

HYSTER-YALE MATERIALS HANDLING, INC.

Form 10-Q

October 30, 2018

Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-Q

(Mark

One)

☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2018

OR

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission file number 000-54799

HYSTER-YALE MATERIALS HANDLING, INC.

(Exact name of registrant as specified in its charter)

DELAWARE

(State or other jurisdiction of incorporation or organization)

31-1637659

(I.R.S. Employer Identification No.)

5875 LANDERBROOK DRIVE, SUITE

300, CLEVELAND, OHIO

(Address of principal executive offices)

44124-4069

(Zip code)

(440) 449-9600

(Registrant's telephone number, including area code)

N/A

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES ☒ NO ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).

YES ☒ NO ☐

Edgar Filing: HYSTER-YALE MATERIALS HANDLING, INC. - Form 10-Q

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☒	Accelerated filer ☐	Non-accelerated filer ☐	Smaller reporting company ☐	Emerging growth company ☐
--	---	---	---	---

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
YES ☐ NO ☒

Number of shares of Class A Common Stock outstanding at October 26, 2018: 12,675,586

Number of shares of Class B Common Stock outstanding at October 26, 2018: 3,885,136

HYSTER-YALE MATERIALS HANDLING, INC.
TABLE OF CONTENTS

		Page Number
<u>Part I.</u>	<u>FINANCIAL INFORMATION</u>	
<u>Item 1</u>	<u>Financial Statements</u>	
	<u>Unaudited Condensed Consolidated Balance Sheets</u>	<u>2</u>
	<u>Unaudited Condensed Consolidated Statements of Operations</u>	<u>3</u>
	<u>Unaudited Condensed Consolidated Statements of Comprehensive Income (Loss)</u>	<u>4</u>
	<u>Unaudited Condensed Consolidated Statements of Cash Flows</u>	<u>5</u>
	<u>Unaudited Condensed Consolidated Statements of Changes in Equity</u>	<u>6</u>
	<u>Notes to Unaudited Condensed Consolidated Financial Statements</u>	<u>7</u>
<u>Item 2</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>25</u>
<u>Item 3</u>	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>37</u>
<u>Item 4</u>	<u>Controls and Procedures</u>	<u>37</u>
<u>Part II.</u>	<u>OTHER INFORMATION</u>	
<u>Item 1</u>	<u>Legal Proceedings</u>	<u>38</u>
<u>Item 1A</u>	<u>Risk Factors</u>	<u>38</u>
<u>Item 2</u>	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>38</u>
<u>Item 3</u>	<u>Defaults Upon Senior Securities</u>	<u>38</u>
<u>Item 4</u>	<u>Mine Safety Disclosures</u>	<u>38</u>
<u>Item 5</u>	<u>Other Information</u>	<u>38</u>
<u>Item 6</u>	<u>Exhibits</u>	<u>38</u>
	<u>Signatures</u>	<u>39</u>

Table of Contents

PART I

FINANCIAL INFORMATION

Item 1. Financial Statements

HYSTER-YALE MATERIALS HANDLING, INC. AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

	SEPTEMBER 30, 2018	DECEMBER 31, 2017
	(In millions, except share data)	
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 121.9	\$ 220.1
Accounts receivable, net	463.6	453.0
Inventories, net	506.4	411.9
Prepaid expenses and other	55.6	46.4
Total Current Assets	1,147.5	1,131.4
Property, Plant and Equipment, Net	287.8	265.4
Intangible Assets, Net	77.7	56.1
Goodwill	106.6	59.1
Deferred Income Taxes	15.5	16.6
Investment in Unconsolidated Affiliates	62.4	81.9
Other Non-current Assets	54.9	37.4
Total Assets	\$ 1,752.4	\$ 1,647.9
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable	\$ 433.2	\$ 385.8
Accounts payable, affiliates	18.2	18.1
Revolving credit facilities	2.2	6.1
Current maturities of long-term debt	84.4	68.4
Accrued payroll	41.8	51.7
Other current liabilities	190.2	162.3
Total Current Liabilities	770.0	692.4
Long-term Debt	209.9	216.2
Self-insurance Liabilities	28.5	33.5
Pension Obligations	9.9	11.1
Deferred Income Taxes	19.1	13.0
Other Long-term Liabilities	125.3	109.3
Total Liabilities	1,162.7	1,075.5
Stockholders' Equity		
Common stock:		
Class A, par value \$0.01 per share, 12,668,848 shares outstanding (2017 - 12,562,817 shares outstanding)	0.1	0.1
Class B, par value \$0.01 per share, convertible into Class A on a one-for-one basis, 3,886,820 shares outstanding (2017 - 3,899,503 shares outstanding)	0.1	0.1
Capital in excess of par value	318.7	323.8
Treasury stock	(24.5)	(31.5)
Retained earnings	413.6	389.1

Edgar Filing: HYSTER-YALE MATERIALS HANDLING, INC. - Form 10-Q

Accumulated other comprehensive loss	(150.5)	(116.1)
Total Stockholders' Equity	557.5	565.5
Noncontrolling Interests	32.2	6.9
Total Equity	589.7	572.4
Total Liabilities and Equity	\$1,752.4	\$ 1,647.9

See notes to unaudited condensed consolidated financial statements.

Table of ContentsHYSTER-YALE MATERIALS HANDLING, INC. AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	THREE MONTHS ENDED SEPTEMBER 30		NINE MONTHS ENDED SEPTEMBER 30	
	2018	2017	2018	2017
(In millions, except per share data)				
Revenues	\$782.9	\$691.1	\$2,336.7	\$2,089.7
Cost of sales	665.0	569.7	1,960.5	1,720.5
Gross Profit	117.9	121.4	376.2	369.2
Operating Expenses				
Selling, general and administrative expenses	105.7	103.3	334.0	311.0
Operating Profit	12.2	18.1	42.2	58.2
Other (income) expense				
Interest expense	3.6	6.2	11.6	10.6
Income from unconsolidated affiliates	(2.2)	) (2.0)	) (7.4)	) (6.0)
Other	0.6	(2.0)	) (1.5)	) (4.9)
	2.0	2.2	2.7	(0.3)
Income Before Income Taxes	10.2	15.9	39.5	58.5
Income tax provision (benefit)	(4.7)	) (0.8)	) 4.0	7.3
Net Income	14.9	16.7	35.5	51.2
Net (income) loss attributable to noncontrolling interests	0.5	(0.2)	) 0.4	(0.2)
Net Income Attributable to Stockholders	\$15.4	\$16.5	\$35.9	\$51.0
Basic Earnings per Share	\$0.93	\$1.00	\$2.17	\$3.10
Diluted Earnings per Share	\$0.93	\$1.00	\$2.16	\$3.09
Dividends per Share	\$0.3100	\$0.3025	\$0.9225	\$0.9000
Basic Weighted Average Shares Outstanding	16.555	16.457	16.534	16.442
Diluted Weighted Average Shares Outstanding	16.601	16.526	16.586	16.502

See notes to unaudited condensed consolidated financial statements.

Table of Contents

HYSTER-YALE MATERIALS HANDLING, INC. AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

	THREE MONTHS ENDED SEPTEMBER 30		NINE MONTHS ENDED SEPTEMBER 30	
	2018	2017	2018	2017
	(In millions)			
Net Income	\$14.9	\$16.7	\$35.5	\$51.2
Other comprehensive income (loss)				
Foreign currency translation adjustment	(8.3)	10.0	(26.7)	30.5
Unrealized gain on available-for-sale securities	—	1.4	—	2.8
Current period cash flow hedging activity	(3.3)	—	(6.8)	7.0
Reclassification of hedging activities into earnings	(0.3)	0.6	(1.5)	1.3
Current period pension adjustment	0.5	1.1	1.2	1.1
Reclassification of pension into earnings	0.8	0.7	2.2	2.1
Comprehensive Income	\$4.3	\$30.5	\$3.9	\$96.0
Other comprehensive (income) loss attributable to noncontrolling interests				
Net (income) loss attributable to noncontrolling interests	0.5	(0.2)	0.4	(0.2)
Foreign currency translation adjustment attributable to noncontrolling interests	0.1	(0.1)	1.2	(0.5)
Comprehensive Income Attributable to Stockholders	\$4.9	\$30.2	\$5.5	\$95.3

See notes to unaudited condensed consolidated financial statements.

Table of ContentsHYSTER-YALE MATERIALS HANDLING, INC. AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	NINE MONTHS ENDED SEPTEMBER 30	
	2018	2017
	(In millions)	
Operating Activities		
Net income	\$35.5	\$51.2
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	32.4	31.7
Amortization of deferred financing fees	1.3	1.0
Deferred income taxes	1.1	(5.1)
Stock-based compensation	2.5	5.6
Dividends from unconsolidated affiliates	22.2	2.8
Other non-current liabilities	(7.7)	(12.9)
Other	6.9	3.1
Working capital changes, excluding the effect of business acquisitions:		
Accounts receivable	56.3	(0.8)
Inventories	(87.4)	(52.7)
Other current assets	(6.0)	1.7
Accounts payable	35.7	124.3
Other current liabilities	(0.5)	7.4
Net cash provided by operating activities	92.3	157.3
Investing Activities		
Expenditures for property, plant and equipment	(24.7)	(25.1)
Proceeds from the sale of assets	5.4	1.1
Investments in equity securities	—	(5.6)
Business acquisitions, net of cash acquired	(78.0)	(1.0)
Net cash used for investing activities	(97.3)	(30.6)
Financing Activities		
Additions to long-term debt	43.7	246.2
Reductions of long-term debt	(110.6)	(50.7)
Net change to revolving credit agreements	(4.6)	(112.6)
Cash dividends paid	(15.3)	(14.8)
Cash dividends paid to noncontrolling interest	(0.3)	(0.3)
Financing fees paid	(0.6)	(4.8)
Purchase of treasury stock	(0.6)	—
Other	—	(0.1)
Net cash provided by (used for) financing activities	(88.3)	62.9
Effect of exchange rate changes on cash	(4.9)	5.4
Cash and Cash Equivalents		
Increase (decrease) for the period	(98.2)	195.0
Balance at the beginning of the period	220.1	43.2
Balance at the end of the period	\$121.9	\$238.2

See notes to unaudited condensed consolidated financial statements.

