

# **Hyster-Yale Materials Handling, Inc. (HY) Q2 2024 Earnings Call Transcript**

Seeking Alpha - Earnings Call Transcripts

August 7, 2024 Wednesday

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

**Length:** 5398 words

**Byline:** SA Transcripts

**Body**

Hyster-Yale Materials Handling, Inc. (HY)

Q2 2024 Earnings Conference Call

August 07, 2024, 11:00 AM 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

Presentation

Operator

Good morning, ladies and gentlemen, and welcome to the Hyster-Yale Inc. Second Quarter 2024 Earnings Conference Call. At this time, all lines are in listen-only mode. Following the presentation, we will conduct a question-and-answer session. [Operator Instructions]. This call is being recorded August 7, 2024.

I would now like to turn the conference over to Christina Kmetko, Investor Relations.

Christina Kmetko

Good morning, and thank you for joining us for Hyster-Yale's 2024 second quarter earnings call. I'm Christina Kmetko, and I'm responsible for Investor Relations. Yesterday evening, we published our second quarter 2024 results and filed our 10-Q. These documents are available on the Hyster-Yale website.

We're 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 our therefore forward-looking statements.

Our actual results may differ materially from our forward-looking statements due to a wide range of risks and uncertainties that are described in our earnings release, 10-Q and other SEC filings. We may not update these forward-looking statements until our next quarterly earnings conference call.

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

With the formalities out of the way, let me turn the call over to Rajiv to begin.

Rajiv Prasad

Thank you, Christi, and good morning, everyone. I'll start by providing the operational perspective and some commentary on our markets. Scott will follow with the detailed financial results and outlook. Al will close the call with his perspective and then we'll open it up for your questions.

Let's start with some second quarter highlights. I'm pleased to say that we again generated exceptionally strong quarterly results and exceeded our expectations. Revenue growth continued and profits were up significantly versus prior year. In fact, our second quarter consolidated operating profit and margins reached higher levels than ever before. Scott will have more detail on this later in the call.

Before I discuss our markets and operations, I'd like to share a change in how we think about our bookings and backlog. As you can see in our earnings release, we've decided to provide total dollar values instead of unit counts for these measures. Let me explain why? Hyster-Yale is rapidly becoming a solutions-based company.

Subscribe to Seeking Alpha for more content like this

We're increasingly focused on complex, value-adding technology solutions for our customers that include trucks as well as advanced on-truck technologies. Additionally, per-unit truck sales values differ substantially across the product lines.

As a result, aggregate unit bookings data is less meaningful when analyzing our performance. This change to total bookings and backlog dollar values is more in line with industry standards. I'll share an additional explanation around our outlooks of context.

This quarter, our release discusses factory and retail bookings. Factory bookings represent orders placed directly with the manufacturer or on the factory. These are typically for larger quantities and may include custom specifications. Retail bookings are orders placed through dealers with specific and customer purchase orders and are typically for smaller quantities.

All retail orders are factory orders, but not all factory orders become retail orders immediately and some could be canceled. By netting these two measures, we can see if stock and backlog are building, which occurs when factory orders outpace retail orders, or are being drawn down when retail orders outpace factory orders.

Now here's what we see in the market and with our operations. Based on market industry data and our internal estimates, we believe that the global lift truck market was below prior in quarter two, 2024. This decline was driven by a significant decrease in the Americas and a more moderate reduction in EMEA.

Current market data from the Industrial Truck Association or ITA showed a 56% year-over-year decrease in quarter two, 2024, North America factory bookings. These reduced North America factory booking rates were expected compared to the highly elevated levels reached during the pandemic and subsequent period of supply chain shortages.

That said, the decline was steeper and earlier than we anticipated. In effect, these recent low factory booking levels are quickly moving total average bookings back towards a normalized growth trend line.

The company expects below trend North America factory bookings levels to continue into early 2025. After this relatively short period of demand correction, the market is expected to return to more normalized growth rates over time. We are working diligently to ensure those low level bookings fill open production slots in 2024 and 2025 until normalized bookings level come back.

