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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the Hyster-Yale Materials Handling 2015 second-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 call, Christina Kmetko. Ma'am, you may begin.

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

Good morning, everyone, and welcome to our 2015 second-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, 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 second-quarter 2015 results and filed our second-quarter 10-Q for the three months -- three and six months ended June 30, 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 For anyone who is not able to listen to today's entire call, an archived version of this webcast will be on our website later this afternoon and available for approximately 12 months.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 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. While our results declined from the prior year, they exceeded our expectations for the quarter. Our consolidated second-quarter 2015 revenues were down 3.8% to $658.7 million from $684.7 million the prior year. And our net income decreased to $22.7 million, or $1.39 per diluted share, from $32.9 million, or $1.95 per diluted share, a year ago.

There are two items I need to call out in the results. First, last year's net income included an $11.5 million after-tax gain on the sale of assets, or $0.68 per share, from the sale of the Company's Brazil facility in the second quarter of 2014. In addition, the Nuvera results are included in these numbers, and we did not own Nuvera at this time last year. Excluding these items, results increased.

I will discuss the lift-truck business and then Nuvera, as we did last quarter, starting with our lift-truck business. The lift-truck business' revenues were $658.3 million and net income was $26.2 million for the second quarter of 2015, compared with revenues of $684.7 million and net income of $32.9 million in the second quarter of 2014. Operating profit was $33.2 million in 2015, compared with $47.7 million last year, including $17.7 million for the Brazil gain, or $30 million excluding the gain.

As expected, our lift-truck revenues were significantly reduced by unfavorable foreign currency movements again this quarter. In fact, currency, a $46.2 million detriment, was the main driver of our revenue decline. Unit shipments actually increased by 3.2%. Shipments were higher than in the second quarter of 2014, primarily due to a substantial increase in shipments of higher-priced lift trucks in North America. Shipments in Brazil improved over the first quarter of 2015 as our new plant moved into full production. However, volumes were lower than in 2014 as a result of the weak Brazil economy.

Our backlog increased 7% to 30,900 units over the prior-year second quarter but was down from 31,900 units in the first quarter. Our bookings, which we began providing last quarter, decreased slightly to 21,400 units from 21,600 units last year and from 23,700 units in the first quarter. However, overall bookings for the first half of 2015 increased over the first six months of 2014.

Despite the revenue decline and unfavorable currency movements which further reduced gross profit by $4.9 million, our gross profit still increased over last year, as did our operating profit if you exclude the Brazil facility gain reflected in the prior-year results.

Our gross margin increased from 15.7% in last year's second quarter to 16.9% this year, primarily as a result of lower-than-expected material costs and increased unit volumes of higher-margin product. At first glance, it appears that our selling, general and administrative expenses in the 2015 second quarter were comparable to last year. However, that was only because favorable currency movements of $4.3 million offset the higher local currency operating expenses we incurred. We continue to invest in our key strategic initiatives, with the results that our operating expenses went up as we increased headcount in the sales and marketing area. We also had some higher bad debt expense, and we spent another $500,000 this quarter to complete the move to the new Brazil plant.

Finally, I should note that our second-quarter 2015 net income includes the recognition of a $3.7 million tax benefit during the second quarter of 2015 from the repatriation of non-US earnings previously taxed at higher rates.

Now let me turn to the outlook for our lift-truck business. After stronger demand in the first half of the year than we expected, we believe the global market will decline in the second half of 2015, with demand level changes mixed by region. We expect the Americas to slow in the latter half of the year after recently robust demand in the first half of the year in most countries except Brazil, and we expect the Brazil market to remain depressed in the second half of 2015. The Europe, Middle East and Africa markets are expected to decline moderately in the second half of 2015 from the levels achieved in the first half of the year but be moderately higher than in the second half of 2014.

We continue to believe certain markets such as Russia and Saudi Arabia will be lower in 2015 than in 2014, but most key markets are expected to show year-over-year growth. Asia-Pacific markets are expected to be comparable to the improved levels realized in the first half of 2015, but we do expect China to continue to be soft in the second half of 2015 after its 9.5% decline in the first half of the year from the comparable period last year.

Nonetheless, despite these market conditions we expect a moderate increase in unit shipments and parts volumes over the remainder of 2015 compared with the second half of 2014. The increase in unit shipments in 2015 is expected to be driven primarily by Europe and North America, with moderate increases in Asia-Pacific partially offset by a decrease in unit shipments in Brazil as a result of Brazil's weak economy. We continue to expect currency to be a net headwind in the second half of the year, with the result that revenues are likely to be negatively affected by both currency and a shift in sales mix to lower-priced lift trucks. Accordingly, we expect revenues to decline modestly compared to the second half of last year but be higher in the first half of this year.