Table of ContentsHYSTER-YALE MATERIALS HANDLING, INC. AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Accumulated Other Comprehensive Income (Loss)											
	Class A Common Stock	Class B Common Stock	Treasury Stock	Capital in Excess of Par Value	Retained Earnings	Foreign Currency Translation Adjustment	Deferred Gain on AFS Securities	Deferred Gain (Loss) on Cash Flow Hedging	Pension Adjustment	Total Stockholders' Equity	Noncontrolling Interests	Total Equity
	(In millions)											
Balance, December 31, 2016	\$0.1	\$0.1	\$(36.9)	\$319.6	\$360.3	\$(92.0)	\$—	\$(12.2)	\$(75.2)	\$463.8	\$6.6	\$470.4
Stock-based compensation	—	—	—	5.6	—	—	—	—	—	5.6	—	5.6
Stock issued under stock compensation plans	—	—	5.1	(5.1)	—	—	—	—	—	—	—	—
Net income	—	—	—	—	51.0	—	—	—	—	51.0	0.2	51.2
Cash dividends	—	—	—	—	(14.8)	—	—	—	—	(14.8)	(0.3)	(15.1)
Current period other comprehensive income	—	—	—	—	—	30.5	2.8	7.0	1.1	41.4	—	41.4
Reclassification adjustment to net income	—	—	—	—	—	—	—	1.3	2.1	3.4	—	3.4
Acquisition of a business	—	—	—	—	—	—	—	—	—	—	0.3	0.3
Foreign currency translation on noncontrolling interest	—	—	—	—	—	—	—	—	—	—	0.5	0.5
Balance, September 30, 2017	\$0.1	\$0.1	\$(31.8)	\$320.1	\$396.5	\$(61.5)	\$2.8	\$(3.9)	\$(72.0)	\$550.4	\$7.3	\$557.7
Balance, December 31, 2017	\$0.1	\$0.1	\$(31.5)	\$323.8	\$389.1	\$(58.5)	\$2.8	\$(1.5)	\$(58.9)	\$565.5	\$6.9	\$572.4
Cumulative effect of change in accounting	—	—	—	—	3.9	—	(2.8)	—	—	1.1	—	1.1
Stock-based compensation	—	—	—	2.5	—	—	—	—	—	2.5	—	2.5
	—	—	7.6	(7.6)	—	—	—	—	—	—	—	—

Edgar Filing: HYSTER-YALE MATERIALS HANDLING, INC. - Form 10-Q

Stock issued under stock compensation plans													
Purchase of treasury stock	—	—	(0.6)	—	—	—	—	—	(0.6)	—	(0.6)		
Net income (loss)	—	—	—	—	35.9	—	—	—	35.9	(0.4)	35.5		
Cash dividends	—	—	—	—	(15.3)	—	—	—	(15.3)	(0.3)	(15.6)		
Current period other comprehensive income (loss)	—	—	—	—	—	(26.7)	—	(6.8)	1.2	(32.3)	—	(32.3)	
Reclassification adjustment to net income	—	—	—	—	—	—	—	(1.5)	2.2	0.7	—	0.7	
Acquisition of business	—	—	—	—	—	—	—	—	—	—	27.2	27.2	
Foreign currency translation on noncontrolling interest	—	—	—	—	—	—	—	—	—	—	(1.2)	(1.2)	
Balance, September 30, 2018	\$0.1	\$0.1	\$(24.5)	\$318.7	\$413.6	\$(85.2)	\$—	\$(9.8)	\$(55.5)	\$557.5	\$32.2	\$589.7	

See notes to unaudited condensed consolidated financial statements.

Table of Contents

HYSTER-YALE MATERIALS HANDLING, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2018
(Tabular Amounts in Millions, Except Per Share and Percentage Data)

Note 1—Basis of Presentation

The accompanying unaudited condensed consolidated financial statements include the accounts of Hyster-Yale Materials Handling, Inc., a Delaware corporation, and the accounts of Hyster-Yale's wholly owned domestic and international subsidiaries and majority-owned joint ventures (collectively, "Hyster-Yale" or the "Company"). All intercompany accounts and transactions among the consolidated companies are eliminated in consolidation.

The Company, through its wholly owned operating subsidiary, Hyster-Yale Group, Inc. ("HYG"), designs, engineers, manufactures, sells and services a comprehensive line of lift trucks and aftermarket parts marketed globally primarily under the Hyster® and Yale® brand names, mainly to independent Hyster® and Yale® retail dealerships. Lift trucks and component parts are manufactured in the United States, Northern Ireland, Mexico, the Netherlands, Italy, Vietnam, the Philippines, Japan, Brazil and China.

The Company also operates Bolzoni S.p.A. ("Bolzoni"). Bolzoni is a leading worldwide producer of attachments, forks and lift tables marketed under the Bolzoni®, Auramo® and Meyer® brand names. Bolzoni products are manufactured in Italy, China, Germany, Finland and the United States. Through the design, production and distribution of a wide range of attachments, Bolzoni has a strong presence in the market niche of lift-truck attachments and industrial material handling.

The Company also operates Nuvera Fuel Cells, LLC ("Nuvera"). Nuvera is an alternative-power technology company focused on fuel cell stacks and engines.

On June 1, 2018, the Company completed the acquisition of a 75% majority interest in Zhejiang Maximal Forklift Co., Ltd. ("Maximal"). Maximal is a Chinese manufacturer of utility and standard lift trucks and specialized material handling equipment involved in the design, manufacture, service and distribution of Class 1 electric and Class 5 internal combustion engine counterbalance utility and standard platforms, and Class 2 and Class 3 electric warehouse products for both the local China and global markets under the Maximal and SAMUK brands. Maximal also designs and produces specialized products in the port equipment and rough terrain forklift markets. The results of Maximal are included in the JAPIC segment since the date of acquisition. See Note 15 to the unaudited condensed consolidated financial statements for additional information.

Investments in Sumitomo NACCO Forklift Co., Ltd. ("SN"), a 50%-owned joint venture, and HYG Financial Services, Inc. ("HYGFS"), a 20%-owned joint venture, are accounted for by the equity method. SN operates manufacturing facilities in Japan, the Philippines and Vietnam from which the Company purchases certain components, service parts and lift trucks. Sumitomo Heavy Industries, Ltd. ("Sumitomo") owns the remaining 50% interest in SN. Each stockholder of SN is entitled to appoint directors representing 50% of the vote of SN's board of directors. All matters related to policies and programs of operation, manufacturing and sales activities require mutual agreement between the Company and Sumitomo prior to a vote of SN's board of directors. HYGFS is a joint venture with Wells Fargo Financial Leasing, Inc. ("WF"), formed primarily for the purpose of providing financial services to independent Hyster® and Yale® lift truck dealers and National Account customers in the United States. National Account customers are large customers with centralized purchasing and geographically dispersed operations in multiple dealer territories. In September 2018, the Company and WF extended the vendor financing relationship to continue to operate HYGFS through 2023. The Company's percentage share of the net income or loss from these equity investments is reported on the line "Income from unconsolidated affiliates" in the "Other (income) expense" portion of the unaudited condensed

consolidated statements of operations.

These financial statements have been prepared in accordance with U.S. generally accepted accounting principles for interim financial information and the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation of the financial position of the Company as of September 30, 2018 and the results of its operations for the three and nine months ended September 30, 2018 and 2017, and the results of its cash flows and changes in equity for the nine months ended September 30, 2018 and 2017 have been included. These unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2017.

Table of Contents

The accompanying unaudited condensed consolidated balance sheet at December 31, 2017 has been derived from the audited financial statements at that date but does not include all of the information or notes required by U.S. generally accepted accounting principles for complete financial statements.

Note 2—Recently Issued Accounting Standards

The following table provides a brief description of recent accounting pronouncements adopted January 1, 2018. Unless otherwise noted, the adoption of these standards did not have a material effect on the Company's financial position, results of operations, cash flows or related disclosures.

