

# **Hyster-Yale Materials Handling, Inc. (HY) Q1 2024 Earnings Call Transcript**

Seeking Alpha - Earnings Call Transcripts

May 8, 2024 Wednesday

Copyright 2024 Seeking Alpha Provided by Syndigate Media Inc. All Rights Reserved

**Length:** 6403 words

**Byline:** SA Transcripts

**Body**

Hyster-Yale Materials Handling, Inc. (HY)

Q1 2024 Earnings Conference Call

May 08, 2024, 14:30 ET

Company Participants

Christina Kmetko - Investor Relations Consultant

Rajiv Prasad - President & CEO

Scott Minder - CFO, SVP & Treasurer

Alfred Rankin - Chairman

Conference Call Participants

Chip Moore - ROTH Capital Partners

Ted Jackson - Northland Securities

Presentation

Operator

Good afternoon, ladies and gentlemen, and welcome to the Hyster-Yale Materials Handling First Quarter 2024 Earnings Conference Call. [Operator Instructions]. This call is being recorded on Wednesday, May 8, 2024. I would now like to turn the conference over to Christina Kmetko, Investor Relations. Please go ahead.

Christina Kmetko

Good afternoon, and thank you for joining us for Hyster-Yale's 2024 first-quarter earnings call. I'm Christina Kmetko and I'm responsible for Investor Relations. Yesterday evening, we published our first quarter 2024 results and filed our 10-Q. These documents are available on the Hyster-Yale's website. We are recording this webcast. And a replay will be on our website later this afternoon. The replay will remain available for approximately 12 months.

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

Our presenters today are Al Rankin, Executive Chairman; Rajiv Prasad, President and Chief Executive Officer; and Scott Minder, our Senior Vice President, Chief Financial Officer, and Treasurer. With the formalities out of the way, let me turn the call over to Rajiv to begin.

Rajiv Prasad

Thanks, Christy, and good afternoon, everyone. I'll start by providing the operational perspective and some commentary on our markets. Scott will follow with the detailed financial results and the outlook. Then I'll share a few strategic project highlights. Al will close the call with his perspective and then we'll open it up to your questions.

First, I'll provide some highlights from our excellent quarter 1 2024 financial results. 2023 was an outstanding year and we're continuing to build on those successes. For the fourth consecutive quarter, we reported revenues of more than $1 billion. And this past quarter, we had the highest reported operating profit and profit margins in the company's history, achieving an operating profit margin above 7% for the first time. Our quarterly highlights all positive.

Consolidated operating profit and net incomes are up significantly versus the prior year. We've improved operating profit margins and consolidated revenues as well. The global economy remains strong overall in the first quarter. However, political unrest around the world is causing lingering uncertainty.

The latest publicly available lift truck market data indicates that Q4 2023 global bookings increased year over year with stronger-than-expected year end volumes in EMEA and JAPIC markets. Those higher bookings more than offset the Americas decline. However, we estimate that Q1 2024 global lift truck bookings moderated compared to relatively strong prior-year level.

In Q1, we continue to work through our extended backlog and continue to focus on booking orders with strong overall margins. This coupled with the year-over-year market decline led to a moderate booking decrease compared to prior year. Bookings increased 10% sequentially, led by a large order for Class 2 and Class 3 warehouse trucks in EMEA. In quarter 1 2024, average booking prices decreased compared to fourth quarter 2023 and prior year. This was largely due to a shift towards lower price warehouse products predominantly in EMEA.

In line with our objectives, backlog levels decreased compared to year end 2023 levels. Now let's talk about the outlook for our business. Looking ahead, we expect competitive dynamics to become more prevalent again in our markets, particularly on products with shorter lead times. As we reduce backlog levels and improve lead times, we're committed to maintaining our targeted booking margins through new model introductions and cost decreases.