We expect the lift truck segment operating profit for the second half of 2015 to be comparable to the same period last year, with a weaker third quarter offset by an expected increase during the fourth quarter of 2015. Overall anticipated increases in unit shipments and parts sales are expected to be offset by increases in employee-related expenses as well as higher operating costs associated with the continued rollout of a global manufacturing information technology system, with implementation in an additional location in 2016.

Also, one other item to note is that the lift truck business expects to continue to incur incremental expense as it adds sales and marketing capabilities to help further execute strategic initiatives and the lift-truck sales opportunities associated with the Nuvera acquisition. The latter costs are expected to be small in 2015 but are expected to grow as volume increases.

Overall, we expect net income in the lift truck business for the second half of 2015 to decline from the same period last year. This is primarily because of the reasons already outlined as well as higher income tax expense resulting from non-recurring tax benefits received in 2014 and a higher effective income tax rate in 2015, attributable to an anticipated increase in the portion of the Company's income from the Americas operation, which have a higher tax rate. Of course, these tax rate expectations are based on current tax laws, but this could change as certain tax law extenders are reenacted.

Looking at the geographic segments within our lift-truck business, we expect the Americas operating profit in the second half of the year to be higher than 2014 as a result of the anticipated increases in unit and parts margin. As well as favorable foreign currency effects at current currency rates in the Americas. We expect operating profit for the remainder of 2015 in Europe to decrease substantially from the second half of 2014 primarily because of significant unfavorable foreign-currency effects at current currency rates.

However, this decrease is expected to be partially offset by improved unit and parts volumes in Europe. In Asia-Pacific, we expect the operating results for the second half of 2015 to be lower than the second half of 2014 due to a shift in mix to lower-margin products and higher expenses expected from market share gain initiatives partially offset by favorable foreign currency effects at current currency rates.

Finally, in spite of a higher level of expected capital expenditures in the current year, we anticipate cash flow before financing activity 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 second quarter of 2015, Nuvera reported a net loss of $3.5 million, in line with our expectations. As I mentioned last quarter, we do not expect to reach breakeven at Nuvera until roughly sometime in 2017. We are right where we expected to be with Nuvera. We continue to be encouraged by the interest we are receiving from our customers, dealers and potential partners regarding Nuvera's products and believe the fuel cell market for lift trucks has significant growth opportunity. Further work is needed to commercialize the Nuvera technology, and we are working rapidly to complete this.

As a result, we expect a net loss of approximately $7.5 million to $8.5 million in Nuvera in the remainder of 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 second quarter of 2015, and modest incremental revenues are expected in the second half. This could potentially increase as a result of additional PowerTap sales and as a result of incremental revenues from the sale of PowerEdge units.

The PowerEdge units can be substituted for lead acid batteries in class I, II and III lift truck models and are expected to begin shipping in late 2015 or early 2016 as we introduce these new products to the market at an average selling price of between $17,500 and $35,000, depending upon the model. We believe our US customers will qualify for the 30% federal energy credit which currently expires at the end of 2016 on these units and which would allow customers to enjoy a lower after-tax cost.

Our 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 incur cumulative operating losses of up to $40 million to $50 million over 2015 in the next one to two years, including approximately $13 million in the remainder of this year for additional research and development to commercialize Nuvera's technology, with the objective of reaching a break-even running rate during 2017.

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

Our projected losses for Nuvera are on a stand-alone basis and do not include the synergistic impact of incremental volumes in the lift truck business we expect to achieve or the ongoing associated after-market revenues for these products. In addition, we believe that by undertaking the development and integration of the Nuvera 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, for our consolidated business we continue to anticipate that economic growth will improve in the remainder of 2015 and are mindful of the uncertainties and risks in certain markets. At this time, we expect currency to continue to be a significant headwind. We will, however, continue to execute our key strategic initiatives. If we see more positive volume momentum than we have outlined here, we believe our plants are well-positioned to respond.

That concludes our prepared remarks. I will now open up the call to your questions. Thank you.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Mike Shlisky, Global Hunter.

Leigh Pressman - *Global Hunter Securities, LLC - Analyst*

Good morning, guys. This is Leigh Pressman on the line for Mike Shlisky. I just have a few quick questions for you guys. Do you experience a seasonal shutdown in Europe during Q3? A few other manufacturing companies we've heard from this quarter are expecting that. Is that something in a normal course of business for you?

Al Rankin - *Hyster-Yale Materials Handling, Inc. - Chairman, President and Chief Executive Officer of Hyster-Yale Materials Handling, Inc. and Chairman, NACCO Materials Handling Group*

There is certainly vacation time in Europe in the summer, yes.

Leigh Pressman - *Global Hunter Securities, LLC - Analyst*

So that seasonally affects every year the Q3 results for your Europe segment?

Al Rankin - *Hyster-Yale Materials Handling, Inc. - Chairman, President and Chief Executive Officer of Hyster-Yale Materials Handling, Inc. and Chairman, NACCO Materials Handling Group*

Generally, yes.