Standard	Description
Accounting Standards Update ("ASU") No. 2014-09, Revenue from Contracts with Customers (Topic 606) (Subsequent ASUs have been issued in 2015, 2016 and 2017 to update or clarify this guidance)	The new guidance is based on the principle that revenue is recognized to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The new guidance also requires additional disclosures about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. See Note 3 for additional information.
ASU No. 2016-01, Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities	The guidance requires equity investments previously accounted for under the cost method of accounting to be measured at fair value and recognized in net income. In addition, the guidance defines measurement and presentation of financial instruments. The Company recorded a cumulative adjustment to retained earnings for deferred gains related to equity investments in third parties as of January 1, 2018 of \$3.6 million. Subsequent changes in the fair value of these investments are recognized directly in earnings.
ASU No. 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments	The guidance clarifies the classification of certain types of cash receipts and cash payments. In addition, the guidance provides for the application of the predominance principle when certain cash receipts and payments have aspects of more than one class of cash flows.
ASU No. 2016-16, Income Taxes (Topic 740)	The guidance allows for recognition of current and deferred income taxes for an intra-entity transfer of an asset other than inventory. The guidance allows for more accurate representation of the economics of an intra-entity asset transfer which will require income tax consequences of the transfer, including income taxes payable or paid.
ASU No. 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash	The guidance requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents.
ASU No. 2017-01, Business Combinations (Topic 805): Clarifying the Definition of a Business	The guidance clarifies the definition of a business to assist entities in evaluating whether transactions should be accounted for as acquisitions or disposals of businesses.
ASU 2017-05, Other Income – Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic 610-20): Clarifying the Scope of Asset Derecognition	The guidance clarifies the scope and accounting of a financial asset that meets the definition of an "in-substance nonfinancial asset" and defines the term, "in-substance nonfinancial asset," in addition to partial sales of nonfinancial assets.
ASU 2017-07, Compensation — Retirement Benefits (Topic 715):	The guidance requires that an employer report the service cost component in the same line item or items as other compensation costs arising from services rendered

Improving the Presentation of
Net Periodic Pension Cost and
Net Periodic Postretirement

by the pertinent employees during the period. The other components of net benefit cost are required to be presented in the income statement separately from the service cost component and outside a subtotal of income from operations. As of January 1, 2018, the Company presents the components of net benefit cost, other than service cost, in other (income) expense for its pension plans. Service cost for the Company's pension plans continues to be reported in operating profit. Accordingly, the Company has reclassified \$0.2 million of expense and \$1.4 million of income related to the components of net benefit cost, other than service cost, to other (income) expense for the three and nine months ended September 30, 2017, respectively, in the unaudited condensed consolidated statements of operations.

ASU No. 2018-05, Income Taxes
(Topic 740)

The guidance codifies Staff Accounting Bulletin No. 118 regarding the application of US GAAP in situations when a registrant does not have the necessary information available, prepared, or analyzed (including computations) in reasonable detail to complete the accounting for certain income tax effects of the Tax Cuts and Jobs Act (the "Tax Reform Act"). See Note 5 for additional details regarding the status of the Company's provisional amounts recorded as a result of the Tax Reform Act.

Table of Contents

The following table provides a brief description of recent accounting pronouncements not yet adopted:

Standard	Description	Required Date of Adoption	Effect on the financial statements or other significant matters
ASU No. 2016-02, Leases (Topic 842)(Subsequent ASUs have been issued in 2017 and 2018 to update or clarify this guidance)	The guidance requires lessees (with the exception of short-term leases) to recognize, at the commencement date, a lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and a right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term.	January 1, 2019	The Company's evaluation process of the new standard includes, but is not limited to, evaluating its current lease portfolio, identifying relevant contracts and attributes affected by the standard and determining the required accounting upon adoption. In addition, the Company expects to implement new processes and controls regarding asset financing transactions and financial reporting. The Company continues to evaluate its global leasing portfolio and train relevant personnel. In addition, the Company continues abstraction of key attributes within lease contracts and started a system-related implementation required for the new standard during the third quarter of 2018. This evaluation and implementation will continue throughout 2018. The Company plans to adopt the standard as of January 1, 2019 using the optional transition method that allows for the cumulative effect adjustment to be recorded without restating prior periods. While the Company's evaluation of practical expedients and the effect on its financial position, results of operations, cash flows and related disclosures is ongoing; the Company anticipates the adoption will materially affect the consolidated balance sheets and will require changes to the Company's systems and processes.
ASU 2017-12, Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities	The guidance makes targeted changes to the hedge accounting model intended to facilitate financial reporting that more closely reflects an entity's risk management activities and to simplify the application of hedge accounting. Changes include expanding the types of risk management strategies eligible for hedge accounting, easing the documentation and effectiveness assessment requirements, changing how ineffectiveness is measured and changing the presentation and disclosure requirements	January 1, 2019	The Company is currently evaluating the guidance and the effect on its financial position, results of operations, cash flows and related disclosures.

ASU 2018-02, Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income	for hedge accounting activities. The guidance provides an election to reclassify the stranded tax effects resulting from the Tax Reform Act from OCI to retained earnings. In addition, the guidance requires new disclosures regarding the election to adopt and the manner in which tax effects remaining in OCI are released.	January 1, 2019	The Company is currently evaluating the guidance and the effect on its financial position, results of operations, cash flows and related disclosures.
ASU 2018-07, Compensation-Stock Compensation (Topic 718)	The guidance addresses the accounting for non-employee share-based payment transactions.	January 1, 2019	The Company is currently evaluating the guidance and the effect on its financial position, results of operations, cash flows and related disclosures.
ASU No. 2016-13, Financial Instruments-Credit Losses (Topic 326)	The guidance eliminates the probable initial recognition threshold and requires an entity to reflect its current estimate of all expected credit losses. The guidance also requires additional disclosures in certain circumstances.	January 1, 2020	The Company is currently evaluating the alternative methods of adoption and the effect on its financial position, results of operations, cash flows and related disclosures.
ASU No. 2017-04, Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment	The guidance removes the second step of the two-step test for the measurement of goodwill impairment. The guidance allows for early adoption for impairment testing dates after January 1, 2017.	January 1, 2020	The Company is currently evaluating the timing of adoption and the effect on its current impairment testing process.

Table of Contents

Standard	Description	Required Date of Adoption	Effect on the financial statements or other significant matters
ASU 2018-13, Fair Value Measurement (Topic 820): Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement	The guidance removes, modifies or adds certain disclosures relating to fair value measurements.	January 1, 2020	The Company is currently evaluating the guidance and the effect on its financial position, results of operations, cash flows and related disclosures.
ASU 2018-15, Intangibles - Goodwill and Other - Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract	The guidance aligns the requirements for capitalizing implementation costs incurred in a hosting agreement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software.	January 1, 2021	The Company is currently evaluating the guidance and the effect on its financial position, results of operations, cash flows and related disclosures.

Note 3—Revenue

Adoption of the new revenue standard: On January 1, 2018, the Company adopted Accounting Standards Codification Topic 606, “Revenue from Contracts with Customers” (“new revenue standard”). The new revenue standard was applied to all open revenue contracts using the modified-retrospective method as of January 1, 2018. The Company recognized the cumulative effect of initially applying the new revenue standard as an adjustment to the opening balance of retained earnings. The comparative information has not been restated and continues to be reported under the accounting standards in effect for those periods. The Company does not expect the impact of the adoption of the new standard to be material to net income on an ongoing basis.

As of January 1, 2018, the cumulative effect on the Company’s unaudited condensed consolidated balance sheet for the adoption of the new revenue standard was as follows:

	Balance at December 31, 2017	Adjustments due to New Revenue Standard	Balance at January 1, 2018
Accounts receivable, net	\$ 453.0	\$ 0.5	\$ 453.5
Inventories, net	411.9	(0.3)	411.6
Prepaid expenses and other	46.4	1.1	47.5
Other current liabilities	162.3	1.0	163.3
Retained earnings	389.1	0.3	389.4

In accordance with the adoption of the new revenue standard, the effect of adoption on the September 30, 2018 unaudited condensed consolidated income statement and balance sheet was as follows:

	THREE MONTHS ENDED SEPTEMBER 30, 2018			NINE MONTHS ENDED SEPTEMBER 30, 2018		
	As Reported	Amount before the new revenue standard	Change Higher/(Lower)	As Reported	Amount before the new revenue standard	Change Higher/(Lower)
Revenues	\$782.9	\$780.7	\$ 2.2	\$2,336.7	\$2,334.1	\$ 2.6

Edgar Filing: HYSTER-YALE MATERIALS HANDLING, INC. - Form 10-Q

Cost of sales	665.0	662.9	2.1	1,960.5	1,958.0	2.5
Gross profit	117.9	117.8	0.1	376.2	376.1	0.1
Operating profit	12.2	12.1	0.1	42.2	42.1	0.1
Income before income taxes	10.2	10.1	0.1	39.5	39.4	0.1
Income tax provision (benefit)	(4.7)	(4.7)	—	4.0	4.0	—
Net income attributable to stockholders	15.4	15.3	0.1	35.9	35.8	0.1

10

Table of Contents

SEPTEMBER 30, 2018

	As Reported	Amount before the new revenue standard	Change Higher/(Lower)
Accounts receivable, net	\$463.6	\$ 463.4	\$ 0.2
Inventories, net	506.4	506.6	(0.2)
Prepaid expenses and other	55.6	57.5	(1.9)
Other current liabilities	190.2	192.5	(2.3)
Retained earnings	413.6	413.2	0.4

The Company has elected to apply the practical expedient to reflect the aggregate effect of all modifications when identifying the satisfied and unsatisfied performance obligations, determining the transaction price and allocating the transaction price. The Company does not disclose the value of unsatisfied performance obligations for revenue contracts with an original expected length of one year or less.

Accounting policy: Revenue is recognized when obligations under the terms of a contract with the customer are satisfied which occurs when control of the trucks, parts, or services are transferred to the customer. Revenue is measured as the amount of consideration expected to be received in exchange for transferring goods or providing services. The satisfaction of performance obligations under the terms of a revenue contract generally gives rise for the right to payment from the customer. The Company's standard payment terms vary by the type and location of the customer and the products or services offered. Generally, the time between when revenue is recognized and when payment is due is not significant. Given the insignificant days between revenue recognition and receipt of payment, financing components do not exist between the Company and its customers. Taxes collected from customers are excluded from revenue. The estimated costs of product warranties are recognized as expense when the products are sold. See Note 11 for further information on product warranties.

The majority of the Company's sales contracts contain performance obligations satisfied at a point in time when title and risks and rewards of ownership have transferred to the customer. Revenue for service contracts are recognized as the services are provided.

The Company also records variable consideration in the form of estimated reductions to revenues for customer programs and incentive offerings, including special pricing agreements, promotions and other volume-based incentives. Lift truck sales revenue is recorded net of estimated discounts. The estimated discount amount is based upon historical experience and trend analysis for each lift truck model. In addition to standard discounts, dealers can also request additional discounts that allow them to offer price concessions to customers. From time to time, the Company offers special incentives to increase market share or dealer stock and offers certain customers volume rebates if a specified cumulative level of purchases is obtained.