Subscribe to Seeking Alpha for more content like this

We predict an upward swing in quarter-over-quarter bookings throughout 2024. This is largely due to anticipated market share gains in the Americas and EMEA and improving North American market conditions later in the year. Our shipments are expected to increase in 2024 compared to 2023 due to higher production rates, continued supply chain improvements, and the dissipation of lingering product launch issues. As production and shipment rates increase, we foresee backlog levels and lead times on many product lines reaching target levels by year end.

As expected, our $3.1 billion backlog, which is equal to approximately nine month of production combined with new unit bookings is supporting the business through any near-term market weaknesses. Now I'll turn it over to Scott to provide some detailed financial results and outlook.

Scott Minder

Thanks, Rajiv. I'd like to emphasize that our strong Q1 2024 results build on 2023 exceptional year-over-year improvements. The numbers speak for themselves. Consolidated revenue rose to $1.1 billion, up from just under $1 billion in Q1 2023. As Rajiv mentioned, this is the fourth consecutive quarter with revenues over $1 billion.

Consolidated operating profit increased to almost $84 million compared to $41 million in Q1 2023. Our operating profit margin of 7.9% was up from 4.3% one year ago. Our Q1 2024 earnings per share increased by nearly 90% to $2.93.

Let's dive into the results that our lift truck business. Lift truck revenues grew 6% versus the prior year due to higher average sales prices and a favorable sales mix. These improvements were partially offset by lower unit and parts volumes. Due to previously implemented price increases, average lift truck sales prices increased by 17% year over year and 3% sequentially.

Our sales mix improved versus the prior year mainly due to increased sales of Class 4 and 5 internal combustion engine units in the Americas. These higher-capacity lift trucks generally have higher selling prices. Shipment volume declined 8% versus prior year, driven by 21% decline in EMEA as a result of lower production rates. American shipments were lower mostly due to reduced shipments in Brazil.

In Q1 2024, lift truck operating profit of $89 million increased by 87% year over year. Operating margins were 8.9% in the quarter, improving by 390 basis points versus the prior year. This gain was driven by higher new unit margins due to favorable price in material costs.

Units sold in Q1 2024 were largely added to our backlog in late 2022 and in 2023. These units had higher prices and margins than trucks sold in Q1 2023, the latter of which entered the backlog before our price increases went into effect.

Operating expenses increased in the quarter compared to prior year, mainly due to higher employee-related costs including for incentive compensation. The lift truck team remains focused on growth with disciplined execution. As a result, the business generated a 71% year-over-year incremental margin in the first quarter.

Now over to Bolzoni, Bolzoni's gross profit increased while revenues decreased as a result of the planned phase out of low-margin legacy component sales. This phase out will continue throughout 2024. The business maintained a strong price-to-cost ratio on its core attachment products. Bolzoni's Q1 2024 operating profit decreased due to higher operating expenses.

Subscribe to Seeking Alpha for more content like this

Moving to Nuvera, Nuvera's Q1 revenue decreased year over year due to fewer customer shipments. The first quarter's operating loss improved slightly as government funding to cover certain research and development expenses, offset the impact from lower shipments. I'll explain this government funding in more detail in a moment.

Before I move to our cash and balance sheet results, I'll outline the effect of taxes on our business. Our first-quarter income before income taxes was $77 million, up 114% compared to the prior year. However, net income increased at a slower pace due to a significantly elevated income tax rate. The company's Q1 2024 effective income tax rate was 33%. This compared to a 24% rate in the prior-year quarter. This large tax rate increase is a result of the combination of the US government's current R&D capitalization requirements and the company's inability to put tax assets on its balance sheet, given its US valuation allowance position.

Businesses that invest in R&D activities are required to capitalize these expenses and recognize them overtime. This effectively increases taxable income over 5 to 15 years, depending on the circumstance over which the R&D expenses are amortized. This reduces cash available to make further R&D and capital investments. We continue to work with industry groups and elected representatives to correct the situation and to restore the incentive for companies like Hyster-Yale to make future R&D investments.