Leigh Pressman - *Global Hunter Securities, LLC - Analyst*

Okay. Great. Have you been getting any orders yet for your PowerEdge batteries, or do you have a sense of what the demand for the product is like this point?

Al Rankin - *Hyster-Yale Materials Handling, Inc. - Chairman, President and Chief Executive Officer of Hyster-Yale Materials Handling, Inc. and Chairman, NACCO Materials Handling Group*

I think what we've said is we want to have about 250 bookings by the end of the year. We still feel that that's a very reasonable target. We have a number of customers that are extremely interested in it. We will have some working fuel cell battery substitutes available toward the end of the third quarter. And the customers we are working with, generally speaking, we want to demonstrate what those fuel cells with them.

So from our point of view, we are on track for what we've said in the release, and we are working very closely with those customers and feel good about the situation at this point.

Leigh Pressman - *Global Hunter Securities, LLC - Analyst*

Okay. Great. And then one more, if I could. You spoke about the Americas in general, which includes Brazil. What are you seeing domestically just in the US alone for the back half of the year? There's been definitely positive macro data points that have been coming out, so just curious what you see in the US specifically for the lift truck market.

Al Rankin - *Hyster-Yale Materials Handling, Inc. - Chairman, President and Chief Executive Officer of Hyster-Yale Materials Handling, Inc. and Chairman, NACCO Materials Handling Group*

Well, let me answer the question the other way around for a second.

Leigh Pressman - *Global Hunter Securities, LLC - Analyst*

Okay.

Al Rankin - *Hyster-Yale Materials Handling, Inc. - Chairman, President and Chief Executive Officer of Hyster-Yale Materials Handling, Inc. and Chairman, NACCO Materials Handling Group*

Brazil is a big drag on the Americas at the moment. And if you think about it this way -- I think it's helpful to think about this way. In Brazil, we have dealers who have significant inventory. And as they -- as a steep downturn occurs in the economy, which is what's happening now, their retail sales rate from their inventory goes down. And they want to lower their inventory to an appropriate level for the current level of activities.

So even though they are continuing sales at the retail level of lift trucks, from the point of view of our shipments we get an exaggerated downturn in our shipments because the dealers are not reordering. And indeed, we don't want them to reorder because we want them to be economically healthy. And if they have too much invested in inventory in a downturn, they can become economically stressed.

So the net result is that, for a period of time, our dealers are bleeding down inventory, and that may take six months or so depending on how far down lift truck orders go in Brazil. We are forecasting currently on a pretty pessimistic basis. And maybe it won't turn out that way, but we feel it is more prudent to manage the business on the basis of a sharp downturn. We can always respond and turn up relatively quickly, but it's really tough to work out of an over-inventoried situation. So Brazil, as a result, has -- as a full-service profit center has some significant losses that are a drag -- a big drag on the Americas in the second half.

The flip side of it is, really, we have North America and Latin America. Orders are really pretty robust in Latin America, and it's too early to tell in the Americas. The economy is certainly turning up, but there's a lot of seasonal booking activity because different industries tend to book trucks at different times. And generally speaking, some -- there are increases in certain customers of significance and certain markets of significance -- product markets of significance where we are not as strong a participant or don't do business with some of those customers.

So it's too early to really tell -- but those are particularly warehouse customers, let me clarify that, where we have a lower share. So class II type trucks, certain portions of class III type trucks and, to some degree, three-wheel electric trucks. And so this is a time when we -- with a robust economy, when we expect to be lagging the total market a little bit. But then our customers tend to order in the second half.

So it's really too early to say we don't see anything that fundamentally is changing at this stage of the game. We feel the market is moving in the right direction for us, and we feel that the share gain programs we have are beginning to gain momentum. But they take time because, for example, as you get a breakthrough at a new account, you tend to have a small order. And then those trucks become established and prove themselves out in the customer's environment and then they will order more. So there's kind of a phase-in period before you've got your full share at a new customer or a conquest account. So you have to watch it patiently, but the process is moving forward in North America very much in the right way from our point of view.

Leigh Pressman - *Global Hunter Securities, LLC - Analyst*

That's great color. Thanks, guys. I'll leave it there.

Operator

Mig Dobre, Robert W. Baird.

Brian Brophy - *Robert W. Baird & Company, Inc. - Analyst*

Hi, good morning. This is Brian Brophy on for Mig. I have a few questions, and I'll start up in the lift truck business, kind of piggybacking off your last answer. The destocking situation that you described in Brazil, is that something that you saw happening in the second quarter, or is that something you are expecting in the back half of this year?

Al Rankin - *Hyster-Yale Materials Handling, Inc. - Chairman, President and Chief Executive Officer of Hyster-Yale Materials Handling, Inc. and Chairman, NACCO Materials Handling Group*

It's very much happening now. Christina, in her overview remarks, indicated that the plant is up and operating in a very good fashion, but it is not operating at the level that we had hoped. That's what I think she was communicating, and that's because of the beginning of the process that I just described to you.