For contracts with customers that include multiple performance obligations, judgment is required to determine whether performance obligations specified in these contracts are distinct and should be accounted for as separate revenue transactions for recognition purposes. For such arrangements, revenue is allocated to each performance obligation based on its relative standalone selling price. Standalone selling prices are generally determined based on the prices charged to customers or using expected cost plus margin. Impairment losses recognized on receivables or contract assets were not significant for the three and nine months ended September 30, 2018.

The Company generally expenses sales commissions when incurred because the amortization period would have been one year or less. These costs are reported on the line "Selling, general and administrative expenses" in the unaudited

condensed consolidated statement of operations.

The Company pays for shipping and handling activities regardless of when control is transferred and has elected to account for shipping and handling as activities to fulfill the promise to transfer the good, rather than a promised service. These costs are reported on the line "Cost of sales" in the unaudited condensed consolidated statements of operations.

Table of Contents

The following table disaggregates revenue by category:

THREE MONTHS ENDED							
SEPTEMBER 30, 2018							
Lift truck business							
	Americas	EMEA	JAPIC	Bolzoni	Nuvera	Elims	Total
Dealer sales	\$307.0	\$139.0	\$55.2	\$ —	\$ —	\$ —	\$501.2
Direct customer sales	77.6	3.1	—	—	—	—	80.7
Aftermarket sales	96.2	25.9	8.7	—	—	—	130.8
Other	23.1	4.2	0.8	46.6	1.0	(5.5)	70.2
Total Revenues	\$503.9	\$172.2	\$64.7	\$46.6	\$1.0	\$(5.5)	\$782.9
NINE MONTHS ENDED							
SEPTEMBER 30, 2018							
Lift truck business							
	Americas	EMEA	JAPIC	Bolzoni	Nuvera	Elims	Total
Dealer sales	\$889.5	\$463.8	\$143.1	\$ —	\$ —	\$ —	\$1,496.4
Direct customer sales	233.7	6.0	—	—	—	—	239.7
Aftermarket sales	275.5	79.6	27.1	—	—	—	382.2
Other	72.7	11.7	1.5	150.3	1.7	(19.5)	218.4
Total Revenues	\$1,471.4	\$561.1	\$171.7	\$150.3	\$1.7	\$(19.5)	\$2,336.7

Dealer sales are recognized when the Company transfers control based on the shipping terms of the contract, which is generally when the truck is shipped from the manufacturing facility to the dealers. The majority of direct customer sales are to National Account customers. In these transactions, the Company transfers control and recognizes revenue when it delivers the product to the customer according to the terms of the contract. Aftermarket sales represent parts sales, extended warranty and maintenance services. For the sale of aftermarket parts, the Company transfers control and recognizes revenue when parts are shipped to the customer. When customers are given the right to return eligible parts and accessories, the Company estimates the expected returns based on an analysis of historical experience. The Company adjusts estimated revenues at the earlier of when the most likely amount of consideration expected to be received changes or when the consideration becomes fixed. The Company recognizes revenue for extended warranty and maintenance agreements based on the standalone selling price over the life of the contract, which reflects the costs to perform under these contracts and corresponds with, and thereby depicts, the transfer of control to the customer. Bolzoni revenue is primarily the sale of attachments to customers. In these transactions, the Company transfers control and recognizes revenue according to the shipping terms of the contract. In all revenue transactions, the Company receives cash equal to the invoice price and amount of consideration received and the revenue recognized may vary with changes in marketing incentives.

Deferred Revenue: The Company defers revenue for transactions that have not met the criteria for recognition at the time payment is collected, including extended warranties and maintenance contracts. In addition, for certain products, services and customer types, the Company collects payment prior to the transfer of control to the customer.

	Deferred Revenue
Balance, December 31, 2017	\$ 51.6
Customer deposits and billings	40.1
Revenue recognized	(35.7)
Balance, September 30, 2018	\$ 56.0

The table above includes \$6.1 million of revenue which has been deferred related to battery box replacement ("BBR") units. Revenue on these units has been deferred because the BBRs are new technology and the design of the product continues to evolve. Currently, the Company does not have sufficient data available to be able to reasonably estimate

all of the future costs related to the sale of BBR units, such as warranty costs. When the Company is able to reasonably estimate the total future costs related to these sales, it will be able to appropriately recognize the revenue and warranty reserves.

Table of Contents

Note 4—Business Segments

The Company's reportable segments for the lift truck business include the following three management units: the Americas, EMEA and JAPIC. Americas includes operations in the United States, Canada, Mexico, Brazil, Latin America and its corporate headquarters. EMEA includes operations in Europe, the Middle East and Africa. JAPIC includes operations in the Asia and Pacific regions, including China, as well as the equity earnings of SN operations. Certain amounts are allocated to these geographic management units and are included in the segment results presented below, including product development costs, corporate headquarter's expenses and certain information technology infrastructure costs. These allocations among geographic management units are determined by senior management and not directly incurred by the geographic operations. In addition, other costs are incurred directly by these geographic management units based upon the location of the manufacturing plant or sales units, including manufacturing variances, product liability, warranty and sales discounts, which may not be associated with the geographic management unit of the ultimate end user sales location where revenues and margins are reported. Therefore, the reported results of each segment for the lift truck business cannot be considered stand-alone entities as all segments are inter-related and integrate into a single global lift truck business.

On June 1, 2018, the Company completed the acquisition of the majority interest in Maximal, which is included in the JAPIC segment from the date of acquisition. Given the timing and complexity of the acquisition, the presentation of Maximal in the consolidated financial statements, including the allocation of the purchase price, is preliminary and will likely change in future periods, perhaps significantly as fair value estimates of the assets acquired and liabilities assumed are refined during the measurement period. The Company will complete the purchase price allocation no later than the second quarter of 2019. See Note 15 to the unaudited condensed consolidated financial statements for additional information.

The Company reports the results of both Bolzoni and Nuvera as separate segments. Intercompany sales between Nuvera, Bolzoni and the lift truck business have been eliminated.

Financial information for each reportable segment is presented in the following table:

	THREE MONTHS ENDED		NINE MONTHS ENDED	
	SEPTEMBER 30		SEPTEMBER 30	
	2018	2017	2018	2017
Revenues from external customers				
Americas	\$503.9	\$447.8	\$1,471.4	\$1,346.7
EMEA	172.2	165.6	561.1	500.6
JAPIC	64.7	38.9	171.7	124.9
Lift truck business	740.8	652.3	2,204.2	1,972.2
Bolzoni	46.6	44.3	150.3	127.8
Nuvera	1.0	0.3	1.7	3.3
Eliminations	(5.5)	(5.8)	(19.5)	(13.6)
Total	\$782.9	\$691.1	\$2,336.7	\$2,089.7
Gross profit (loss)				
Americas	\$76.4	\$83.6	\$241.3	\$251.2
EMEA	23.5	20.5	74.4	66.6
JAPIC	3.8	4.4	14.4	14.1
Lift truck business	103.7	108.5	330.1	331.9
Bolzoni	14.4	13.5	48.2	39.7
Nuvera	(0.3)	(0.4)	(1.9)	(1.9)

Eliminations	0.1	(0.2)	(0.2)	(0.5)
Total	\$117.9	\$121.4	\$376.2	\$369.2

13

Table of Contents

	THREE MONTHS ENDED		NINE MONTHS ENDED	
	SEPTEMBER 30		SEPTEMBER 30	
	2018	2017	2018	2017
Operating profit (loss)				
Americas	\$ 25.5	\$ 28.6	\$ 71.4	\$ 85.9
EMEA	0.1	(1.7)	2.4	1.5
JAPIC	(6.2)	(2.6)	(10.5)	(5.5)
Lift truck business	19.4	24.3	63.3	81.9
Bolzoni	1.7	2.1	7.6	4.9
Nuvera	(9.0)	(8.1)	(28.5)	(28.1)
Eliminations	0.1	(0.2)	(0.2)	(0.5)
Total	\$ 12.2	\$ 18.1	\$ 42.2	\$ 58.2

Net income (loss) attributable to stockholders				
Americas	\$ 21.6	\$ 22.7	\$ 52.2	\$ 67.0
EMEA	0.2	(1.7)	2.5	1.6
JAPIC	(3.1)	(1.3)	(4.3)	(2.8)
Lift truck business	18.7	19.7	50.4	65.8
Bolzoni	1.4	1.9	5.4	3.3
Nuvera	(6.4)	(4.9)	(20.6)	(16.9)
Eliminations	1.7	(0.2)	0.7	(1.2)
Total	\$ 15.4	\$ 16.5	\$ 35.9	\$ 51.0

Note 5—Income Taxes

The income tax provision includes U.S. federal, state and local, and foreign income taxes and is based on the application of a forecasted annual income tax rate applied to the current quarter's year-to-date pre-tax income or loss. In determining the estimated annual effective income tax rate, the Company analyzes various factors, including projections of the Company's annual earnings, taxing jurisdictions in which the earnings will be generated, the impact of state and local income taxes, the Company's ability to use tax credits and net operating loss carryforwards and capital loss carryforwards, and available tax planning alternatives. Discrete items, including the effect of changes in tax laws, tax rates and certain circumstances with respect to valuation allowances or the tax effect of other unusual or nonrecurring transactions or adjustments are reflected in the period in which they occur as an addition to, or reduction from, the income tax provision, rather than included in the estimated effective annual income tax rate.