As we reported in the release, our dollar value factory bookings declined to $380 million in quarter two, 2024, from $680 million in quarter two, 2023 and $520 million in quarter one, 2024. While we increased our Americas market share in the first half of the year, this was not enough for factory bookings to offset the steep market decline.

Dollar value of our second quarter, 2024, Americas factory bookings decreased by 56% year-over-year and 36% sequentially. We believe four factors contributed to this substantial decline. First, order cancellations by customers who no longer need previously placed orders due to lower than expected activity.

Subscribe to Seeking Alpha for more content like this

Second, shorter lead times, third, customer and dealer requests to delay shipments of current backlog orders to a time that better suits their needs, and finally, current retail bookings being fulfilled from existing unshipped factory bookings or from current dealer stock levels.

Considering the company's strong global backlog, including in the Americas, shipments are expected to continue as sound levels for the remainder of 2024. The Americas few remaining open 2024 production slots are expected to be filled between August and December.

This segment is working to extend its backlog by filling open 2025 production slots largely in the second half of the year. We anticipate the Americas market share will continue to increase over the remainder of 2024 and into 2025.

These projections are driven by the recently introduced one to three and a half ton modular scalable trucks now reaching their full market potential and additional modular scalable products expected to launch in late 2024 and the first half of 2025.

Our EMEA and JAPIC order increased more slowly than in the Americas over the past few years, but the market downturn is not as steep for these regions. EMEA and JAPIC factory orders were $150 million in quarter two 2024 compared to $160 million in both quarter two 2023 and quarter one 2024.

As in the Americas, we expect EMEA and JAPIC's market share to strengthen with the production rate ramp up of the new one to three and a half ton modular scalable products and the launch of other new products.

Production slots in EMEA and JAPIC are also largely filled for the balance of 2024 with some lines already in strong backlog position for 2025. We expect our current backlog to act as a shock absorber, keeping global shipments generally in line with our 2024 production expectations.

However, certain lines, particularly those for JAPIC's and EMEA's lower value warehouse products are expected to have lower shipments in the second half of 2024 compared to the first half. Global production levels may moderate in 2025 without market or share improvements above our current expectations.

Over the past 18 months, our results have benefited from strong pricing tailwinds and a significant order backlog, which led to product margins above our target levels. Looking forward, we are focused on maintaining competitively priced products at or above target margin levels. We expect to achieve this by introducing new models, decreasing costs, and through ongoing pricing discipline.

Before I turn the call over to Scott, I'll point out that despite the market weakness, the lift truck industry is quite resilient and has gone through similar cycles in the past. We plan to push through this latest market downturn by using our backlog and new factory orders while still delivering on our customers' promise to provide optimized product solutions and exceptional customer care.

Subscribe to Seeking Alpha for more content like this

We'll continue to execute on our strategic initiatives and key projects to fulfill these promises. There are many successful projects occurring across all our businesses. We've provided those details in our quarter two 2024 investor deck, which is currently available on Hyster-Yale website. I encourage you to check it out for more information.

I'll turn the call over to our CFO, Scott, to provide more detailed financial results and outlook.

Scott Minder

As Rajiv mentioned, our Q2 2024 results were quite strong, building on a very healthy first quarter, and they were significantly better than we expected. Consolidated revenue rose to nearly $1.2 billion, up more than 7% from Q2 2023. Consolidated operating profit increased ahead of expectations to approximately $96 million, rising 63% year-over-year. Our operating profit margin of 8.2% increased by 280 basis points from a year ago, while our net income increased by 65% to $63 million over the same period.

Now I'll provide some color by business. Lift truck revenues grew 8% versus the prior year due to higher average selling prices and a favorable impact from reduced dealer incentive programs. As a result of previously implemented price increases, average lift truck selling prices increased 23% year-over-year.

A favorable product mix in the quarter more than offset the effect of lower unit volumes. Mix improved in both the Americas and in EMEA compared to the prior year. This was driven by increased sales of high value options of Class 5 internal combustion engine trucks in the Americas and higher sales of Class 1 and Class 5 trucks, including big trucks in EMEA. Despite mixed benefits, EMEA revenues dropped mainly due to unit volumes resulting from lower year-over-year market demand.