Next, we'll turn to the balance sheet. Improvements in our financial results in cash generation were very significant in 2023. We expect increased momentum in this area as 2024 progresses. Given these broad business and financial improvements, our credit rating agencies, S&P and Moody's, upgraded our credit ratings in March and April respectively. Financial leverage continued to improve in the quarter with a 4% debt reduction compared to December 31, levels.

Our debt to total capital ratio of 53% improved by 200 basis points sequentially as a result of higher earnings and lower debt. Additional cash generated from operations was used to reduce debt levels in the quarter. Our unused borrowing capacity of $269 million was generally comparable to the December 31, level.

Working capital improved modestly from Q4 2023 but remained above desired levels at 18.9% of sales. While we improved inventory efficiency as measured by days inventory outstanding, significant further working capital reductions largely from inventory are expected across the remainder of 2024. On an absolute basis, Q1 2024 inventory increased compared to the prior year and prior quarter. This was largely due to a higher finished goods inventory driven by trucks completed but not shipped at quarter end and extended transit times due to internal global production shipments.

As we execute our strategic initiatives, we're utilizing our global production systems flexibility to manufacture trucks efficiently. Therefore, trucks coming to the US from our non-US facilities take longer to receive. We expect finished goods inventory to decrease in the second quarter as the Q1 shipment days are cleared. Positively, raw material and component parts inventory improved compared to the previous quarter and Q1 2023.

Looking ahead, the outlook for full year 2024 remains favorable and better than we anticipated last quarter. For the lift truck business, we expect continued revenue and operating profit growth in Q2 compared to the prior year. This growth is driven by an increase in expected shipments of higher-priced, higher-margin backlog units. To anticipate the potential expiration of tariff exemptions in late May 2024 to modestly tempered Q2 results compared to Q1 levels.

The company is actively working with federal regulators to have these exemptions extended. Full-year 2024 lift truck revenues and operating profit are anticipated to increase over 2023. Our Q1 results were higher than expected, largely due to continued strong unit margins. We anticipate our strong margin trend to continue for the balance of 2024. As a result, we expect higher full-year revenue and profit in our truck business compared to our prior guidance.

For Bolzoni, we anticipate 2024 revenues to be comparable to 2023. Bolzoni will continue to focus on increasing production of higher margin attachments while it executes the planned phase out of legacy component sales to the lift truck business. As a result, the operating profit is expected to increase modestly year over year, leading to higher gross profits, partly offset by increased operating expenses.

Subscribe to Seeking Alpha for more content like this

To increase sales, Nuvera is focused on more global customer product demonstrations in expanding its presence in Europe and China. Booked orders from current customers are expected to boost 2024 sales above last year's levels. The benefit from these higher sales will likely be offset by increased development costs, leading to comparable year-over-year operating results. Fuel cell customer adoption has a long sales cycle. Therefore, we expect increased 2024 demonstrations to support fuel cell engine technology adoption and revenue growth overtime.

To offset manufacturing costs, Nuvera was granted up to $30 million in matching funds from the US Department of Energy in April. This was part of a $750 million federal government investment in dozens of hydrogen projects as part of the National Clean Hydrogen Strategy. Also in early April, Nuvera was awarded up to $14 million of investment tax credits from the US Internal Revenue Service based on future spending levels. This is part of the qualifying Advanced Energy Project Tax Credit Initiative, funded by the Inflation Reduction Act. This program, which provides up to a 30% investment tax credit for selected clean energy manufacturing projects, is designed to support secure and resilient domestic clean energy supply chains. Nuvera anticipates using the tax credits to expand fuel cell production capacity at its Billerica, Massachusetts, headquarters.