A reconciliation of the consolidated federal statutory to reported income tax rate is as follows:

	THREE MONTHS ENDED		NINE MONTHS ENDED	
	SEPTEMBER 30		SEPTEMBER 30	
	2018	2017	2018	2017
Income before income taxes	\$ 10.2	\$ 15.9	\$ 39.5	\$ 58.5
Statutory taxes (21% in 2018 and 35% in 2017)	\$ 2.1	\$ 5.6	\$ 8.3	\$ 20.5
Interim adjustment	(0.2)	(0.1)	0.3	0.2
Permanent adjustments	(1.1)	(1.4)	(0.4)	(6.7)
Discrete items	(5.5)	(4.9)	(4.2)	(6.7)
Income tax provision (benefit)	\$ (4.7)	\$ (0.8)	\$ 4.0	\$ 7.3

Edgar Filing: HYSTER-YALE MATERIALS HANDLING, INC. - Form 10-Q

Reported income tax rate	n.m.	n.m.	10.1 %	12.5 %
--------------------------	------	------	--------	--------

During the third quarter of 2018, the Company recognized a discrete tax benefit of \$5.5 million as a result of filing the Company's 2017 tax returns, which reflected the final determination of the U.S. federal transition tax and resulted in a favorable adjustment of \$4.8 million to the provisional tax amounts previously recorded, and other favorable return to provision items of \$0.7 million, primarily related to U.S. federal tax credits.

Table of Contents

During the second quarter of 2018, the Company recognized a discrete tax charge of \$1.1 million as a result of non-deductible acquisition costs related to the closing of the Maximal transaction.

During the third quarter of 2017, the Company settled various federal obligations in Brazil through the utilization of its federal net operating loss carryforwards for which a valuation allowance was previously provided. As a result of the utilization of deferred tax assets, the Company released the associated valuation allowance previously provided of \$4.7 million.

In addition, during the first nine months of 2017, the Company recognized a net discrete tax benefit of \$4.4 million from an internal sale of a subsidiary between consolidated companies resulting in the repatriation of non-U.S. accumulated earnings taxed at higher rates, partially offset by a \$1.6 million valuation allowance provided against deferred tax assets in China where the Company has determined that such deferred tax assets no longer meet the more likely than not standard for realization.

The Company has evaluated the guidance regarding the Tax Reform Act issued to date, and will continue to monitor additional guidance issued through the end of 2018 and the filing of its 2017 state tax returns, at which time the amount of the one-time transition tax and the impact of the change in tax rate on cumulative deferred taxes will be finalized. The Company's estimate of the U.S. federal transition tax was reduced from \$32.7 million to \$27.9 million as a result of the interpretation of updated guidance issued and further refinement of earlier estimates. The Company does not expect the final amounts to materially differ from the provisional amount recorded through the third quarter of 2018.

The Company has considered the provisions of the Tax Reform Act in computing its 2018 estimated effective annual income tax rate. Accordingly, the estimated effective income tax rate for the nine months ended September 30, 2018 includes favorable items related to the reduced U.S. federal tax rate of 21% and a deduction for foreign-derived intangible income, or FDII, offset by unfavorable items related to the global intangible low-taxed income, or GILTI, non-deductible expenses primarily related to compensation, as well as an increase in state income taxes, net of the federal benefit.

Note 6—Reclassifications from OCI

The following table summarizes reclassifications out of accumulated other comprehensive income (loss) ("OCI") as recorded in the unaudited condensed consolidated statements of operations:

Details about OCI Components	Amount Reclassified from OCI				Affected Line Item in the Statement Where Net Income Is Presented
	THREE MONTHS ENDED		NINE MONTHS ENDED		
	SEPTEMBER 30		SEPTEMBER 30		
	2018	2017	2018	2017	
Gain (loss) on cash flow hedges:					
Interest rate contracts	\$0.1	\$—	\$ —	\$ —	Interest expense
Foreign exchange contracts	0.2	(0.5)	2.3	(2.0)	Cost of sales
Total before tax	0.3	(0.5)	2.3	(2.0)	Income before income taxes
Tax expense (benefit)	—	(0.1)	(0.8)	0.7	Income tax provision (benefit)
Net of tax	\$0.3	\$(0.6)	\$ 1.5	\$(1.3)	Net income
Amortization of defined benefit pension items:					
Actuarial loss	\$(1.1)	\$(1.1)	\$(3.0)	\$(3.3)	(a)

Edgar Filing: HYSTER-YALE MATERIALS HANDLING, INC. - Form 10-Q

Prior service credit	—	—	0.2	0.2	(a)
Total before tax	(1.1)	(1.1)	(2.8)	(3.1)	Income before income taxes
Tax expense	0.3	0.4	0.6	1.0	Income tax provision (benefit)
Net of tax	\$(0.8)	\$(0.7)	\$(2.2)	\$(2.1)	Net income
Total reclassifications for the period	\$(0.5)	\$(1.3)	\$(0.7)	\$(3.4)	

(a) These OCI components are included in the computation of net pension cost (see Note 8 for additional details).

Table of Contents

Note 7—Financial Instruments and Derivative Financial Instruments

Financial Instruments

The carrying amounts of cash and cash equivalents, accounts receivable and accounts payable approximate fair value due to the short-term maturities of these instruments. The fair values of revolving credit agreements and long-term debt, excluding capital leases, were determined using current rates offered for similar obligations taking into account company credit risk. This valuation methodology is Level 2 as defined in the fair value hierarchy. At September 30, 2018, the fair value and carrying value of revolving credit agreements and long-term debt, excluding capital leases, was \$278.4 million and \$277.9 million, respectively. At December 31, 2017, the fair value and carrying value of revolving credit agreements and long-term debt, excluding capital leases, was \$272.2 million and \$270.9 million, respectively.

Derivative Financial Instruments

The Company uses forward foreign currency exchange contracts to partially reduce risks related to transactions denominated in foreign currencies. These contracts hedge firm commitments and forecasted transactions relating to cash flows associated with sales and purchases denominated in non-functional currencies. The Company offsets fair value amounts related to foreign currency exchange contracts executed with the same counterparty. Changes in the fair value of forward foreign currency exchange contracts that are effective as hedges are recorded in OCI. Deferred gains or losses are reclassified from OCI to the unaudited condensed consolidated statements of operations in the same period as the gains or losses from the underlying transactions are recorded and are generally recognized in cost of sales. The ineffective portion of derivatives that are classified as hedges is immediately recognized in earnings and is also generally recognized in cost of sales.

The Company periodically enters into foreign currency exchange contracts that do not meet the criteria for hedge accounting. These derivatives are used to reduce the Company's exposure to foreign currency risk related to forecasted purchase or sales transactions or forecasted intercompany cash payments or settlements. Gains and losses on these derivatives are generally recognized in cost of sales.

The Company periodically enters into forward foreign currency contracts that are designated as net investment hedges of the Company's net investment in its foreign subsidiaries. For derivative instruments that are designated and qualified as a hedge of a net investment in foreign currency, the gain or loss is reported in other comprehensive income as part of the cumulative translation adjustment to the extent it is effective. The Company utilizes the forward-rate method of assessing hedge effectiveness. Any ineffective portion of net investment hedges would be recognized in the unaudited condensed consolidated statement of operations in the same period as the change.

The Company uses cross-currency swaps, which hedge the variability of expected future cash flows that are attributable to foreign currency risk of certain intercompany loans. These agreements include initial and final exchanges of principal and associated interest payments from fixed euro denominated to fixed U.S.-denominated amounts. Changes in the fair value of cross-currency swaps that are effective as hedges are recorded in OCI. Deferred gains or losses are reclassified from OCI to the unaudited condensed consolidated statements of operations in the same period as the gains or losses from the underlying transactions are recorded and are generally recognized in other (income) expense and interest expense. The ineffective portion of derivatives that are classified as hedges is immediately recognized in earnings and is also generally recognized in other (income) expense.

The Company uses interest rate swap agreements to partially reduce risks related to floating rate financing agreements that are subject to changes in the market rate of interest. Terms of the interest rate swap agreements require the Company to receive a variable interest rate and pay a fixed interest rate. The Company's interest rate swap agreements

and its variable rate financings are predominately based upon the one or three-month LIBOR. Changes in the fair value of interest rate swap agreements that are effective as hedges are recorded in OCI. Deferred gains or losses are reclassified from OCI to the unaudited condensed consolidated statements of operations in the same period as the gains or losses from the underlying transactions are recorded and are generally recognized in interest expense. The ineffective portion of derivatives that are classified as hedges is immediately recognized in earnings and included on the line "Other" in the "Other (income) expense" section of the unaudited condensed consolidated statements of operations.

Cash flows from hedging activities are reported in the unaudited condensed consolidated statements of cash flows with the same classification as the hedged item, generally as a component of cash flows from operations.

The Company measures its derivatives at fair value on a recurring basis using significant observable inputs. This valuation methodology is Level 2 as defined in the fair value hierarchy. The Company uses a present value technique that incorporates

Table of Contents

yield curves and foreign currency spot rates to value its derivatives and also incorporates the effect of the Company's and its counterparties' credit risk into the valuation.

The Company does not currently hold any nonderivative instruments designated as hedges or any derivatives designated as fair value hedges.

Foreign Currency Derivatives: The Company held forward foreign currency exchange contracts with total notional amounts of \$1.1 billion at September 30, 2018, primarily denominated in euros, U.S. dollars, Japanese yen, British pounds, Swedish kroner, Mexican pesos, Chinese renminbi, Brazilian real and Australian dollars. The Company held forward foreign currency exchange contracts with total notional amounts of \$860.2 million at December 31, 2017, primarily denominated in euros, U.S. dollars, Japanese yen, British pounds, Swedish kroner, Mexican pesos and Australian dollars. The fair value of these contracts approximated a net liability of \$17.9 million and \$2.1 million at September 30, 2018 and December 31, 2017, respectively.

