize additional Nuvera technology and expand its product lines.

We continue to have an objective of reaching a quarterly breakeven operating profit at Nuvera by the end of 2017 or so, on a run rate of approximately 700 PowerEdge and 10 PowerTap units per quarter at target margins. Nuvera is also exploring a number of partnership opportunities which will be complementary to its core operating plan and which could potentially accelerate achievement of breakeven results.

While the short-term losses to commercialize this technology are large, this is a high-value method of investing in new energy solutions for our customers. We consider this business as additive to our lift truck business. The research and development is complete, and we are in the commercialization phase. Rather than investing significant after-tax dollars in the acquisition of a new technology company, we are able to invest pretax operating expenses and realized 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 volume in the lift truck business we expect to achieve, or the ongoing associated aftermarket revenues for these products that help us meet the rigorous needs of our lift truck customers.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Mig Dobre, Baird.

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

First and foremost, just maybe a word of congratulations on really nice operating margin in the Americas. I'm looking back at my model, and I think what you guys have put up this quarter is really the best in a very long time. And I understand your guidance going forward, but maybe you can give us a little flavor for the puts and takes as to what drove this margin performance and, I don't know how sustainable it could be. Maybe there's an element of conservatism in the way you were kind of talking about operating income in this segment going forward.

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

Well, let me begin with a couple of observations. One, we had some price increases early in the year. Those were both to look backwards at cost changes, but also to anticipate changes in the future. In fact, as you know, economic conditions for commodities around the world have really collapsed. And so prices of commodities have been declining. And the result was, if we had material cost variances that went in a positive direction, as opposed to our expectations, which might have been more neutral or even in a negative direction. So that's certainly one factor in the Americas, the material cost decreases positively affected Europe as well.

However, the other major change that is occurring is currencies. And really understanding our segment results without understanding currency changes and thinking about those very carefully I think would put anyone in a position of not really understanding what's going on.

So, given the sourcing of the Americas, the changes in currency values have been highly favorable to the Americas. We buy components from Europe. Obviously, the dollar versus the euro has changed quite dramatically -- not as dramatically against the pound, but the situation has improved there as well from a dollar perspective. The yen has dramatically changed in value from, in our view, being overvalued to now undervalued. And even the Chinese currency has changed a little bit -- not hugely, because there's a linkage to the dollar, but it has been managed down to some degree.

So, the US has been benefited from the ability to purchase at lower cost and to get benefits through material and commodities and currency. And so that's one factor.

I would note in the Americas that the margins were achieved despite what I will call extreme difficulty in Brazil. I'm sure you've been reading about the situation in Brazil, both politically and economically, the difficulties of other companies in Brazil, the declines in capital goods market, the effect of commodity changes, including foreign prices, as well as commodity prices on the Brazilian economy, and a sense of paralysis at the moment in the political situation and therefore in the economic situation. It's made conditions very difficult, and the market is down very significantly. So, those difficulties have been a real drag on the results in the Americas. So that's kind of the Americas story.

Europe, on the other hand, has struggled in the other direction. Europe has substantial purchases from the Americas. Obviously, with the euro where it is, that's become very expensive. Pound costs from the Americas are more expensive than they were. And so, we have got some real headwinds from a currency point of view.

I hope it came through in the earnings release and in Christie's comments, that in addition, we've felt that hedging conditions in Europe were quite favorable, as you look back some months and even a year or more. As a result, we put in hedges of significance, but now those hedges are beginning to unwind. So there will be a further impact of currency going forward on the European business, which is difficult.

On the other hand, we certainly expect to try to lock in these very favorable and extreme currency conditions that we have -- extreme in our view, anyway -- compared to the long-term purchasing-power parity, we expect to work to lock in favorable impacts in the Americas so that those will benefit us when the currency values change eventually. In the meantime, we'll benefit in the Americas and struggle in Europe, and the net effect of currencies, however, will be negative on the Company.

So, that's kind of a long explanation. But it's a difficult situation to think through and really understand the dynamics, because performance in Europe, in terms of units, in terms of the performance of the business per se in local currency is a lot better than when it is translated into dollars.