In Q2 2024, lift truck operating profit was $103 million, increasing 65% year-over-year. Operating profit margins of 9.2% continued to outpace targeted levels, improving by 320 basis points versus the prior year. This increase was driven by higher unit margins primarily due to three factors.

A larger percentage of units sold that included all prior price increases, a strong price to cost ratio, particularly in the Americas, and a mixed shift toward higher priced, higher margin Class 5 trucks in EMEA. Lower year-over-year operating profit in our JAPIC segment and increased operating expenses globally partly offset these year-over-year profit improvements.

At Bolzoni, revenues increased 6% compared to both last year and sequentially as a result of higher sales volumes. This allows Bolzoni's manufacturing plants to run more efficiently, thus lowering per unit costs.

Gross profit was comparable to the prior year as the favorable impact from higher volumes offset increased material and freight costs. Due to higher warranty and employee related costs, Bolzoni's operating profit decreased versus the prior year.

Moving to Nuvera, the business remains focused on increasing its sales pipeline. However, the hydrogen fuel cell industry is facing slower customer adoption. This is due to ongoing hydrogen supply constraints in delayed fuel cell vehicle development programs.

Subscribe to Seeking Alpha for more content like this

Despite Nuvera's strong product demonstration efforts, these industry constraints are delaying Nuvera's bookings and reducing its overall engine shipments. As a result, Nuvera's Q2 2024 revenues decreased to $0.2 million from $1.0 million in Q2 2023. The resulting operating loss was above prior year, largely due to increased product development and lease costs.

Before I move to our cash and balance sheet results, I'll detail the effect of taxes on our business. Our second quarter income before income taxes was up 77% compared to the prior year, while net income improved by 65%. The net income increase was tempered by an effective tax rate of 29% in Q2 2024, compared to a 24% rate in the prior year quarter.

This increased rate results from the U.S. government's current R&D capitalization requirements. Company is unable to place tax assets on its balance sheet due to its U.S. valuation allowance position. Businesses that invest in R&D activities are required to capitalize these expenses and recognize them over time. This effectively increases taxable income over a five to 15-year period.

Next, I'll turn to the balance sheet. Company's financial leverage continued to improve in the second quarter. Our 51% debt-to-total capital ratio improved 200 basis points from the March 31st level, mainly due to higher earnings. Net debt improved by 9% compared to the prior year, but increased sequentially as a result of additional debt required for working capital needs.

In the second quarter, we had unused borrowing capacity of $217 million. This declined from the previous quarter due to the higher debt level and lower available borrowing capacity. The latter was due to the expiration of a temporary increase to the company's asset-based lending facility.

As of June 30th, working capital represented 18.3% of sales. This metric improved over both the prior year and the sequential quarter, but remains well above our targeted level of 15%. We continue to focus on decreasing working capital, particularly through inventory reductions. In that regard, due to 2024 inventory decreased 6% from Q1 and 4% compared to prior year levels, both finished goods and raw material inventories declined.

Looking ahead, we expect our consolidated full year 2024 financial results to improve compared to our prior projections due to the better than expected second quarter results and further financial improvements in the second half of the year. For the lift truck business, we anticipate continued year-over-year revenue growth in the second half of 2024, driven by shipments of higher price, higher margin backlog units.

Cost inflation, particularly for ocean-borne freight, is expected to temper the favorable price-to-cost ratio in the second half of the year. Higher inflation and operating expenses are likely to reduce second half 2024 operating profit modestly compared with the prior year.

For Q3, we anticipate revenues to increase with operating profit comparable year-over-year. Sequentially, lift truck's third quarter revenues and operating profit are expected to decrease from the strong second quarter results due to normal business seasonality and elevated freight costs.

For Bolzoni, we anticipate higher gross profits in the second half of 2024, despite an expected revenue decline. Bolzoni continues to focus on increasing production to higher margin attachments while phasing out lower margin legacy component sales to the lift truck business. As a result, operating profit is expected to increase year-over-year with higher gross profits partly offset by increased operating expenses.

Subscribe to Seeking Alpha for more content like this

At Nuvera, the business is working to increase customer product demonstrations and orders in the second half of the year. The combination of higher sales and lower operating expenses is expected to reduce the second half operating loss compared to the prior year.