At the Hyster-Yale consolidated levels, we expect increased full-year revenue, operating profit, and net income compared to prior year levels. As I said earlier, this outlook builds on a strong 2023 year. Due to the better-than-expected Q1 2024 results and anticipated forecast improvements in the following quarters, full-year 2024 results should improve compared to our prior full-year guidance. In the second quarter, we anticipate continued strong product margins from shipments of higher-margin backlog units to drive year-over-year profit growth.

Q2 profits are expected to increase significantly versus prior-year levels, but the modestly lower than Q1 results. This decrease is largely due to the anticipated expiration of section 301 tariff exemptions on May 31. For the full year 2024, we expect continued progress toward our 7% operating profit goal in our core lift truck and attachment businesses.

We started the year off with first-quarter margins of 8.9% in our lift truck business and 7.9% for the consolidated company. These were well ahead of our previously expected levels. We anticipate operating profit margins to moderate somewhat over the remaining 2024 quarters because of increased material costs. This was partly due to the assumed tariff exemption, the expiration I mentioned earlier.

We remain committed to systematic and sustainable progress toward our financial goals overtime. We remain focused on improving operating cash flows by decreasing working capital through improved inventory efficiency and strong production rates. As a result, inventory levels are expected to decrease substantially in 2024.

Consolidated 2024 capital expenditures are estimated to be $84 million, down modestly from our initial projection of $87 million. While we anticipate substantial investments in our business, maintaining adequate liquidity remains a priority. As a result of our efforts, we expect a significant increase in free cash flow in 2024 compared with the prior year. This would enable further financial leverage reductions. Now I'll turn the call back to Rajiv to discuss our strategic initiatives and the recent progress.

Rajiv Prasad

Thanks, Scott. Our vision is to transform the way the world moves material from port to home by promising customers optimized product solutions and exceptional care. To fulfill these promises and achieve long-term growth rates, all product segments are executing established strategic initiatives and key projects.

I'll share some highlights here, but you can learn more about additional strategic projects in the Q1 2024 news release and in our shortly to be released investor presentation. The lift truck business has three core strategies to transform our competitiveness, market position, and economic performance overtime.

The first strategy is to provide products that increase customer productivity at the lowest cost of ownership. At the heart of these initiatives are our award-winning modular scalable lift truck. With the March 2024 launch of the full 2 to 3 ton internal combustion modular scalable product line in JAPIC, these products are now produced and available in each of our major geographies that can be configured as value standard and premium products to fit the customers' exact specific needs.

Subscribe to Seeking Alpha for more content like this

For Hyster-Yale, this modular, scalable product platform enhances multiple areas of the business, including reducing supply chain costs, improving working capital levels, and providing customers with customizable solutions. Bookings and shipments of these trucks are accelerating in EMEA and American markets where they were first launched in 2022 and 2023.

We continue to capitalize on advancements in electric powertrains for applications now dominated by internal combustion engine trucks. As a result, an electrified fuel cell container handler is now operating at the port of Los Angeles and an electrified fuel cell reach stacker is operating at the port of Valencia in Spain. In March 2024, we agreed to supply 10 zero-emission battery powered terminal tractors to APM terminals at the Port of Mobile in Alabama. This was part of an electrification pilot for port equipment decarbonization. The lift truck business is also focused on applying technology advancement to operator assist and automated product options.

In March 2024, we began our first test of an internally developed automated truck at a customer location. This builds on our prior offering using third-party software. At the recent MODEX material handling trade show, we announced the standalone availability of our advanced dynamic stability technology or ADS. ADS helps maintain overall vehicle stability and minimizes the potential for lift truck tip overs, thus addressing a key industry risk factor.

The even more powerful Yale reliant operator assist technology which helps forklift operators avoid potential hazards, receives global recognition by earning an honorable mention in Fast Company magazine's Innovation by Design Awards. Bolzoni's core strategy is to be the leader in the attachment business that continued that journey in Q1 2024. The new home appliance telescopic plant for lift trucks designed to easily handle home appliances and pallet less load in confined spaces was introduced in March.