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

Sure, I appreciate that. And sort of stepping away from these currency issues and looking at your implied bookings in terms of units, just according to my math, when I'm looking at what you've done this quarter, you've done a little over 18,000; it's about 18,600 units. And I've kind of noticed that there's seasonality in the way bookings come through, meaning that the third quarter is, generally speaking, a little bit lower. But 18,600 seems to be a relatively softer number than what we've seen in the past few years.

And I guess the question is this: Are you seeing any impact from what I'm starting to hear more and more companies characterize as an industrial recession or industrial malaise with some sort of a knock-on effect on CapEx and the way folks are thinking about purchasing this type of equipment?

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

Well, let me answer that a little bit differently. I think first you need to understand we had a substantial position in the Russian market. Those conditions are very, very difficult. Conditions in the Turkish market, where we had some substantial position, have also been difficult. I think they'll recover more quickly. But European bookings certainly suffered disproportionately as a result of the unusual circumstances, I'll call them, in those economies.

I've already mentioned Brazil. We struggled; bookings clearly are lower in Brazil. So those are real headwinds in terms of those particular economies.

In addition, we've seen some movement toward warehousing-type products, in terms of market mix. And that means that some of the growth in the market has occurred in areas where our share position is lower than in other -- than in counterbalanced four-wheel trucks. So we have a very strong position, particularly in the Americas, in counterbalanced electric trucks and in counterbalanced -- and in internal combustion engine trucks, all four wheels, both types. And in Europe, we certainly have stronger positions in those areas as well.

So I think the market has moved away from us, to some degree. You may remember, however, that one of our strategic programs is to enhance our position in a warehouse market. Those programs are all underway. We've had some very encouraging large account wins. But the way those occur is, you get a few units the first year, and then progressively our expectation is we'll get more and more units as the customers buy more units. But typically, when you first break into those accounts, you get a small number of units, or else they are bookings that are out in the future.

So we feel that the programs designed to enhance our share position in the warehouse business are coming along, but they are in the early stages of maturity. So I think between these sort of special country situations and change in the market mix in the third quarter and earlier in the year, that that accounts for some of what you're seeing now.

To your point about seasonality and cyclicality, I would say that the third and particularly the fourth quarter tend to be stronger quarters for the four-wheel counterbalanced truck sales. And so, if you will, the part of the market where we are stronger we would hope would be stronger in the fourth quarter.

Colin, do you want to add anything to that?

Colin Wilson - *Hyster-Yale Materials Handling, Inc. - President and CEO of NACCO Material Handling Group*

Particularly in the Americas, the Americas tends to be very heavy on Class I, II and III. In the first half of the year, a lot of the big distribution centers place their buys at that time. And then we typically see stronger IC engine and electric counterbalanced business in the second half of the year, and that's what we're seeing this year. So, we're expecting that to continue at least through the year end.

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

Okay, I appreciate that. Then I guess my last question before going back into the queue is, sort of sticking with this mix shift that you refer to towards Class III and electric in general -- and I understand that that's part of your strategy as well, to some extent -- but how do you think about the cyclical dynamics in this market? What are some of the indicators that you are watching? Because I'll tell you, one of the things that I've looked at in the past in order to assess this market has been warehouse construction contracts, and certainly we've seen in the last few months a contraction there, a pretty meaningful contraction.

I'm wondering if you think that is an indicator that you think is of any worth in forecasting this market, and if not, what do you use to sort of frame the opportunity going forward?

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

You know, we have some general models that we think do a reasonably good job of forecasting market size going forward. They are only as good as the assumptions that are put into those models, of course. And so the most important check that we have is to monitor retail bookings wherever that data is collected. And if we can't monitor it on a market level basis, we try to monitor it in our own dealers. That's the most sensitive place, and we try to bring that information to a very high level in the Company, so that we can set our production schedules in a way that takes into account the risk of a downturn.

We would rather have the backlog filled markets than find that we had too much inventory coming in. So we're watching that very, very carefully to see just what's going on. I'll just pick a particular country where we don't have a particularly strong position. It's a narrow position of some strength in sort of Western-type brands, and that's China. But the China market for construction equipment has just collapsed dramatically in the last year or 18 months. And forklift trucks [had begun] to decline. And we are certainly watching very, very carefully to see whether that decline, that rate of decline is increasing or leveling off. It's very hard to predict that from any model. We just really have to watch it in terms of what's happening right at the bookings level to real customers as opposed to dealers.