Forward foreign currency exchange contracts that qualify for hedge accounting are generally used to hedge transactions expected to occur within the next 36 months. The mark-to-market effect of forward foreign currency exchange contracts that are considered effective as hedges has been included in OCI. Based on market valuations at September 30, 2018, \$0.6 million of the amount of net deferred loss included in OCI at September 30, 2018 is expected to be reclassified as expense into the unaudited condensed consolidated statement of operations over the next twelve months, as the transactions occur.

Interest Rate Derivatives: The Company holds certain contracts that hedge interest payments on its \$200.0 million term loan (the "Term Loan") borrowings and one and three-month LIBOR borrowings. The following table summarizes the notional amounts, related rates, excluding spreads, and remaining terms of interest rate swap agreements at September 30, 2018 and December 31, 2017:

Notional Amount		Average Fixed Rate		
September 30, 2018	December 31, 2017	September 30, 2018	December 31, 2017	
\$100.0	\$ 100.0	1.47 %	1.47 %	Term at September 30, 2018
\$56.5	\$ 56.5	1.94 %	1.94 %	Extending to December 2018
\$83.5	\$ 83.5	2.20 %	2.20 %	Extending to November 2022
				December 2018 to May 2023

The Company does not apply hedge accounting to the interest rate derivatives which expire December 2018. The fair value of all interest rate swap agreements was a net asset of \$4.2 million and \$0.8 million at September 30, 2018 and December 31, 2017, respectively. The mark-to-market effect of interest rate swap agreements that are considered effective as hedges has been included in OCI. Based on market valuations at September 30, 2018, \$2.0 million of the amount included in OCI is expected to be reclassified as income in the unaudited condensed consolidated statement of operations over the next twelve months, as cash flow payments are made in accordance with the interest rate swap agreements.

Asset Derivatives				Liability Derivatives			
Balance Sheet		SEPTEMBER 30, 2018	DECEMBER 31, 2017	Balance Sheet		SEPTEMBER 30, 2018	DECEMBER 31, 2017
Location				Location			
Derivatives designated as hedging instruments							
Cash Flow Hedges							
Interest rate swap agreements							
Current	Prepaid expenses and other	\$ 0.7	\$ —		Prepaid expenses and other	\$ —	\$ 0.1
Long-term	Other non-current assets	3.3	0.7		Other non-current assets	—	—
	Other long-term liabilities	—	—		Other long-term liabilities	—	0.1
Foreign currency exchange contracts							
Current	Prepaid expenses and other	1.8	8.3		Prepaid expenses and other	0.8	4.0
	Other current liabilities	5.2	2.8		Other current liabilities	10.1	4.3
Long-term	Other non-current assets	0.5	3.9		Other non-current assets	0.4	1.3
	Other long-term liabilities	1.4	0.5		Other long-term liabilities	13.9	7.7
Total derivatives designated as hedging instruments		\$ 12.9	\$ 16.2			\$ 25.2	\$ 17.5
Derivatives not designated as hedging instruments							
Cash Flow Hedges							
Interest rate swap agreements							
Current	Prepaid expenses and other	\$ 0.2	\$ 0.4		Prepaid expenses and other	\$ —	\$ —
Long-term	Other long-term liabilities	—	—		Other long-term liabilities	—	0.1
Foreign currency exchange contracts							
Current	Prepaid expenses and other	—	0.8		Prepaid expenses and other	0.1	0.4
	Other current liabilities	0.6	0.1		Other current liabilities	2.1	0.8
Long-term	Other non-current assets	—	—		Other long-term liabilities	—	—
Total derivatives not designated as hedging instruments		\$ 0.8	\$ 1.3			\$ 2.2	\$ 1.3
Total derivatives		\$ 13.7	\$ 17.5			\$ 27.4	\$ 18.8

Derivative Assets as of September 30, 2018	Derivative Liabilities as of September 30, 2018
--	---

	Gross Amounts of Recognized Assets	Gross Amounts Offset	Net Amounts Presented	Net Amount	Gross Amounts of Recognized Liabilities	Gross Amounts Offset	Net Amounts Presented	Net Amount
Cash Flow Hedges								
Interest rate swap agreements	\$4.2	\$ —	\$ 4.2	\$ 4.2	\$—	\$ —	\$ —	\$ —
Foreign currency exchange contracts	1.0	(1.0)	—	—	18.9	(1.0)	17.9	17.9
Total derivatives	\$5.2	\$ (1.0)	\$ 4.2	\$ 4.2	\$18.9	\$ (1.0)	\$ 17.9	\$ 17.9
	Derivative Assets as of December 31, 2017				Derivative Liabilities as of December 31, 2017			
	Gross Amounts of Recognized Assets	Gross Amounts Offset	Net Amounts Presented	Net Amount	Gross Amounts of Recognized Liabilities	Gross Amounts Offset	Net Amounts Presented	Net Amount
Cash Flow Hedges								
Interest rate swap agreements	\$1.0	\$ (0.2)	\$ 0.8	\$ 0.8	\$0.2	\$ (0.2)	\$ —	\$ —
Foreign currency exchange contracts	7.3	(7.3)	—	—	9.4	(7.3)	2.1	2.1
Total derivatives	\$8.3	\$ (7.5)	\$ 0.8	\$ 0.8	\$9.6	\$ (7.5)	\$ 2.1	\$ 2.1

Table of Contents

The following table summarizes the pre-tax impact of derivative instruments as recorded in the unaudited condensed consolidated statements of operations:

	Amount of Gain or (Loss) Recognized in OCI on Derivative (Effective Portion)				Location of Gain or (Loss) Reclassified from OCI into Income (Effective Portion)	Amount of Gain or (Loss) Reclassified from OCI into Income (Effective Portion)				Location of Gain or (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Amount of Gain or (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)				
	THREE MONTHS ENDED SEPTEMBER 30		NINE MONTHS ENDED SEPTEMBER 30			THREE MONTHS ENDED SEPTEMBER 30		NINE MONTHS ENDED SEPTEMBER 30			THREE MONTHS ENDED SEPTEMBER 30		NINE MONTHS ENDED SEPTEMBER 30		
	2018	2017	2018	2017		2018	2017	2018	2017		2018	2017	2018	2017	
Derivatives designated as hedging instruments															
Cash Flow Hedges															
Interest rate swap agreements	\$0.7	\$(0.2)	\$3.4	\$(0.6)	Interest expense	\$0.1	\$—	\$—	\$—	Other	\$—	\$—	\$—	\$—	
Foreign currency exchange contracts	(4.5)	1.5	(13.0)	15.2	Cost of sales	0.2	(0.5)	2.3	(2.0)	Cost of sales	—	(0.1)	\$—	\$(0.1)	
Total	\$(3.8)	\$1.3	\$(9.6)	\$14.6		\$0.3	\$(0.5)	\$2.3	\$(2.0)		\$—	\$(0.1)	\$—	\$(0.1)	
</															

Edgar Filing: HYSTER-YALE MATERIALS HANDLING, INC. - Form 10-Q

Interest rate swap agreements	Other	\$—	\$0.1	\$0.3	\$—
Foreign currency exchange contracts	Cost of sales	(0.2)	(0.2)	(1.4)	1.5
Total		\$(0.2)	\$(0.1)	\$(1.1)	\$1.5

Note 8—Retirement Benefit Plans

The Company maintains various defined benefit pension plans that provide benefits based on years of service and average compensation during certain periods. The Company's policy is to make contributions to fund these plans within the range allowed by applicable regulations. Plan assets consist primarily of publicly traded stocks and government and corporate bonds.

Pension benefits for employees covered under the Company's U.S. and U.K. plans are frozen. Only certain grandfathered employees in the Netherlands still earn retirement benefits under a defined benefit pension plan. All other eligible employees of the Company, including employees whose pension benefits are frozen, receive retirement benefits under defined contribution retirement plans.

During the third quarter of 2018, the Company recognized a settlement loss of \$0.2 million resulting from lump-sum distributions exceeding the total projected interest cost for the plan year for one of its U.S. pension plans. The Company

remeasured the plan as of September 30, 2018 using a discount rate of 4.10% compared to the December 31, 2017 discount rate of 3.40%. As a result of the remeasurement, the funded status of the plan increased by \$1.2 million and accumulated other comprehensive income increased by \$1.8 million (\$1.2 million net of tax).

During the second quarter of 2018, the Company recognized a settlement loss of \$0.7 million resulting from lump-sum

distributions exceeding the total projected interest cost for the plan year for one of its U.S. pension plans. The Company

remeasured the plan as of June 30, 2018 using a discount rate of 4.05% compared to the December 31, 2017 discount rate of 3.40%. As a result of the remeasurement, the funded status of the plan increased by \$0.3 million and accumulated other comprehensive income increased by \$1.0 million (\$0.7 million net of tax).

Table of Contents

During the third quarter of 2017, the Company recognized a settlement loss of \$1.0 million resulting from lump-sum distributions exceeding the total projected interest cost for the plan year for one of its U.S. pension plans. The Company

remeasured the plan as of September 30, 2017 using a discount rate of 3.50% compared to the December 31, 2016 discount rate of 3.75%. As a result of the remeasurement, the funded status of the plan increased by \$0.8 million and accumulated other comprehensive income increased by \$1.8 million (\$1.2 million net of tax).