Brian Brophy - *Robert W. Baird & Company, Inc. - Analyst*

Got it. Got it. Okay. And then switching to --

Al Rankin - *Hyster-Yale Materials Handling, Inc. - Chairman, President and Chief Executive Officer of Hyster-Yale Materials Handling, Inc. and Chairman, NACCO Materials Handling Group*

Let me add that the same thing, to some degree, is going on in Russia, which has been a good market for us. But as you can imagine, the financial conditions for our dealers are very, very tight in Russia. And so new orders -- they are destocking in the same way that I described for Brazil. Maybe it's not quite as brutal and its impact on us is not as significant because we don't have the cost structure there that's associated with just Russia. But, nevertheless, the same thing is happening there.

And in Turkey, we changed some dealers. So it's a little bit the opposite direction now; they are starting to order stock and starting to move up. And we have the problem I described in Turkey in the main -- probably last year.

So these things happen, but the fact is the end markets in Russia, Turkey and Brazil are all pretty weak at this stage of the game. And they were good markets for us, so we have to be -- we have to wait until they come back. So maybe that's some additional perspective on that.

Brian Brophy - *Robert W. Baird & Company, Inc. - Analyst*

Yes, I appreciate the extra color. So switching to one of your other comments in the press release, you talked about a substantial increase in the mix of large trucks in North America that helped drive demand in this quarter, yet you are talking about a shift to lower-mix trucks in the back half of year. Was there something in particular that drove that? Was there a big order that you guys delivered in the second quarter? I guess I'm just trying to figure out if there was something specific that is driving these changes in mix from this quarter to the back half.

Al Rankin - *Hyster-Yale Materials Handling, Inc. - Chairman, President and Chief Executive Officer of Hyster-Yale Materials Handling, Inc. and Chairman, NACCO Materials Handling Group*

I don't think so. What really happens is that you get some pretty long lead times on big trucks. And the market is small in units and bigger in dollars, so it can get very lumpy. But I would more broadly say we think our prospects in big trucks in the Americas are very good. We are ramping up our efforts in that area, and we feel very positive about what's going on and the opportunities to do well in the big-truck market, both in the ports and in the industries that use very large lift trucks.

So -- and we have had great progress in our efforts in Brazil. Presumably, that may moderate for a bit until the economy stabilizes. But, again, we are moving that very much in the right direction.

Brian Brophy - *Robert W. Baird & Company, Inc. - Analyst*

Got it. I guess that begs the question as to why, then, you have the expectation for the lower mix. Is it something specifically you are seeing in your backlog?

Al Rankin - *Hyster-Yale Materials Handling, Inc. - Chairman, President and Chief Executive Officer of Hyster-Yale Materials Handling, Inc. and Chairman, NACCO Materials Handling Group*

Well, there's probably some in the backlog and some of what we expect from the customer order patterns that we expect in the second half of the year that we can respond to, but I don't think there's anything major there.

Brian Brophy - *Robert W. Baird & Company, Inc. - Analyst*

Got it. Okay. And looking at your results in the Americas this quarter, you posted a very strong incremental margin, one of the strongest we have going back quite a few years. I'm guessing -- at least directionally, if you could help us parse out what were the drivers of the strong incremental margin? How much was mix? How much was lower cost -- lower material cost? How much was any benefit from currency, and what was just normal volume?

Al Rankin - *Hyster-Yale Materials Handling, Inc. - Chairman, President and Chief Executive Officer of Hyster-Yale Materials Handling, Inc. and Chairman, NACCO Materials Handling Group*

I'm not going to get too much into the how-muches, but let me make a few comments. First, the quarter could've been better. Brazil, as I described, was a big drag. From a more narrow point of view, we had some product liability charges that were unusual that wouldn't normally be repeating in any way. So those are booked in that period, and so it was strong from that point of view.

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Now, what's making it strong? Number one, currency is a benefit to the Americas, but coupled with that is it's a big, adverse impact on Europe. So for us net, especially with the pound stronger than the euro, currency is net for the Company a drag, but it's a big drag for Europe and a benefit for the Americas. So it's a complicated and interwoven situation.

And from a long-term point of view, our view is that the dollar is overvalued, the euro is undervalued and this is a great time to lock in forward currency exchange on what we view as a very favorable rate in terms of dollar purchases of euros to cover or to protect future flows from Europe into the United States.

Conversely, is not a time when we would hedge euro purchases of dollars because eventually we think that we would just be locking in a bad situation and giving us no upturn. So we try not to be too greedy on foreign exchange in the Americas versus Europe, but there are a lot of moving parts here.

So that's one comment; that's the currency. And the rest, I'd say, is just we've got a very efficient business in the Americas. It's moving forward in a good way, and we feel pretty comfortable about the overall situation. As you point out, it did perform very strongly.