In addition, Bolzoni launched its Easy-Connect product range in February. These products feature technology to collect and analyze truck performance data. This allows customers to optimize their material handling process, including maximizing warehouse space and reducing handling time.

Nuvera's core strategy is to be a leader in the heavy-duty fuel-cell market. Using the funds granted by the DoE and its own funding, Nuvera will develop high-volume production processes needed to scale up its next generation fuel cell stack technology for heavy-duty vehicles. Now I'll turn the call over to our Executive Chairman, Al Rankin.

Alfred Rankin

Thanks, Rajiv. Building on the robust 2023 financial results, our results were obviously very strong in the first quarter. This reflects sound performance in our core lift truck and attachment businesses and continued progress at Nuvera.

To better reflect our company's business activity focus, last month, we announced new names for some of our businesses. As of May 31, the public company will be known as Hyster-Yale, Inc. The lift truck business will then take on the Hyster-Yale Materials Handling name in order to better align its name with its broad material handling capabilities, which have evolved beyond its core lift truck products.

The names of the other two Hyster-Yale strategic business units, Bolzoni and Nuvera, will remain the same. We believe these changes give more clarity to our company's future evolution as three distinct but interrelated businesses with lift trucks at the core. The strategic business unit names also help underscore our commitment to each brand. Under the umbrella Hyster-Yale, Inc., these business segments are positioned to deliver on the promises of their key brands, Hyster, Yale, Bolzoni, and Nuvera, to provide optimal solutions and exceptional customer care in their areas of business focus.

As I reflect on our business performance and outlook, I believe our future prospects are excellent. We're in the midst of a fundamental redesign of our vehicle architecture, which is off to a strong start. Our new modular scalable designs will help us meet customer needs more effectively, operate more consistently at target margins, improved manufacturing, and also lower inventory levels.

Subscribe to Seeking Alpha for more content like this

We're leader in on-vehicle technologies with our dynamic stability, operator assist systems, and fully automated trucks. Similarly, our initiatives at Bolzoni and Nuvera are expected to continue to position those businesses as leaders in their industries. In closing, I also note that while economic activity will vary globally and by quarter, our businesses should be stronger and better able to deal with whatever volatility occurs. Now I'd like to open the floor to questions.

Question-and-Answer Session

Operator

[Operator Instructions]. Our first question comes from the line of Chip Moore.

Chip Moore

Hey, everybody. Thanks for taking the question. Congrats on the strong quarter. I wanted to ask first, last quarter, I think we talked about maybe some larger accounts had maybe over-ordered and deferred some of their orders. Can you just give us an update there? Have you continued to see that at all? Has that normalized or how are those trends?

Rajiv Prasad

Yeah, Chip. This is Rajiv. I think those have generally normalized. We haven't seen any out of the ordinary cancellations during last quarter. So thing those have gone back. I think it was one or two key customers that had delays and so either deferred or canceled?

Chip Moore

Got it. Thanks, Rajiv. And then on the margin side, you talked about it in the prepared remarks, strong margin trends continuing for the balance of the year? And I think it was -- maybe just expand on that, help us think about near-term mix impacts. Obviously, this quarter, skewing where it's larger trucks. It sounds like maybe next quarter as well. Just something about that and lead times as well.

Rajiv Prasad

Yeah. So as we have worked through our backlog, the dynamic that we've experienced is that the -- so typically our dealers ordered these, let's say, simple configuration trucks. And we've been able to build those much more easily because they use more standard components.

So those were built and shipped in 2022, 2023 as we -- and now as we deplete our backlog, what's left are these high priced complex trucks, which have a lot of special engineering in them. And those are more difficult to build up.

To give you an idea, let's say if -- typically you'd have for each of our manufacturing stations, you'd have a certain tag time but, let's say, 20 minutes per station. These trucks maybe are taking 50% more time to get through some of the stations, and that's reducing the amount of volume throughput we can get. But at the same time, the value is much higher.