Colin, do you want to add anything?

Colin Wilson - *Hyster-Yale Materials Handling, Inc. - President and CEO of NACCO Material Handling Group*

I mean, for sure, new construction, Mig, is a driver of demand. But by far and away, the highest volume goes into replacement of fleets within the existing footprints.

Answering the question maybe a different way, if you're looking at total demand for different types of lift trucks, you've also got to look at what's happening in each of the geographies. As China goes down, the demand for IC engine trucks is going down globally, because China is the biggest consumer of IC engine trucks.

Al has already mentioned the Russian market being down. That's a very heavy IC engine truck market. Western Europe right now is doing well, and that's very much an electric market and particularly a Class III market. So that sort of influences the global demand for warehouse products.

What I can say is, every market around the world all the time, there's a definite, secular shift towards Class I, II and III products. That's why, again, Al mentioned our strategic initiative to be stronger in the warehouse market. So we know we have to do that in all markets, but the urgency of doing it is different depending upon which market we're looking at.

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

Thank you. Good luck.

Operator

Mike Shlisky, Seaport Global.

Mike Shlisky - *Global Hunter Securities, LLC - Analyst*

I have got a few quick ones here. First, I just wanted to make sure I got the Nuvera story straight. I guess what you had in your release for the 2015 outlook for an operating loss of $23 million to $26 million, that might be a little bit higher than what I had in my model originally. Have you pulled forward any of the development process for that acquisition?

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

No, not really. I think it is just minor fluctuation. I don't think I would read anything material into any of that.

Mike Shlisky - *Global Hunter Securities, LLC - Analyst*

Okay. Perfect. Thank you. I also wanted to make sure I got a sense for what the market is saying about the upcoming Nuvera products. In your visits to trade shows and visits to other customers, have the competitors been saying anything about the product? Have they been, do you think, developing their own alternative technology that might be released at the same time as yours to kind of go head-to-head with you, perhaps with a different type of system, but just something else out there? Or do you anticipate Hyster to be all alone here in 2017 when it comes out, without much competitive response?

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

Collin, why don't you?

Colin Wilson - *Hyster-Yale Materials Handling, Inc. - President and CEO of NACCO Material Handling Group*

We feel very good about the Nuvera prospects. We are the only OEM that is sort of invested by buying a dedicated fuel-cell company. All of our competitors, I think, are dabbling in fuel cells, working with third parties. The reaction we are getting from customers is tremendous. I already mentioned, we are not talking about who the customer is for competitive reasons, but we have signed our first turnkey customer in the US for a complete solution, which would be the hydrogen generation as well as the PowerEdge units inside a fleet going into a distribution warehouse.

We are also talking to a number of third parties, potential partners, to help us to accelerate the development of the technology. Those are in front of us. Right now, our primary focus is on getting PowerEdge to market. We are taking -- starting to take bookings. We will be shipping those units in 2016, in the first half of 2016. And we have identified what it's going to take to get that Nuvera business to break even.

We have got to get to 700 PowerEdges and 10 PowerTaps per quarter. And when you look at the potential for this technology in the marketplace, we believe that eminently achievable. So we have owned this business less than a year. We have made a significant -- significant leaps forward in the development of the technology, the commercialization of the technology. And we really feel excited about what is ahead of us in 2016 and beyond.

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

I think what I would add is that there is one significant competitor out there at this point, one that has been in the market for a period of time, and that is Plug Power. They have begun to establish the marketplace. We think that we have a product that is very, very competitive with their product. And the customers that we have talked to -- potential customers and customers -- seem to agree with our perspective.

So we feel that the competitive situation is favorable. I think if you look at other potential entrants, that you have to take into account that Toyota in their automotive business has made a commitment to fuel cells. But the forklift truck business is owned by a different company, number one. And, number two, the application characteristics in the automotive business and the forklift truck business are somewhat different. And our technology is particularly apt for heavier-duty applications such as forklift trucks.