The components of pension (income) expense are set forth below:

	THREE MONTHS ENDED SEPTEMBER 30 2018		NINE MONTHS ENDED SEPTEMBER 30 2018	
	2018	2017	2018	2017
U.S. Pension				
Interest cost	\$ 0.6	\$ 0.6	\$ 1.9	\$ 2.0
Expected return on plan assets	(1.2)	(1.2)	(3.7)	(3.7)
Settlement loss	0.2	1.0	0.9	1.0
Amortization of actuarial loss	0.5	0.4	1.4	1.3
Amortization of prior service credit	—	—	(0.2)	(0.2)
Total	\$ 0.1	\$ 0.8	\$ 0.3	\$ 0.4
Non-U.S. Pension				
Service cost	\$ 0.1	\$ —	\$ 0.2	\$ 0.1
Interest cost	0.9	1.0	3.0	3.0
Expected return on plan assets	(2.6)	(2.3)	(8.0)	(6.8)
Amortization of actuarial loss	0.6	0.7	1.6	2.0
Total	\$ (1.0)	\$ (0.6)	\$ (3.2)	\$ (1.7)

Note 9—Inventories

Inventories are summarized as follows:

	SEPTEMBER 30 2018	DECEMBER 31 2017
Finished goods and service parts	\$ 236.9	\$ 193.7
Work in process	47.6	19.9
Raw materials	271.3	239.0
Total manufactured inventories	555.8	452.6
LIFO reserve	(49.4)	(40.7)
Total inventory	\$ 506.4	\$ 411.9

Inventories are stated at the lower of cost or market for last-in, first-out (“LIFO”) inventory or lower of cost or net realizable value for first-in, first-out (“FIFO”) inventory. At September 30, 2018 and December 31, 2017, 50% and 49%, respectively, of total inventories were determined using the LIFO method, which consists primarily of manufactured inventories, including service parts, in the United States. The FIFO method is used with respect to all other inventories. An actual valuation of inventory under the LIFO method can be made only at the end of the year based on the inventory levels and costs at that time. Accordingly, interim LIFO calculations must be based on management's estimates of expected year-end inventory levels and costs. Because these estimates are subject to change and may be different than the actual inventory levels and costs at the end of the year, interim results are subject to the final year-end LIFO inventory valuation.

Note 10—Current and Long-Term Financing

On March 14, 2018, the Company entered into an amendment to the Term Loan. As a result of the amendment, among other things, the floating rate margin under the Term Loan, which can be a base rate or Eurodollar rate, as defined in the Term Loan, is 2.25% for base rate loans and 3.25% for Eurodollar rate loans.

Table of Contents

The Company incurred fees and expenses of \$0.6 million in the first nine months of 2018 related to the amendment, which were deferred and are being amortized as interest expense over the term of the applicable debt agreements. Fees related to the Term Loan are presented as a direct deduction of the corresponding debt.

Note 11—Product Warranties

The Company provides a standard warranty on its lift trucks, generally for twelve months or 1,000 to 2,000 hours. For certain series of lift trucks, the Company provides a standard warranty of one to two years or 2,000 or 4,000 hours. For certain components in some series of lift trucks, the Company provides a standard warranty of two to three years or 4,000 to 6,000 hours. The Company estimates the costs which may be incurred under its standard warranty programs and records a liability for such costs at the time product revenue is recognized.

In addition, the Company sells separately priced extended warranty agreements for its lift trucks, which generally provide a warranty for an additional two to five years or up to 2,400 to 10,000 hours. The specific terms and conditions of those warranties vary depending upon the product sold and the country in which the Company does business. Revenue received for the sale of extended warranty contracts is deferred and recognized in the same manner as the costs incurred to perform under the warranty contracts.

The Company also maintains a quality enhancement program under which it provides for specifically identified field product improvements in its warranty obligation. Accruals under this program are determined based on estimates of the potential number of claims and the cost of those claims based on historical and anticipated costs.

The Company periodically assesses the adequacy of its recorded warranty liabilities and adjusts the amounts as necessary. Factors that affect the warranty liability include the number of units sold, historical and anticipated rates of warranty claims and the cost per claim.

Changes in the Company's current and long-term warranty obligations, including deferred revenue on extended warranty contracts, are as follows:

	2018
Balance at December 31, 2017	\$51.0
Current year warranty expense	28.2
Change in estimate related to pre-existing warranties	(0.9)
Payments made	(21.5)
Foreign currency effect	(0.8)
Balance at September 30, 2018	\$56.0

Note 12—Contingencies

Various legal and regulatory proceedings and claims have been or may be asserted against the Company relating to the conduct of its businesses, including product liability, environmental and other claims. These proceedings and claims are incidental to the ordinary course of business. Management believes that it has meritorious defenses and will vigorously defend the Company in these actions. Any costs that management estimates will be paid as a result of these claims are accrued when the liability is considered probable and the amount can be reasonably estimated. Although the ultimate disposition of these proceedings is not presently determinable, management believes, after consultation with its legal counsel, that the likelihood is remote that costs will be incurred materially in excess of accruals already recognized.

Note 13—Guarantees

Under various financing arrangements for certain customers, including independent retail dealerships, the Company provides recourse or repurchase obligations such that it would be obligated in the event of default by the customer. Terms of the third-party financing arrangements for which the Company is providing recourse or repurchase obligations generally range from one to five years. Total amounts subject to recourse or repurchase obligations at September 30, 2018 and December 31, 2017 were \$168.9 million and \$203.5 million, respectively. As of September 30, 2018, losses anticipated under the terms of the recourse or repurchase obligations were not significant and reserves have been provided for such losses based on historical experience in the accompanying unaudited condensed consolidated financial statements. The Company generally retains a security interest in the related assets financed such that, in the event the Company would become obligated under the terms of the recourse or repurchase obligations, the Company would take title to the assets financed. The fair value of collateral held at September 30,

Table of Contents

2018 was approximately \$232.6 million based on Company estimates. The Company estimates the fair value of the collateral using information regarding the original sales price, the current age of the equipment and general market conditions that influence the value of both new and used lift trucks. The Company also regularly monitors the external credit ratings of the entities for which it has provided recourse or repurchase obligations. As of September 30, 2018, the Company did not believe there was a significant risk of non-payment or non-performance of the obligations by these entities; however, there can be no assurance that the risk may not increase in the future. In addition, the Company has an agreement with WF to limit its exposure to losses at certain eligible dealers. Under this agreement, losses related to \$50.0 million of recourse or repurchase obligations for these certain eligible dealers are limited to 7.5% of their original loan balance, or \$9.5 million as of September 30, 2018. The \$50.0 million is included in the \$168.9 million of total amounts subject to recourse or repurchase obligations at September 30, 2018.

Generally, the Company sells lift trucks through its independent dealer network or directly to customers. These dealers and customers may enter into a financing transaction with HYGFS or other unrelated third parties. HYGFS provides debt and lease financing to both dealers and customers. On occasion, the credit quality of a customer or credit concentration issues within WF may require the Company to provide recourse or repurchase obligations of the lift trucks purchased by customers and financed through HYGFS. At September 30, 2018, approximately \$141.1 million of the Company's total recourse or repurchase obligations of \$168.9 million related to transactions with HYGFS. In connection with the joint venture agreement, the Company also provides a guarantee to WF for 20% of HYGFS' debt with WF, such that the Company would become liable under the terms of HYGFS' debt agreements with WF in the case of default by HYGFS. At September 30, 2018, loans from WF to HYGFS totaled \$1.2 billion. Although the Company's contractual guarantee was \$235.8 million, the loans by WF to HYGFS are secured by HYGFS' customer receivables, of which the Company guarantees \$141.1 million. Excluding the HYGFS receivables guaranteed by the Company from HYGFS' loans to WF, the Company's incremental obligation as a result of this guarantee to WF is \$215.7 million, which is secured by 20% of HYGFS' customer receivables and other secured assets of \$283.4 million. HYGFS has not defaulted under the terms of this debt financing in the past, and although there can be no assurances, the Company is not aware of any circumstances that would cause HYGFS to default in future periods.

The following table includes the exposure amounts related to the Company's guarantees at September 30, 2018:

	HYGFS Total	
Total recourse or repurchase obligations	\$ 141.1	\$ 168.9
Less: exposure limited for certain dealers	50.0	50.0
Plus: 7.5% of original loan balance	9.5	9.5
	100.6	128.4
Incremental obligation related to guarantee to WF	215.7	215.7
Total exposure related to guarantees	\$ 316.3	\$ 344.1

Note 14—Equity Investments

The Company maintains an interest in one variable interest entity, HYGFS. HYGFS is a joint venture with WF formed primarily for the purpose of providing financial services to independent Hyster® and Yale® lift truck dealers and National Account customers in the United States and is included in the Americas segment. The Company does not have a controlling financial interest or have the power to direct the activities that most significantly affect the economic performance of HYGFS. Therefore, the Company is not the primary beneficiary and uses the equity method to account for its 20% interest in HYGFS. The Company does not consider its variable interest in HYGFS to be significant.

The Company has a 50% ownership interest in SN, a limited liability company which was formed primarily to manufacture and distribute Sumitomo-branded lift trucks in Japan and export Hyster®- and Yale®-branded lift trucks

and related components and service parts outside of Japan. The Company purchases products from SN under agreed-upon terms. The Company's ownership in SN is also accounted for using the equity method of accounting and is included in the JAPIC segment.

The Company's percentage share of the net income or loss from its equity investments in HYGFS and SN is reported on the line "Income from unconsolidated affiliates" in the "Other (income) expense" section of the unaudited condensed consolidated statements of operations. The Company's equity investments are included on the line "Investment in Unconsolidated Affiliates" in the unaudited condensed consolidated balance sheets. At September 30, 2018 and December 31, 2017, the Company's investment in HYGFS was \$19.1 million and \$35.2 million, respectively. The Company's investment in SN was \$39.1 million and \$36.8 million at September 30, 2018 and December 31, 2017, respectively. Bolzoni's investment in unconsolidated affiliates was \$0.4 million and \$0.5 million at September 30, 2018 and December 31, 2017, respectively. The Company

Table of Contents

received dividends of \$20.1 million and \$2.4 million from HYGFS in the first nine months of 2018 and 2017, respectively. The Company received dividends of \$2.1 million and \$0.4 million from SN in the first nine months of 2018 and 2017, respectively.