So that's where you've seen the dynamic this quarter where although, the number of units was lower, the actual revenue was pretty good. And that's why that's happened. Now these trucks also have good margin.

As we get into the second half of the year, we plan to build these mostly in the early first half of the year and second half, we'll get back to more normal mix.

Chip Moore

Got it. Yeah. That's very helpful. And maybe if I could ask another one on modular and scalable. How that process has gone? What you've learned so far from the rollout on some of those products, some of those hiccups? Do you think things get a bit smoother as you roll out to new lift truck glasses and then maybe with supply chain? That helps. I'm not sure, but just give us a little bit more of an update there?

Subscribe to Seeking Alpha for more content like this

Rajiv Prasad

Yes, sure. The primary hiccup was some technical issues on the rollout of those trucks, mostly software. We've got majority of that behind us. The trucks are ramping up nicely. We are adding models. So today, what we have in production is 2 to 3 ton pneumatics. And then over the next few quarters, we'll add the cushion trucks 2 to 3 ton and then 1 to 2 ton pneumatic and then 1 to 2 ton cushion in our Craigavon and Berea plant.

And then we'll also start manufacturing the value and the standard platform -- value standard platform in our Fuyang plant. We've already started for the apex part of the money market. The rest of the world will come online in the third quarter. So there's still quite a bit of phasing in of all the different models that we sell off that platform, and that will happen through the rest of this year.

Chip Moore

Great. And sorry, if I could, one last one, maybe for you, Scott, on the balance sheet, the inventory position. I think you called out, just the larger finished goods position. It sounds like maybe that unwinds fairly near term, but just how to think about the inventories? And obviously working capital is key to free cash flow there. Just thoughts on how that plays out this year. Thanks.

Scott Minder

Sure, Chip. Yeah, I think what we saw was a slower unwind of the inventory in Q1, largely in finished goods. Raw materials did come down as expected. So we expect to pick up the pace on the inventory reductions and make good progress on our long-term goal of 15% working capital as a percent of sales across 2024 and into 2025. So I think it's a good positive yet to come for the business, and that will translate into increased free cash flows.

Rajiv Prasad

Maybe I could just provide a little bit more color to that. So as you know, one of the plants that was -- had the longest backlogs were our big truck plant in Nijmegen, and those guys are making some really good progress now. Also Fuyang is now starting to build trucks for the other regions.

So what that does, it puts a lot of trucks on the water, and that goes into our marketing inventory as trucks that are in the shipping process. So that happened. It was better than we expected, but that does trap trucks in that category. Now, of course, as soon as they arrive, they're sent to their customers and invoice. So we think it will transition into receivables fairly quickly.

Operator

Our next question comes from the line of Ted Jackson.

Ted Jackson

Thanks. Congrats on the quarter. Days like this make me sad that sell-side analysts aren't allowed to own their own coverage anymore.

Scott Minder

Thanks, Ted.

Ted Jackson

I have a few questions on. I think some of them have been touched on actually in the last dialogue, but let's get into. So I'm talking about production issues. It sounds like most of the production issues were -- I mean, am I correct, there were around the modular stuff and that is now fading out. When do we see these production issues fully resolved? I think I'll stop at that right now.

Scott Minder

Yeah, Ted. So I think I want to -- I think generally, the , the new platform was okay. The majority of the issues we had were around 4-to-7 ton truck and also some big trucks. And the issue, as I said, the chip was really around the throughput we can achieve because of the complexity of the design that's in the backlog now that we're building. These are major account trucks with quite a lot of additional content. And so that's restricting the throughput we can achieve.

Alfred Rankin

I think another factor that you might want to think some more about is that units aren't necessarily the best indicator of what's going on in the plan. In another way, that's what Rajiv just said. And if you have fewer units going through, but they have higher revenue and very good margins, that's a full utilization of the line.