Brian Brophy - *Robert W. Baird & Company, Inc. - Analyst*

Got it. Okay. And then switching to Nuvera, it sounded like in the press release and the opening comments you are pretty confident with the progression of commercializing that product. I was hoping there was -- any other color you can provide from those comments?

Al Rankin - *Hyster-Yale Materials Handling, Inc. - Chairman, President and Chief Executive Officer of Hyster-Yale Materials Handling, Inc. and Chairman, NACCO Materials Handling Group*

Well, a couple of things. Number one, yes, we have seen nothing unexpected. The product development -- the product commercialization process is going essentially as we anticipated. In terms of timing, in terms of our expected ultimate costs, the whole process seems to us to be very much on track. So that's point number one.

As we've said, we expect bookings this year and consequent shipments either toward the end of this year or the beginning of next year just depending on what works from a customer installation point of view and from an order pattern and production pattern point of view.

And then we expect to continue to build a volume quarter by quarter over the course of 2016 and will have increasing perspective on that as we get toward the end of the year this year.

But you know, there's a broader comment I would make about Nuvera, and it just sort of illustrates how we here at the Company think about the business. What we think about is the forklift truck business as the core business. And as we think about valuation, we tend to think about it in terms of EBITDA multiples on a net debt basis. That is, debt less cash and then cash being -- we're cash positive, so it adds back value over and above the value of the business.

And then we think that the best way to think about Nuvera is not by integrating the P&L with the forklift truck business because those multiples get very distorted. But rather, to think about what's the Nuvera business worth on a stand-alone basis given the nature of that business as, if you will, much more of a venture business that's losing money today and that's going to make money tomorrow.

We have a lot more secure feeling, of course, than most venture businesses because the R&D is done. We are commercializing it. There are already a very significant number of these battery replacement units, fuel cell units out there in the field that are competitor units. And many of those customers are already indicating -- of our competitors are indicating a real interest in trying our product as well and seeing how it performs on a comparative basis. We feel very good about our product.

So we tend to think of it not as a subtraction of operating earnings or EBITDA to the core business, but rather as an entity that has value that you simply add on to the value of the forklift truck business. So we really focus on the core forklift truck business. And then on the progress of Nuvera and meeting its -- we run it as an independent business as well. And so the fact that it has losses upfront, as Christy suggests, is something of an advantage from a tax point of view as compared to buying those earnings -- buying that entity without having to do that kind of work.

So we bring it through commercialization. You may remember we paid very little for the business, and then we put this money in, so we have an investment net after-tax of -- what, Ken? -- somewhere on the order of $40 million -- $35 million, $40 million, something like that. And then, well, what's it worth based on the prospects? And it's an additive piece, not a subtractive piece, in terms of targets that are based on multiples of 2016 earnings and that sort of thing.

So that's some added perspective for you to think about with regard to Nuvera, both in terms of its prospects and perhaps how to think about the business.

Brian Brophy - *Robert W. Baird & Company, Inc. - Analyst*

Yes. I appreciate that. Sticking with that, you talked about breaking even in 2017. Is there any sort of particular unit number that you need to get to to break even here?

Al Rankin - *Hyster-Yale Materials Handling, Inc. - Chairman, President and Chief Executive Officer of Hyster-Yale Materials Handling, Inc. and Chairman, NACCO Materials Handling Group*

We'll say more about all that as we move toward the end of the year and we complete the commercialization cycle for the particular initial set of battery replacement units. And we will have more specificity on the number of units and the number of those things. So we'll try to provide those, but we don't think it's quite timely to do that yet. We'd like to wait until something toward the end of the year.

But, certainly, our acquisition business model, which we haven't deflected from in any way, shows that the volume is adequate and the price margin structure is adequate to get us to that situation as we move through 2017.

So we don't really have at this point anything -- any reason to deviate from what we said about the acquisition. And when we get into this a little deeper and complete some of the cycles, we'll update all that stuff.

Brian Brophy - *Robert W. Baird & Company, Inc. - Analyst*

Got it. Perfect. Thanks for taking my questions. I'll pass it on.

Operator

Joe Mondillo, Sidoti.

Joe Mondillo - *Sidoti & Company - Analyst*

So my first question just on -- so it seems like the lift truck industry has been growing around 10% over the last year, and it seems like you guys have fallen a bit short to that given maybe some issues in Brazil -- your particular footprint. It sounds like in your commentary you feel like the industry itself may actually slow and maybe weaken a little bit in the back half of the year, but it sounds like you are going to actually outperform. So I was just wondering how you see that sort of transition from the last 12 months to actually outperforming over the next six months.