So we feel that we have got a terrific opportunity. And we are concentrated, as Colin indicated, on commercializing the technology. The one thing, perhaps, that I would add to his comments is in addition to commercializing the PowerEdge, we are working to move the cost structure from an early entry cost structure to a more mature cost structure. And so in addition to having 700 PowerEdges and 10 PowerTaps per quarter to break even, we have to meet our target cost structure.

And at this point, we think that this continues -- what we have envisioned continues to be very achievable. But the earlier units will have a higher cost structure associated with them than the later units. Think of it this way -- that some of the early units are closer to prototype units and less sort of permanently commercialized units. And, secondly, the volume economies of scale have not been brought to bear in terms of the purchasing of them. And, finally, we have a major program of integrating the efforts of our supply chain suppliers and our manufacturing capabilities to bring commercial capabilities to the cost structure of both the PowerTap and the PowerEdge.

So we see that as a very important program. And when you think of commercialization, I would just encourage you not just think of getting the product to market, but also of getting a cost structure to the levels that we think are important. Not only to get the margin structure we want, but also to ensure the maximum commercial opportunity in terms of relative cost of fuel cells versus other alternative energy sources. So those are the major points I would make.

Colin Wilson - *Hyster-Yale Materials Handling, Inc. - President and CEO of NACCO Material Handling Group*

I think the biggest point to make -- the most significant point to make is the units that we will be sending to customers will all be fully tested. They will have gone through the same Stage-Gate process of testing protocols that we have with our lift trucks. Just adding the speed to get to market, a lot of the components are not done off full-blown production tooling. And, therefore, that is why the cost of the units will be higher until we get that tooling in place and the volumes produced, which will happen during 2016.

Mike Shlisky - *Global Hunter Securities, LLC - Analyst*

Okay. Got it. If I could just squeeze in one more follow-up here, and perhaps it is a two-parter for Ken. In 2016, when the PowerEdge, PowerTap kind of goes live with shipments, are there going to be unusually high warranty accruals in that product? Does that dissipate through 2017 or possibly maybe even reach more normalized levels at the end of 2017?

And then, second part of the question also is -- at the point where this is sort of at a much higher volume, perhaps at 100 per quarter, do you have a higher -- are you going to have a higher share of your operating income in North America, which could be a higher tax rate, perhaps, in 2017?

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

Okay. Let's deal with the first question first. I think where you are headed is that, yes, we are going to sell product in, and product may have warranty attached to it. Clearly, there will be a standard warranty with it, and the potential to sell extended warranty contracts that will go with the product. And we will need to price those appropriately in light of the expenses we forecast and expect to incur.

But we are putting it through our Stage-Gate process. And we do understand the product cycle for each of the components inside the PowerEdge unit, so that we can forecast that out and estimate what our costs would be -- and, therefore, estimate what we need to get in revenue to be able to set that up on our books, Mike. And that is a good question.

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

I think -- really emphasize Ken's point that the PowerEdge units are going through our regular Stage-Gate process. And that has a very important reliability growth factor attached to it in terms of testing the various components. So we don't -- our objective is to have reasonable warranty costs associated with them, and then to price them properly and accrue them properly accordingly.

I think the situation with the PowerTap is a little bit different, because that was actually in production when we acquired the business. And there we are working to enhance the reliability, and I think we have a number of projects underway that are going to make a significant difference in both the cost structure of that product and the reliability that are being implemented right now. And more will come in the early part of 2016.

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

Now, to your second question on taxes, the predominant location that will incur profits -- and obviously, at this point, tax losses from Nuvera -- is in the United States where you have our highest tax rate. So we have been able to benefit that tax loss against our US operations of a lift truck company and see that benefit.

So, in the US, you have a 35% Federal rate. You typically look at somewhere around 3%-ish for additional state taxes. So you're going to run a 38% marginal rate on the business as a benefit when we are incurring losses. Now, this business also, if and when, and of course the expectation of every company and every taxpayer is that Congress will enact an extender and the R&D credit will be, again, provided for this year as well as likely for next year. And Nuvera's business activities will allow us to claim an R&D credit when that bill is passed and we can put it into our tax stream.