Subscribe to Seeking Alpha for more content like this

And so we're tending much more as time goes on to think of revenue throughput than individual units because remember, in the backlog, we have trucks at range from what to what, Rajiv?

Rajiv Prasad

3,000 to 500,000.

Alfred Rankin

So really is to look at the single numbers in the backlog in terms of units is probably not as helpful as understanding and focusing on the revenues. That's something we've got to think about as well as you all and we are.

Ted Jackson

So I'm taking that those answers then and the dialogue with and commentary with regards to guidance, that sounds to me like the production issues, which are related to the bigger trucks really will be resolved as we get out of the second quarter and you deliver those, we should see --

Alfred Rankin

Again, I just want to be careful about the use issues?

Ted Jackson

It's okay.

Alfred Rankin

These trucks have to be produced. They're very good trucks and we want to produce them. And we want to take the time that it takes to make them. Rajiv used the right word. There's less throughput in terms of units, but the dollars throughput is pretty darn good.

Ted Jackson

Okay. I understand. I'm just trying to get but let me get to my question because my question is really -- it's not about terminology, it's -- and tying into that is, as you deliver that backlog that we will see, our gross margin in the lift truck business comparable to the first quarter in the second quarter.

And then because the mix of your production changes, the unit volume will go up. The ASP will go down, and we will see, for lack of a better term, a contraction in gross margin in the second half. That's where I am going. Just the cadence of how your backlog is going to be going through your financial statements and how I see it, that's what I am asking. masking?

Rajiv Prasad

Yes. I think the way that we're thinking about it right now is we think the second quarter is going to be like the first quarter. The second half, we're still doing a lot of work to figure out how exactly to execute the second quarter because --

Alfred Rankin

They're actually the second half.

Rajiv Prasad

Second half, sorry. on it. And part of it is our customers are concerned about getting some of these trucks. So I'll just give you a -- for instance, for the second half, we're considering and we're exploring, getting EMEA to build some of the trucks for North America because they have caught up in a much better way -- their lead times now are lower than the Americas. So we feel they could build some trucks for Americas. So that's where the second half is still something that we're in the middle of planning on. So it's really difficult to comment on that on.

Alfred Rankin

I think another way to think about it is, just the backlog, which is -- really takes us largely through the year.

Scott Minder

Yeah.

Alfred Rankin

Has pretty darn good margins. We did fall out the negative, which, of course is the likelihood as we see it now that the tariff exclusions will not be kept up. That will be a headwind for us in the second half. And so it's more of those kinds of things.

Subscribe to Seeking Alpha for more content like this

Scott Minder

And I guess the other headwind we're going to go down is this the shipment costs, logistic costs because of the Red Sea issues. So we've had -- it's a longer trip, more expensive trip for our material and trucks coming out of Asia to our plants. So those two are headwinds, and we're trying to figure out what is the right way to and where to build some of the trucks as well.

So I know it there's a fair bit of complexity. And we're trying to manage that ourselves. Trying to figure out the best way to get through this situation we find ourselves in. So we are getting increasingly more pressure from customers to get these trucks, which are really production oriented trucks. They're really core part. You think about automotive, think about paper industry, steel industry, these trucks aren't support trucks, they're integral part of the production system.

Ted Jackson

Yeah, and t's good case, I know. I'm going to beat the unit thing one more time. And then I've got another question behind that. And so when I think about the last call, there was, for lack of a better term, a shortfall in terms of deliveries. And they got delivered in the first quarter.

And honestly, I was expecting to see growth in units at least on a sequential basis, and I did not. And so I want to go into units, and why I want to is because if we're going to see units grow in fiscal '24 relative to fiscal '23, given where you've started the first quarter, will we see meaningful unit growth in the second quarter because I'm trying to understand again kind of the cadence of this as we roll through the fiscal year? So that's where I'm going with it. Just how do I think about second quarter, and then I do actually have a much more fun question after this stuff.