Al Rankin - *Hyster-Yale Materials Handling, Inc. - Chairman, President and Chief Executive Officer of Hyster-Yale Materials Handling, Inc. and Chairman, NACCO Materials Handling Group*

Well, you know, the currencies affect a lot of these things, and they're for a whole variety of perspectives. But let me just comment more generally. We do see the industry growth rate slowing. We see pretty moderate growth, and we see some areas of the world actually contracting, the obvious ones being -- the obvious one being Brazil. But China is currently contracting and, of course, there are unsettled markets like Russia that had already contracted and Turkey and so on and so forth.

But the bottom line is that we see pretty moderate growth in the markets around the world, and there are really not any big outliers from that. Now, let me say in the first half we saw more moderate growth than occurred. So if we have any bias in our thinking in this area at all, it's to be conservative in our assumptions because we don't use different assumptions here in our discussions than we use in managing the business. And we feel that it's better in uncertain times to run the risk of building backlog than to run the risk of not being able to fill our plants and having to unwind a supply chain, which is very inefficient. So that's one set of comments in terms of the market.

On the booking side, I indicated that we feel that our customer base is likely to be stronger in the second half and has a traditional ordering pattern in the second half. But, perhaps more important, we continue to believe that our share gain programs will have increasing impact over the rest of this year, over next year and over 2017. And that's really the key from our point of view is that effort that we put in to create a set of capabilities that we think make it reasonable to increase our market position above what it has been historically.

So that's about the best way, I think, to answer your question.

Joe Mondillo - *Sidoti & Company - Analyst*

Okay. The second question that I had regarding gross margin -- so in the quarter, it sounds like you sort of pointed out two things that drove the gross margin, being material costs and sort of higher margin type products. Is that -- if you had to split those, would it be sort of a 50-50 type thing, or is the margin on the product side more of a benefit than materials?

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

Well, currency comes into it. Certainly materials are a significant impact for us, without any question. But currency comes into this, and this is one aspect of currency we haven't talked a lot about. But we had some hedges that are pretty favorable in protecting Europe. Now, it's disadvantaged, but some of those hedges are going to run off and that's going to hurt Europe. On the other hand, we had some hedges that are going to run off that are going to help the Americas. So there's a big currency piece that is sort of flowing through this in an unusual kind of way.

But material cost was certainly a very significant benefit. And sort of on the other side of things were a variety of considerations in the second quarter that had a more negative effect. I think that's the way I would put it: biggest single impact is the material cost and then the variety of others that are pluses or minuses.

Joe Mondillo - *Sidoti & Company - Analyst*

Okay. So you guys realized some gains on some hedges in the Americas segment in the second quarter?

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

No, it would be the other way around, Joe. We saw gains in Europe that protected the unfavorable currency position we are experiencing in Europe. And we would have had some losses on contracts in the Americas that is moderating the improvement we are seeing in the Americas. And of course, as we are enter in the new contracts those rates are closer to the current market rates for currencies. And, as Al has pointed out, we won't get the same contract protection in Europe because the rates changed out.

Al Rankin - *Hyster-Yale Materials Handling, Inc. - Chairman, President and Chief Executive Officer of Hyster-Yale Materials Handling, Inc. and Chairman, NACCO Materials Handling Group*

But we really won't hedge in Europe --

Joe Mondillo - *Sidoti & Company - Analyst*

Right.

Al Rankin - *Hyster-Yale Materials Handling, Inc. - Chairman, President and Chief Executive Officer of Hyster-Yale Materials Handling, Inc. and Chairman, NACCO Materials Handling Group*

Much because it's pretty unattractive to hedge.

Joe Mondillo - *Sidoti & Company - Analyst*

Right. Understandable. So just staying on sort of the gross margin, you pointed out in the release that you anticipate Asia in the back half of the year to sort of deal with lower-margin type products that may weigh on the overall segment's margins. But in terms of the Americas and Europe, how does this sort of mix look like that you have in the backlog going into the back half of those two regions?

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

I don't think there is anything I would usually call out at this point, to be honest.

Joe Mondillo - *Sidoti & Company - Analyst*

Okay. And also, regarding sort of the overall outlook, I think you mentioned that your sort of overall outlook for the back half of the year should be operating income of the lift truck business should be comparable to the year-ago period. However, you sort of state that the third quarter is going to be worse than the fourth quarter. Just wondering what gives you the confidence that there will be a rebound in the fourth quarter? Is it timing on the backlog?

Al Rankin - *Hyster-Yale Materials Handling, Inc. - Chairman, President and Chief Executive Officer of Hyster-Yale Materials Handling, Inc. and Chairman, NACCO Materials Handling Group*

I think it's more related to some of those seasonal factors: the vacations and the general slowdown of activity more than anything else. (multiple speakers)

Joe Mondillo - *Sidoti & Company - Analyst*

Okay. So it's not a year over year -- the third quarter is always worse, but it's not a --

Al Rankin - *Hyster-Yale Materials Handling, Inc. - Chairman, President and Chief Executive Officer of Hyster-Yale Materials Handling, Inc. and Chairman, NACCO Materials Handling Group*

And there's also some impact of more days in the fourth quarter than the third quarter.