Nuvera shipments are anticipated to increase in the second half of the year compared to the prior year. This improvement is driven by current and expected customer orders from Nuvera's new hydrogen-powered zero-emission mobile generator first introduced in May of this year.

We're excited about this new product. It's generated a lot of market interest since its debut at the Advanced Commercial Vehicle Technology Show. Nuvera developed the generator in collaboration with a major power management services provider to help meet the growing market need for clean energy solutions.

This generator helps to fill a gap for onsite rapid recharging of electric vehicles in the need for onsite power in challenging environments such as those with limited access to grid power, located in emission-controlled zones, or operating in sub-zero conditions or noise-sensitive areas. We expect increased demand for this Nuvera product leading up to the California Air Resources Board or CARB zero-emission generator mandate, which begins in 2028.

Sales of this product should help to bridge the gap to more robust customer adoption of hydrogen fuel cells and overall hydrogen availability. At the consolidated level, we anticipate second half revenues to increase while operating profit will likely moderate slightly compared to the second half of 2023. We expect net income in the second half of the year to be comparable to the prior year due to lower interest in tax expenses.

Overall, a modest third quarter decline is expected to be offset by a fourth quarter improvement. Companies' effective tax rate is likely to be modestly higher than prior year, largely due to the capitalization of research and development expenses, but below prior expectations due to a higher U.S. earnings base.

For the full year 2024, we continue to focus on reducing leverage and improving cash flows through increased inventory efficiency. We expect 2024 capital expenditures to be $60 million down from a prior projection of $84 million. This estimated capital spending still includes substantial growth and efficiency investments while ensuring adequate liquidity. We continue to expect a significant increase in 2024 cash flow from operations compared to 2023.

Now, I'll turn the call over to our Executive Chairman for his closing comments. Al.

Alfred Rankin

Thanks, Scott. Our strong second quarter results reflect the progress we've made in our mission to provide application tailored solutions to a broad customer base. This means, we're not just selling lift trucks, but value-added systems complete with on-truck technologies such as operator assist systems and full automation.

We are continuing the transition to modular and scalable products, which accomplishes many of our objectives, streamlining our production process, reducing supply chain costs, improving working capital levels, and delivering customizable systems in a timely manner.

Subscribe to Seeking Alpha for more content like this

We've launched our one to three and a half ton internal combustion engine products globally, and we will further expand our one to three and a half ton modular and scalable product line later this year and next year.

Additionally, we are continuing our efforts at Nuvera and Bolzoni to position those businesses as leaders in their industries. The growing opportunities for clean energy and application specific solutions will be key drivers of our success.

Reflecting on our business performance and outlook, I believe our second quarter results were excellent and our future prospects remain strong. With our current backlog and expected bookings, we believe we are well prepared to weather softening markets and volatility for the remainder of the year and into 2025.

Now we will turn to questions.

Question-and-Answer Session

Operator

Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. [Operator Instructions]. Our first question is from Chip Moore from ROTH Capital.

Chip Moore

Hey, thanks for taking the question. Appreciate it. I wanted to ask -- hey everybody. I want to follow up maybe Al on your last comments. And just in general, you talked about global production levels potentially moderating in 2025. I think you also talked about bookings growth normalizing at some point during the year. Maybe just put a finer point on how you're thinking about those dynamics and how you're approaching 2025 right now?

Alfred Rankin

I think I'd ask Rajiv to comment and then I'll supplement with anything that I have beyond that.

Rajiv Prasad

Sure. Chip, I think maybe the best way to think about it, because we have the most current data about the market in North America and that seems to be the most volatile market right now. So if you look at historic data and a trend line for our market, you'll see that it's been growing -- if you average out the spikes and the troughs, been growing steadily since let's say 2005. I think we looked at data back to then. And what happens is whenever there is a spike over the trend line, it's more, it's fairly soon followed by a trough.

Now starting mid 2021, we had a massive spike in order volume that lasted for about two years and really kind of eased off by middle of 2023. And then what we've seen since then is a fairly sharp decline. Now in reality, what's going on is our customers put a huge amount of orders in. I think if you think back to the pandemic, people were ordering things, we couldn't spend money on anything else. So people were buying things and that drives a lot of demand for moving material. But the issue was that we could not -- nobody put extra capacity in and the suppliers were constrained. So although there was a huge amount of orders, the shipment pretty much stayed at the levels there were before the pandemic.