So in essence, the benefit in the loss period will be greater because we will be able to benefit not only the tax losses, but also the R&D credits. And then when we flip the other way into profits, we will be lower than a 38% rate because we will be able to take the R&D credit against the earnings. Mike, I hope that helps you.

Mike Shlisky - *Global Hunter Securities, LLC - Analyst*

It does. Thank you so much. I will pass it along. Thanks for the time.

Operator

The next question is from Joe Mondillo, Sidoti & Company.

Joe Mondillo - *Sidoti & Company - Analyst*

I also have a couple of questions on Nuvera. So while we are talking about that, I guess I will start with that. In terms of the market demand, where do you see market demand right now? How achievable is getting up to 700 power edges in your mind, especially in an environment where the industrial world is very slow growth and is actually trending in the wrong direction? So how optimistic -- or how possible do you think it is to get to 700 by the end of 2017?

Colin Wilson - *Hyster-Yale Materials Handling, Inc. - President and CEO of NACCO Material Handling Group*

Very possible given the volume of customers we are already talking to and the level of interest in Nuvera. Also, when we acquired Nuvera, we were really focused on the North American market, but we are seeing significant interest from other parts of the world. So given the 1 million-plus trucks that are sold every year and given the desire for an alternative solution to either a battery electric because of the performance characteristics of the battery electric or IC engine because of the emissions -- ever-tightening emissions environment, we see the market for alternative energy solutions growing. We see fuel cells being central to providing solutions for customers desiring for the environmental benefits as well as the productivity benefits associated with the hydrogen fuel cell technology. So, if anything, we are more optimistic about our ability to get this volume out than we were when we bought Nuvera.

Joe Mondillo - *Sidoti & Company - Analyst*

Okay. And can you --

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

I think the opportunity is very significant and our competitor, Plug Power, is also selling already a very substantial number of units. So this market is not brand-new.

Secondly, some of the people who are buying, already buying, or have indicated interest in buying units are very large companies with very large fleets. And as they become more comfortable after testing these, the opportunity to deploy them more broadly in those companies as part of the regular replacement cycle is very significant. So, that is kind of the dynamic that we see here.

We have got a first-class product, as we expected we have. We think that the market need will be there in the sort of high utilization applications. It will be a while before it goes down into other kinds of applications in the marketplace. We have to get it more mature. We have to bring the cost down and so on. So there are some large companies that are very, very interested in moving now as long as it performs the way it appears to be performing.

Joe Mondillo - *Sidoti & Company - Analyst*

Okay. And can you remind me, in terms of the cost, if you were to buy a standard unit versus a PowerEdge unit, what the markup price would be?

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

I think the way we have explained it in the past, Joe, is that the forklift truck is the same truck and it is a Class 1, predominantly Class 1 truck, maybe a Class 2 truck, that has a battery box replacement. So what you are really doing is making the comparison of buying three batteries for a 24-hour shift operation to run that forklift versus one PowerTap unit and then you are looking at the comparison of the electricity --

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

PowerEdge.

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

PowerEdge. I'm sorry. PowerEdge unit. But you are looking at the comparison of the battery charging equipment and the electricity needed to charge those batteries and the effort and time in swapping out and all that compared with the filling up of hydrogen at disbursement locations set in different parts within the distribution center to make it more effective and efficient.

And there is a differential between hydrogen and electricity today. But the advantages in productivity are what we believe these customers are looking for. And in these large facilities, it makes sense. The target customer isn't necessarily an industrial customer here, Joe. It is a big retail operation or distribution operation that has many forklift trucks in a 1 million-square-foot DC. It could be industrial as well, but --

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Colin Wilson - *Hyster-Yale Materials Handling, Inc. - President and CEO of NACCO Material Handling Group*

And to emphasize what Ken said, the PowerEdge, you slide the battery out, you slide the PowerEdge in. It is completely interchangeable. It is just replacing one power source with another. And, as Ken said, the current formula is basically three times the cost. But you only need one PowerEdge and if you're doing a three-shift operation, instead of having to have three batteries, it is basically a wash with the cost of the fuel cell. Our objective over time is to dramatically reduce the cost of the PowerEdge unit to make the economics more compelling for more customers.