Joe Mondillo - *Sidoti & Company - Analyst*

Right. Okay. And then just lastly regarding Nuvera, I'm wondering how has the feedback from customers been, or is it too early to tell regarding how this business is progressing on the commercial side of things? Or is it just too early to tell?

Al Rankin - *Hyster-Yale Materials Handling, Inc. - Chairman, President and Chief Executive Officer of Hyster-Yale Materials Handling, Inc. and Chairman, NACCO Materials Handling Group*

Well, let me give you a careful answer. It's too early to tell for sure. But the customers we're working with are very -- at this point are very pleased with what they see and what we can do for them. And so we certainly have, as I suggested earlier, no reason to deflect from the perspective that we have had earlier.

Joe Mondillo - *Sidoti & Company - Analyst*

Right. I guess one of the things that I was trying to think about is if we are going into a softer time period in the industry overall, lower oil prices, energy prices overall, just wondering what your thinking is or what the customer feedback is given the larger upfront costs of some of the products out of Nuvera.

Al Rankin - *Hyster-Yale Materials Handling, Inc. - Chairman, President and Chief Executive Officer of Hyster-Yale Materials Handling, Inc. and Chairman, NACCO Materials Handling Group*

Well, let we go back to some of the focus that we will have with this product. Initially, we expect the uptake to be among heavy-duty, high-productivity users. And this is where the greatest benefit comes in comparison to a lead acid battery truck. And so we think it will stand on its own merits, and I don't see it being hugely affected by the kind of moderation of the growth rate that we see -- or not affected of all, particularly.

Secondly, the customers who are involved in the initial uptake on this kind of a problem are generally -- for this kind of a product are generally large, sophisticated companies with large orders. And so they will open a new warehouse and they will put the product in. Or they will replace a facility's trucks with this type of product. They don't go across the board; they are looking at it as a way to improve their performance. And if you get these high-productivity environments, lead acid batteries require multiple batteries, and there is plenty of upfront cost associated with those lead acid battery applications.

And one key advantage that we have is we do bring along a device that produces the hydrogen and permits piping it into, if you will, filling stations in the plant. So we have a hydrogen generator that we sell, which we discussed in the press release. So we have a total package that can be very attractive to these kinds of customers.

Now, in addition, there are some number of customers -- certainly a smaller subset -- that are interested in this product because of its green implications as well. And those people are not going to be hugely deflected by the level of the market and so on and so forth.

So if we saw a big downturn in the US market,that would affect everything. But that's not the kind of -- we are talking about a moderation here, not in any way a downturn.

Joe Mondillo - *Sidoti & Company - Analyst*

Right. Okay.

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

Joe, the energy comparison is really the price of electricity to charge batteries versus the price of natural gas to convert into hydrogen.

Al Rankin - *Hyster-Yale Materials Handling, Inc. - Chairman, President and Chief Executive Officer of Hyster-Yale Materials Handling, Inc. and Chairman, NACCO Materials Handling Group*

But it's a complex equation because a battery truck will have its energy supply degrade over the charge of that battery, so it isn't as productive at the end of a shift as it is at the beginning. A fuel cell doesn't operate that way; it's like an automobile -- it goes full tilt until it runs out of gas.

Joe Mondillo - *Sidoti & Company - Analyst*

Right. Okay. Thanks for taking my questions.

Operator

John [Rocoto], Claret Asset Management.

John Rocoto - *Claret Asset Management - Analyst*

Thanks for taking my questions. So my first one regarding Nuvera. I was wondering if you can give us a sense of how big is the market opportunity for Nuvera's products, dollar-wise?

Al Rankin - *Hyster-Yale Materials Handling, Inc. - Chairman, President and Chief Executive Officer of Hyster-Yale Materials Handling, Inc. and Chairman, NACCO Materials Handling Group*

I'm not sure I can give you a good answer to that because it's going to be on an evolutionary basis, and it is fundamentally a displacement market. In other words, the lift truck market itself is not going to grow any faster or slower because there are fuel cells available as an energy source.

So what happens here is that increasingly we think certain kinds of electric trucks will have an uptake of fuel cells, and it will start in these heavy-duty, high-intensity applications, which is only a portion of the market.

Colin, you are on the phone here -- my recollection is that that sort of high-intensity application market might be on the order of 25% or 30%. Is that your recollection?

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

Yes, that would be a good proxy. The other thing about the market for fuel cells is it obviously extends way beyond lift trucks. The primary aim of buying Nuvera is to integrate it as a package into our trucks to replace for battery electric -- supplement battery electric as well as in the next generation to start using it in equipment that cannot be used as engines. Because really it is a fuel-cell engine that we are providing. It happens to be clean and operates very, very efficiently. But the market is really limitless when you think about the other potential applications of fuel cells.