And it's only recently that customers are starting to get the trucks they ordered back in '22 and '23. And of course the environments changed a little bit since then and they're figuring out what to do with the trucks. So what we've seen in the marketplace is still kind of RFQ or requests for quote activities still good, but decisions are taking much longer to make by customers. And I think that's a sign of the customers really looking at how to digest the trucks that are being delivered, that are being delivered now. And then really not wanting to order well ahead of when they need the truck and waiting for the lead times to normalize.

So I think that's the dynamic that's playing out in the industry. If you think about financially, there isn't -- there's not a big drop. Look at the PMI data. It's not a big drop. So I think the market is stable, I think as Al said, but we see this spike for two years and we're going to see a bit of a drop in a trough while it makes up for it. Now it's lesser elsewhere. The spike wasn't as big in Europe and Asia, if you exclude China and then the trough will also be pretty shallow. And from the data we are getting and estimating, we see Europe and Asia Pacific will normalize quicker. It's already in the process of doing that.

Subscribe to Seeking Alpha for more content like this

We think America's will -- North America will go into early 2025 before it normalizes. Now we have our backlog. So I think that's the dynamic that's going on in the marketplace. We have our backlog as we've said for the last few conference calls to absorb that trough. And we really, we've done that this quarter and we will be doing that again over the next couple of quarters. As we've said, our backlog is about $2.5 billion at normal times, current market rates and pricing, that would be somewhere between 850 and a $1 dollar. So that's the excess backlog we've still got to work through. Does that help?

Alfred Rankin

Let me just add to that only in a moderate way, if I could. It's very easy in this industry to think that the market is directly and immediately associated with revenues and operating profit. But as Rajiv has outlined, when the market goes into a backlog and the backlog is in an excess position, the real question is what are the prospects for shipping as it's shipping that turns into revenues. And as Rajiv indicated, we have a substantial backlog, we're continuing to receive bookings and particularly in North America where this situation is most significant. And between the existing backlog and the bookings levels we are receiving, we're filling the open slots in a reasonable fashion.

And there are relatively few open slots left for 2024. So the shipment levels and therefore the revenues and therefore the operating profits are pretty much within view for us. 2025, particularly in the second half, may depend on return bookings to more normal levels, but we think there's adequate time for that to occur unless there's a big downturn in the economy in general in the United States. And at this point, that's really not in anybody's economic forecast. Obviously it could happen, but we view this as much more of an adjustment of factory bookings to get back, as Rajiv said, to normalized rates over time and that our shipments can continue at the appropriate level. So our encouragement is to keep your eye on shipments and keep the bookings in perspective in terms of the lags that are involved before they turn into shipments.

Chip Moore

Thank you. That's very helpful color, Rajiv and Al. I guess a follow-up on that excess buffer, the backlog still historically elevated. Can you talk about cancellations that you've seen and risks that those could accelerate?

Rajiv Prasad

Yes, I mean, firstly, I'll talk about the industry. We've certainly seen industry have cancellations. There's some very -- the general reason for that where customers order trucks and they don't need them anymore. But mostly special cases, I probably won't go into each one, especially about our competitors. In our case, we saw in a normalized levels of cancellation until about four months ago when we saw some larger cancellations predominantly from third-party rental companies. And as they've seen their utilization drop and also retail and some light manufacturing. And I think, again, they're just matching, as you can imagine, there's been a lot of change in retail new store opening or new store modernization.

I think some of that's been scaled back. That's reflected in some of the cancellations and deferrals. And then in a light manufacturing, again, they've scaled back in what their plans was to expand that element. And so, we've seen some of that. We've done a quick survey with our customer base and we expect that to normalize within the next couple of months. It's not a big concern for us.