Joe Mondillo - *Sidoti & Company - Analyst*

Okay. And then just lastly, the cost structure and putting in the infrastructure in place to commercialize this unit, I guess how sort of confident or how much visibility do you have to put a plan in place and an investment in place so that you can get to the capacity that you need to get to to get to breakeven? How much visibility do you have regarding that cost structure?

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

The capacity is really not an issue here. It is an assembly process and it is not going to be a capital intensive activity at that level at all. And so it is just part of the regular cost. I would put the emphasis not on the capacity in the capital side but on the cost reduction side in terms of working with our suppliers to reduce the component costs that are going into costs the PowerEdge and PowerTap units. The rest, I think, is pretty straightforward. We have plenty of physical space to do what we want to do in the Nuvera facility in Massachusetts, and there are certain things we want to do in our North American plants, and there is plenty of space to do those. So, we are in good shape to do what we need to do.

Joe Mondillo - *Sidoti & Company - Analyst*

So I guess just in terms of the guidance that you -- or in terms of your original expectations of operating losses of $40 million to $50 million over the first two to three years, it looks like you're going to surpass that estimate. And one of the things that you noted, I believe for the first time, is because of commercialization. You mentioned that in the press release. So what are you investing in that is I guess making the cost structure a little higher than maybe originally expected?

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

I don't know that we are in a position to say that at this point. We haven't really varied materially and we may have more to say about that as time goes along. The demand could develop in favorable ways. This is not so much about the cost structure. It is about the production structure and the cost of the units and the degree to which we can get the cost of the units down, not really about the cost of commercialization in a significant way.

I think Colin really touched on, inferentially, the opportunity we have to spend more on commercialization. We have prioritized the products in a sequence in which they should be commercialized. That means there are some being done right now, particularly the PowerEdge application at the moment. There are others that we envision in our current plan as coming later.

But we are working with others who have a different set -- somewhat different set of needs from ours who are anxious to redevelop PowerTap and fuel cell type products sooner than we might otherwise expect to do. We would only undertake those acceleration projects if they were financed by those with a collateral interest in a way that was attractive to us in terms of meaning that we didn't have to spend more of our own expense up front. We are going to go through this process in a very disciplined way in terms of balancing our drive to profitability and the speed with which we bring all these products, potential products, to market. So if we can find some partners to help us bring things to market and help us finance those by covering some of our overheads and the incremental costs, we will work with them to do that sort of thing.

Joe Mondillo - *Sidoti & Company - Analyst*

All right. Appreciate that. I did have a couple of other questions just regarding the core business. In terms of the mix, I understand what is going on. That was a big concern, that the large trucks were going to be a lower investment as we moved into the softer industrial period.

One question. In terms of the backlog at the end of the third quarter, heading into this fourth quarter, what did the mix look like? Was the mix similar a year ago, or did you have a lower mix of four or five trucks in the backlog this year compared to last year?

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

Colin?

Colin Wilson - *Hyster-Yale Materials Handling, Inc. - President and CEO of NACCO Material Handling Group*

I think it's just very similar. I would have to look at the detail, but I can't think of anything that was unusual in last year's fourth-quarter backlog or this year's.

Joe Mondillo - *Sidoti & Company - Analyst*

The reason I ask is because, over the last 12 months, things have certainly changed. And I would have thought, headed into this fourth quarter, investment in large four or five trucks would have been softer than as opposed to headed into fourth quarter 2014.

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

What I think has happened more than that is there has been a little bit of that, but the more significant impact is the high growth rate in the Class 2, 3, and a segment that is warehouse-oriented, the electric Class 1 product line. So those are areas where our share position is lower. So you have seen the bigger growth in the areas where we have a less strong position.

Colin Wilson - *Hyster-Yale Materials Handling, Inc. - President and CEO of NACCO Material Handling Group*

Right. I mean, the market is up this year, but it is up in ICE engine, but it is up significantly more in the electric products.

Joe Mondillo - *Sidoti & Company - Analyst*

Okay.