Al Rankin - *Hyster-Yale Materials Handling, Inc. - Chairman, President and Chief Executive Officer of Hyster-Yale Materials Handling, Inc. and Chairman, NACCO Materials Handling Group*

But our focus, of course, is strictly on the forklift truck market. So, as Colin indicated, we kind of started in the battery substitute side. But we expect that there will be a type of truck developed in the future which will allow this truck to participate in the interim what is now the internal combustion engine market. Now, that is a way away; that's out in the 2017 time frame.

And so I think the answer to your question really has to be that we expect that the potential market will grow as the technology is commercialized in different segments of the business. And number two, as the cost of the fuel cell and the hydrogen generator are driven down over the next two or three years through our cost reduction programs. So all those things will come together and create a larger market opportunity down the track.

And we think there's just an awful lot of people -- just commenting more generally on the battery side for a minute. As the costs come down, I think there's going to be a desire on the part of a great many applications to avoid the problems of a lead acid battery -- the recharging capabilities that are needed, dealing with the chemicals that are involved. And if there's a good substitute on an economic basis, we think there will be more and more applications there. And then, as I said, you may see some even hybrid type applications of fuel cells that compete more directly for the internal combustion engine portion of the market.

John Rocoto - *Claret Asset Management - Analyst*

Okay. Okay. Thank you. I've got it. Thanks. And then switching to the lift truck business, at the time of this (inaudible) you led a long-term operating margin target of in the 7%. So I was wondering is that still in the plan?

Al Rankin - *Hyster-Yale Materials Handling, Inc. - Chairman, President and Chief Executive Officer of Hyster-Yale Materials Handling, Inc. and Chairman, NACCO Materials Handling Group*

Absolutely. But let me go back to the foundation of the 7%. The 7%, we believe, can come about, come to pass. Not because of cost reduction, not because of new products, but basically because we sell more lift trucks and enough lift trucks to fill up our manufacturing plants. And so we have said that we need a specific set of -- a specific number of trucks in the 2017 time frame, and that will come through continued growth of the market, which has been moderating, or we think it is going to be moderating more. Although, by then, places like Brazil may be coming back. And by the very broad gauge set of efforts that we have underway to lead to market share gains.

So it's strictly a volume story. And the answer to your question is, yes, we continue to believe that we can reach a level that will fill up our plants at about the peak of this cycle in the time frame that we previously outlined.

John Rocoto - *Claret Asset Management - Analyst*

Okay. Okay. Thanks. That's helpful. And lastly, this is a very broad question -- it's just me, I guess, trying to better understand the dynamics of the lift truck industry. I noticed that some of your European peers, mainly German manufacturers, have achieved quite a stronger growth than you. So I was wondering if you can comment about the situation -- how to do that and what's different (inaudible) in those data?

Al Rankin - *Hyster-Yale Materials Handling, Inc. - Chairman, President and Chief Executive Officer of Hyster-Yale Materials Handling, Inc. and Chairman, NACCO Materials Handling Group*

Well, the two German manufacturers are completely dependent on Europe, essentially. Certainly KION has some business -- they don't have much business in the United States or in the Americas particularly. They have some business in China, but they are fundamentally a European business. And I think there are a couple of things that happened as the market turned up for them. One, you have -- they are much stronger in Germany than they are in other countries, so that's a piece of it.

Second, they are filling up their manufacturing plants and getting the benefit of the leverage and their narrow geographies. If you look at our numbers, our operating profits in the Americas are a lot higher than they are in Europe. And they are really already in the range of 7%, but we think we will be driving them up well above those numbers. So you can get a lot of leverage.

The other thing that's a little different about our competitors -- and those two companies that you called out in Germany are very good competitors, and they are really excellent companies. But they have a broader footprint than we do. So they own a lot of their distribution. We do not. So they are also benefiting from the growth of the service and parts business that is the dealer portion. Which 100% of the service business but a portion of the parts business -- the OEMs gets. And in an upturn, typically you get higher utilization of lift trucks, and service and parts turn up. So probably those are some of the factors that are at work more generally.

John Rocoto - *Claret Asset Management - Analyst*

Okay. Okay. Thank you very much again. That was helpful. I'll leave it there.

Operator

We are now at the top of the hour. I would now like to turn the conference back over to management for any closing remarks.

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

Thank you very much for joining us today. We appreciate your interest. And if you do have any additional questions, please call me. My phone number is 440-229-5168. Thanks again.

Operator

Ladies and gentlemen, this conference will be available for replay after 4:30 p.m. Eastern Standard Time through August 6, 11:59 p.m. Eastern Standard Time. You can access the remote replay system at any time by dialing 800-585-8367 and entering the access code, 83847814. International participants dial 404-537-3406. Those numbers again are 800-585-8367 and 404-537-3406, access code 83847814.

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