Rajiv Prasad

Okay. So the way I would think about it is second quarter is going to be similar to first and then the second half, I think we'll do better on the build rate.

Ted Jackson

Okay. That was actually easy. Okay, now, here's my more fun question for you. You're ready. So you commented in the press release and in your presentation about the success you had in the EMA with warehouse truck orders. I know from your Investor Day that you have highlighted the warehouse market as an important opportunity for longer-term growth because your underrepresented market share in that vertical.

So when I hear that, my question is, is the success that you had in the first quarter of '24, an early indication of the success in taking market share in that segment? And what will the stat success as you progress through it mean to your margin structure over time?

Rajiv Prasad

And so let's just think about share as two components, it's participation, and close rates. And so where we are very, very focused right now, Ted, is increasing our participation. And there's huge amount of work going on in every region for us to increase our participation in warehouse in a very significant way.

Now, some engagements that can turn into orders fairly quickly. And that's been the case with a couple of major account customers in EMEA. With others, it takes -- it's a longer lead time to turn those into -- to get the close and turned those into orders.

But I will just talk about our focus, it's to increase participation. And as we start to participate, we'll get a sense for what we need to do to improve our close rates as we start to get feedback from customers on our initial quotes. So that's the way we're kind of trying to serve the market. Does that make sense in terms of a process and come and how we're going after it?

Subscribe to Seeking Alpha for more content like this

Ted Jackson

Yes, you're learning. You have to understand what the market wants so that you can deliver it. That's how -- you need the experience?

Rajiv Prasad

Yeah.

Ted Jackson

Okay. I have a couple of other questions, but I'll step out of line. I've been on for a while. Thanks.

Operator

There are no further questions at this time. I would like to turn the call back to Christina Kmetko. Please go ahead.

Rajiv Prasad

Yeah, Ted, If you have got some more questions, please go ahead.

Operator

Ted Jackson.

Ted Jackson

Yes, sorry, I just didn't want to hog up the call. So I want to talk then about the SG&A line, particularly in lift trucks. It was heavy in both Americas and EMEA. And I'm just kind of curious into what drove -- relative to my expectations, I should caveat that. And so my question is just kind of what drove the increases? Should I view that as kind of a new baseline going forward?

Rajiv Prasad

There are two key elements. The first one is something that we've been saying for a while that we want to find a way to invest more on some of our strategic initiatives. So we are increasing our head count a little bit. But the big element of it was actually incentive comp, which was -- incentive compensation, which was paid in March of this year.

And two things drove that. Firstly, outperformance for 2023. It was better than we expected. And so the incentive comp program paid out better than we had planned. The other piece was our share price appreciated, and that has an impact on the equity part of our long-term incentive.

So both of those elements are actually the larger element. And that is done for 2023. Now, we are accruing for 2024 at the normal rate.

Ted Jackson

Okay. So we could actually see that line item pop down in the second quarter. And hopefully, given the trajectory you're on and what you're doing, have the problem of seeing it pop up again, if we get to the end of the year.

Rajiv Prasad

Yeah.

Ted Jackson

Okay. I'm going to leave it at that. Congrats on the quarter. It was really, really super.

Scott Minder

Thanks.

Rajiv Prasad

Thank you for your questions. We appreciate it.

Operator

There are no questions at this time. Please continue.

Christina Kmetko

Okay. With that, we'll conclude our Q&A session, and we do thank you for participating. A replay of our call will be available later this afternoon. We'll also post a transcript on the investor relations website when it becomes available.

Subscribe to Seeking Alpha for more content like this

If you have any follow-up questions, please reach out to me. My information is on the press release, and I hope you enjoy the rest of your day. Now I'll turn it back to Chloe to conclude the call.

Operator

Ladies and gentlemen, this concludes today's conference call. Thank you for your participation. [Operator Instructions]. You may now disconnect. Thank you.

**Load-Date:** May 8, 2024

**End of Document**