Chip Moore

Got it. Okay. No, that's very helpful. And maybe if I could ask one more so on the longer-term operating model, obviously we've got to get through some normalization here and potential cyclicality that we'll see what happens. But just as you look out, can you expand how you're thinking about the manufacturing and supply chain optimization piece? I think in the slides you talked about a 70% reduction in suppliers over the next four years that definitely caught my attention. Just expand on that and how are you thinking about pre-cash flow generation in particular? When do you think we start to see that accelerate?

Rajiv Prasad

Sure, I'll cover it at a high-level, Chip, if you don't mind. So if you look at our old platform that we're phasing out in the one to three, I've just used this as an example, one to three and a half ton trucks globally, we had 750 suppliers, let's say at a round number for those products. Moving forward, that's going to be closer to 150. So that's a dramatic reduction in suppliers globally. And of course then each supplier gets more business. And what we're asking some of the larger suppliers to do is now get closer to our key plans so they can provide products just in time in sequence. And that's where we think that we're going to change the characteristics of our working capital as it affects the manufacturing inventory.

The other thing is we're, again, near our major manufacturing sites, we're putting in mod centers where trucks can have some additions, put on the trucks that our customers need and then ship directly to -- these are mostly for major accounts so they can be shipped directly again accelerating the cash cycle. So there's some actions. Those are just a couple of examples of a host of actions we've got planned over the next few years.

Scott Minder

Maybe Rajiv, if I could add on the free cash flow generation. Chip, we have a significant goal in inventory or working capital reduction this year. And we made some progress on that in Q2, we said inventory was down about 6%, mainly on the working process and the raw materials where we're having some success and holding back incoming material and using that to build on hand. So while we're behind a bit from where we expected, I think you did see some progress in Q2 and we expect that to accelerate in Q3, which will help get us toward that goal of significant free cash flow or operating cash flow generation this year as compared to last year.

Subscribe to Seeking Alpha for more content like this

Alfred Rankin

I'd add to that that in addition to the effect on inventory that Scott just described that payables are at a somewhat reduced level at the moment. And as we get back to a normalized situation in terms of the inventory reduction, the payables will also go up. So you have a significant net reduction with our target being to have that pretty much in hand, Scott, I believe by the end of the year.

Scott Minder

That's correct, yeah.

Chip Moore

Great, very helpful. If I could sneak one last one in just separately. Nuvera, you talked about some of the interest there on these newer generator products. That market seems to develop fairly rapidly. Just expand a bit on what you're seeing there and that potential opportunity?

Rajiv Prasad

Yes, sure. I think as we're working with a partner, we had put the prototype together and we felt that this was an area that would be valuable to some segments of the market. And the team took that prototype, after testing it, they took it to one of the ACT show is clean air kind of show in California for vehicles. And we got amazing response to that. I mean, from many segments that we hadn't thought about, we thought about the primary ones, which was recharging vehicles, in the field and also in some of the high congestion in a kind of rental environment, such as airports and kind of major cities where there is electricity supply is a constraint for charging vehicles.

But then, we started hearing about that people wanted zero emission charging solutions, not really charging, it's mobile power solutions for film sets and for working in a city where there's noise and pollution constraints, pretty much all over the world in major cities. So now the team is really understanding the needs by segment, developing the prototype into a finished product and kind of doing the initial launch early next year, and then we'll go into full production launch later on in 2025. So that's the plan for what we will call the hydro charge system.

Chip Moore

Fantastic, appreciate all the color. I'll pack in queue. Thanks very much.

Rajiv Prasad

Thank you.

Operator

[Operator Instructions] There are no further questions at this time. I'd now like to turn the call back over to Ms. Christina Kmetko for final closing comments.

Christina Kmetko

Okay, thank you so much. We appreciate everybody's participation. A replay of the call will be available later this morning and we'll also post a transcript on the website when it becomes available. If you do have any follow-up questions, please reach out to me. My information is in the press release. Hope you enjoy the rest of your day and I'll turn it back over to Nix [ph] to conclude the call.

Operator

Thank you. A replay of this presentation will be available by dialing 888-660-6345 using the passcode 98465 until Wednesday, August 14th, 2024 at 11:59 PM Eastern time. Ladies and gentlemen, this concludes your conference call for today. We thank you for participating and ask that you please disconnect your line. Have a good one.

**Load-Date:** August 7, 2024

**End of Document**