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

Joe, I think the thing you have got to -- when you are comparing last year to this year, the thing you have got to really keep in mind is currency. Because the trucks we are selling in Europe, we're showing you them in US dollar terms. And the currency rates are different between the two periods. So those backlog numbers on the same Class 3 product or the same Class 5 product are going to be a much different US dollar sales value in backlog.

We dropped a little bit in our average dollar value per unit and backlog, but not nearly as much as our currency (technical difficulty) against us. So I think that tells us that, while we have a mix shift potentially to some warehouse product, we are selling more valuable warehouse product and potentially more valuable Class 4 and 5 product and 1 product as well in the mix. So that is the way I look at it, is we dropped a little bit but not nearly as much as I would have expected compared to the currency change year-over-year.

Joe Mondillo - *Sidoti & Company - Analyst*

Okay. So it sounds like the fourth quarter could hold up. In terms of the orders that you received in the quarter, so the orders in units were off 6%. It sounds like the electric trucks are doing pretty well, so I assume orders being off 6% assumes that the ICE trucks are off more than 6%. Is that a good assumption?

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

Again, I think you have to take into account the Russian market would have been highly ICE oriented, the Turkish market would have been highly ICE oriented, the Brazil market highly ICE oriented. So it comes back to the market weakness areas that we discussed. And the situations are very different in the more mature economies.

Joe Mondillo - *Sidoti & Company - Analyst*

Yes, I understand.

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

You get (multiple speakers) within each class, Joe. There are some Class 2 products that are very -- they have a higher price. They have very strong margins. And there are some ICE trucks that are very competitive in very competitive markets. The margins are much lower than those high-quality, high-end class 2 products. So it is too easy to just kind of paint it with one brush.

Joe Mondillo - *Sidoti & Company - Analyst*

Okay. Just lastly, the European hedge profits that you saw in 2015, can you quantify the profits that you saw from those hedges?

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

No. We don't give (multiple speakers).

Joe Mondillo - *Sidoti & Company - Analyst*

I'm just trying to understand because you are not going to see them next year, so obviously it was a big boost this year to try to understand what it did boost you this year and you are not going to see them next year. So just trying to understand what that means for next year.

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

It is not insubstantial in Europe.

Joe Mondillo - *Sidoti & Company - Analyst*

Okay. Thank you.

Operator

Ryan Hamilton, Morgan Dempsey Capital Management.

Ryan Hamilton - *Morgan Dempsey Capital Management - Analyst*

Colin touched a little earlier on about the kind of the mix between fleet replacement versus new construction. Could you give us a kind of percentage of sales that would be coming from fleet replacement versus new construction?

Colin Wilson - *Hyster-Yale Materials Handling, Inc. - President and CEO of NACCO Material Handling Group*

Well, we don't title it that. It is just, again, I mean, just intuitively annoying. The customers we are talking to. You think about -- and it also varies by customer. I mean a lot of the big-box people are not necessarily putting in additional capacity right now. The big home-improvement people are not sort of -- it has certainly slowed down the number of retail stores compared to just a few years ago. Having said that, every store that is out there is -- they'll keep their trucks for five years, six years, and then look to replace. And that is where we are seeing where the bulk of our demand coming from.

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

I think the bulk of the demand in the marketplace is replacement demand. There has certainly been some new construction at warehouses in the last couple of years, but it is nothing like the rate at which it was increasing five or 10 years ago when the imports from China were exploding. Now the imports from China are much more at level and that sort of outsourcing generated growth has declined. That was kind of a one-time thing. So, now I think we see the majority of it coming from replacement trucks.

The thing to keep in mind, though, is that these trucks don't simply stop at five or six years. And a replacement cycle can vary depending on overall economic conditions, and so it can slow down and it typically does slow down in recessions. At this point, we don't see those conditions coming up, but it's -- Colin, anything else you want to add?

Colin Wilson - *Hyster-Yale Materials Handling, Inc. - President and CEO of NACCO Material Handling Group*

Well, the other thing is unless the overall economy is really blowing, then, yes, there could be a new warehouse, a new 1 million-square-foot warehouse being opened, but typically that would be replacing two or three smaller warehouses as a company looks to consolidate. So, I am not necessarily seeing an increase in lift truck demand. It is just a -- it is growing into a different size facility.

Ryan Hamilton - *Morgan Dempsey Capital Management - Analyst*

That makes a lot of sense and I appreciate the color. Could you maybe talk a little bit about what you are seeing -- and I am sure this varies between region and customers -- but what are you seeing as the primary driver for replacing forklift trucks right now?

Colin Wilson - *Hyster-Yale Materials Handling, Inc. - President and CEO of NACCO Material Handling Group*

Well, as a truck gets older, it requires more maintenance. Typically, we're building new trucks, designing new trucks that are more productive. So a customer would look at the total cost of ownership and decide it is time for change.

You think about some of the DCs we have talked about, the distribution centers, they are putting 3,000-plus hours on their trucks. So you put five years of work on those trucks, you have got 15,000 hours on it, it's time for new truck because the potential cost of that customer -- the consequential loss of that truck going down is significantly greater than the cost of the (multiple speakers).

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

So to elaborate a little bit, many of these warehouses don't have a lot of extra trucks available. And so having trucks that are older and more vulnerable to downtime is highly undesirable from their point of view. So they will trade them out.

Then the question is, well, who buys them? Low utilization, smaller buyers buy them. And even if the truck still has the same hour cycle, it doesn't impact the small customers at the same rate because they don't use the truck all that much, and therefore it doesn't break down very often. And usually that have more flexibility to deal with it because they are small. And so that is the dynamic that is going in the marketplace and it is kind of an arbitrage system between owners.

Colin Wilson - *Hyster-Yale Materials Handling, Inc. - President and CEO of NACCO Material Handling Group*

And the trucks we produce today are more energy efficient than they were five years ago, 10 years ago. They have been better performance characteristics. We are looking at extending service intervals, all of the things that lower the cost of ownership. So somebody who is operating a seven or eight-year-old lift truck is missing out on the opportunity of having much more efficient trucks in their fleet.

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

I might just add there that this lowering cost of ownership is not just a comment here in the context of this question. It is one of our, what, eight key strategic programs, is to lower the cost of ownership for our customers. So, it is very much a part of our core strategy to be able to offer the customer something significantly better each time the lifecycle of a truck expires.

Ryan Hamilton - *Morgan Dempsey Capital Management - Analyst*

Sure. When you are seeing some of this consolidation in warehouses where you're going from let's just say three or four smaller warehouse into one larger, more centralized warehouse, are you seeing that the requirements necessary to run a forklift truck in that new warehouse, the new larger warehouse, is that substantially different than what you were seeing is some of these smaller warehouses? Are the requirements different?

Colin Wilson - *Hyster-Yale Materials Handling, Inc. - President and CEO of NACCO Material Handling Group*

Not really.

Ryan Hamilton - *Morgan Dempsey Capital Management - Analyst*

Okay. I guess my last question would be could you give us an idea as far as the total sales exposure to some of these more troubled areas like Brazil and Russia?

Colin Wilson - *Hyster-Yale Materials Handling, Inc. - President and CEO of NACCO Material Handling Group*

I can tell you the relative size of the market -- I mean, Brazil was a market that was in the low 20,000s. Now it is a market that is probably a little bit less than 10,000. I think the Russian market is probably down to round about the same level, about 8,000 to 10,000 from 20,000-some. Put that in the context of the US market, which is over 200,000, the total market in Europe, Middle East and Africa is about 410,000 trucks. So you have the relative size of the market, then you have the relative size of our presence in those markets. And we have got a significant share presence in Brazil. We have got a significant share presence in Russia. We have a significant, highly significant, share presence in Turkey. But that was the other market that Al mentioned earlier. So as these markets go down, it can have a disproportional effect on our business.

Ryan Hamilton - *Morgan Dempsey Capital Management - Analyst*

All right. Thanks a lot, guys.

Operator

And we have no further questions at this time. I will turn the call back over to our presenters.

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

Okay. Thank you. Chris?

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

Thank you for joining us. And if you have any additional questions, you may call me at 440-229-5168. Thanks for joining.

Operator

This concludes today's conference call. To access a replay of the call, please dial 855-859-2056 and enter conference ID number 58678669. Thank you. You may now disconnect.