The Company has an equity investment in a third party valued using a quoted market price in an active market, or Level 1 in the fair value hierarchy. The Company's investment as of September 30, 2018 was \$3.8 million, which includes a \$2.5 million and \$5.5 million loss for the three and nine months ended September 30, 2018, respectively and is included on the line "Other" in the "Other (income) expense" section of the unaudited condensed consolidated statements of operations.

Summarized financial information for HYGFS and SN is as follows:

	THREE MONTHS ENDED SEPTEMBER 30		NINE MONTHS ENDED SEPTEMBER 30	
	2018	2017	2018	2017
Revenues	\$ 103.1	\$ 94.1	\$ 308.6	\$ 272.1
Gross profit	\$ 29.9	\$ 29.5	\$ 93.2	\$ 84.6
Income from continuing operations	\$ 8.3	\$ 7.5	\$ 27.0	\$ 20.7
Net income	\$ 8.3	\$ 7.5	\$ 27.0	\$ 20.7

Note 15—Acquisition

On December 6, 2017, the Company's indirect wholly owned subsidiary, Hyster-Yale Acquisition Holding Ltd. ("Acquisition Co."), entered into an Equity Transfer Agreement ("ETA") with KNSN Pipe & Pile Company Limited ("KNSN"), pursuant to which Acquisition Co. agreed to purchase 75% of the equity interest of Zhejiang Maximal Forklift Co., Ltd. ("Maximal") from KNSN for an aggregate purchase price of \$90.0 million. After the closing under the ETA, the remaining 25% of the equity interest of Maximal is owned by senior management of Maximal, through Y-C Hong Kong Holding Company Limited ("HK Holding Co."). Maximal is a manufacturer of utility and standard lift trucks and specialized materials handling equipment founded in 2006 in the Hangzhou, Zhejiang Province of China.

Under the terms of the ETA, upon the closing, the Company paid \$81.0 million to a jointly-controlled bank account under the name of KNSN, and KNSN is only allowed to use such amount to repay intercompany indebtedness owed by KNSN to Maximal and to remove existing related-party guarantees provided by Maximal. Any balance amount remaining after fulfilling the specified purposes will belong to KNSN. The Maximal balance sheet as of June 1, 2018 includes \$65.7 million of receivables from KNSN included in other receivables in the table below which were collected during June 2018 in accordance with the ETA. The proceeds were used by Maximal to repay \$59.9 million of short-term debt during June 2018. In addition, upon the closing of the acquisition, the Company paid \$9.0 million to an escrow account, which will be released to KNSN in two installments. The first installment of \$2.7 million will be released on the second anniversary of the closing and the second installment of \$6.3 million will be released on the third anniversary of the closing subject to a number of conditions. KNSN is obligated to indemnify the Company from and against any breach of representations and warranties and any liabilities and losses associated with the pre-closing operations of Maximal. In addition, the cash consideration paid was finalized with KNSN during September 2018 and the Company paid an additional \$3.2 million of consideration for the working capital, cash and debt adjustments.

In addition, the Company signed an incentive agreement with Mr. Jin Hong Lu, a key member of senior management of Maximal and the majority shareholder of KNSN. Pursuant to this agreement, the Company will pay \$10.0 million to Mr. Lu by the third anniversary of the closing under the ETA, provided that Mr. Lu, his immediate family members and any affiliates fully comply with the non-competition, conflict of interest, non-solicitation, and compliance

covenants set forth in the agreement. The Company has recorded \$1.1 million related to the incentive agreement as of September 30, 2018.

Pursuant to the terms of the ETA, Mr. Lu signed and issued a Guarantee and Undertaking Letter for the benefit of the Company, guaranteeing KNSN's performance of all terms under the ETA. In the case of any breach of the ETA by KNSN, Mr. Lu shall be liable and shall indemnify the Company against any losses arising from such breach in accordance with the ETA and applicable laws.

On June 1, 2018, the Company completed the acquisition of a 75% equity interest of Maximal for \$74.7 million, net of cash acquired of \$15.3 million. Given the timing and complexity of the Maximal acquisition, the allocation of the purchase price is preliminary and will likely change in future periods, perhaps significantly as fair value estimates of the assets acquired and liabilities assumed are refined during the measurement period. The Company is in the process of obtaining a third-party

Table of Contents

valuation of the assets acquired and liabilities assumed; thus the provisional measurements are subject to change. The Company will complete the purchase price allocation no later than the second quarter of 2019.

The following table summarizes the preliminary estimated fair values of the assets acquired and the liabilities assumed of Maximal as of June 1, 2018:

Cash	\$15.3	
Accounts receivable	13.2	
Other receivables	68.9	
Inventories	22.1	
Property, plant and equipment	38.6	
Intangible Assets	22.9	
Other assets	13.3	
Total assets acquired	\$194.3	
Accounts payable	20.3	
Short-term debt	77.6	
Long-term deferred tax liabilities	9.7	
Other liabilities	18.4	
Total liabilities assumed	\$126.0	
Noncontrolling interest	28.2	
Net assets acquired	\$40.1	
Initial purchase price	93.2	
Goodwill	\$53.1	
Acquired Intangible Assets	Preliminary Fair Value	Preliminary Weighted-Average Useful Lives (Years)
Distribution network	\$ 12.2	20
Patents	5.6	7
Trademarks	5.1	20
Total	\$ 22.9	

The assignment of acquired goodwill to reporting units has not been determined. The \$53.1 million of goodwill has been included in the JAPIC segment. The results of Maximal's operations have been included in the unaudited condensed consolidated financial statements since the acquisition date and are reflected in the JAPIC segment.

The Company recognized \$0.5 million of acquisition-related costs, which are included in the Americas segment during both the third quarter of 2018 and 2017, and \$2.9 million and \$1.9 million during the first nine months of 2018 and 2017, respectively. These costs are included in the line "Selling, general and administrative expenses" in the unaudited condensed consolidated statements of operations.

Table of Contents

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

(Tabular Amounts in Millions, Except Per Share and Percentage Data)

Hyster-Yale Materials Handling, Inc. ("Hyster-Yale" or the "Company") and its subsidiaries, including its operating company Hyster-Yale Group, Inc. ("HYG"), is a leading, globally integrated, full-line lift truck manufacturer. The Company offers a broad array of solutions aimed at meeting the specific materials handling needs of its customers, including attachments and hydrogen fuel cell power products, telematics, automation and fleet management services, as well as an array of other power options for its lift trucks. The Company, through HYG, designs, engineers, manufactures, sells and services a comprehensive line of lift trucks, attachments and aftermarket parts marketed globally primarily under the Hyster® and Yale® brand names, mainly to independent Hyster® and Yale® retail dealerships. The materials handling business historically has been cyclical because the rate of orders for lift trucks fluctuates depending on the general level of economic activity in the various industries and countries its customers serve. Lift trucks and component parts are manufactured in the United States, Northern Ireland, Mexico, the Netherlands, Italy, Vietnam, the Philippines, Japan, Brazil and China.

The Company also operates Bolzoni S.p.A. ("Bolzoni"). Bolzoni is a leading worldwide producer of attachments, forks and lift tables marketed under the Bolzoni Auramo® and Meyer® brand names. Bolzoni products are manufactured in Italy, China, Germany, Finland and the United States. Through the design, production and distribution of a wide range of attachments, Bolzoni has a strong presence in the market niche of lift-truck attachments and industrial material handling.

The Company also operates Nuvera Fuel Cells, LLC ("Nuvera"). Nuvera is an alternative-power technology company focused on fuel cell stacks and engines.

On June 1, 2018, the Company completed the acquisition of the majority interest in Zhejiang Maximal Forklift Co., Ltd. ("Maximal"). Maximal is a Chinese manufacturer of utility and standard lift trucks and specialized material handling equipment involved in the design, manufacture, service and distribution of Class 1 electric and Class 5 internal combustion engine counterbalance utility and standard platforms, and Class 2 and Class 3 electric warehouse products for both the local China and global markets under the Maximal and SAMUK brands. Maximal also designs and produces specialized products in the port equipment and rough terrain forklift markets. The results of Maximal are included in the JAPIC segment since the date of acquisition.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Please refer to the discussion of Critical Accounting Policies and Estimates as disclosed on pages 14 through 18 in the Company's Annual Report on Form 10-K for the year ended December 31, 2017. Critical Accounting Policies and Estimates have not materially changed since December 31, 2017. See Note 2 and Note 3 to the unaudited condensed consolidated financial statements for a discussion of the new accounting pronouncements adopted on January 1, 2018.

Table of Contents

FINANCIAL REVIEW

The results of operations for the Company were as follows:

	THREE MONTHS ENDED SEPTEMBER 30		Favorable / (Unfavorable)		NINE MONTHS ENDED SEPTEMBER 30		Favorable / (Unfavorable)	
	2018	2017	% Change		2018	2017	% Change	
Lift truck unit shipments (in thousands)								
Americas	16.0	14.0	14.3	%	45.7	42.3	8.0	%
EMEA	6.5	6.5	—	%	21.4	20.8	2.9	%
JAPIC	3.1	1.5	106.7	%	7.2	4.4	63.6	%
	25.6	22.0	16.4	%	74.3	67.5	10.1	%
Revenues								
Americas	\$503.9	\$447.8	12.5	%	\$1,471.4	\$1,346.7	9.3	%
EMEA	172.2	165.6	4.0	%	561.1	500.6	12.1	%
JAPIC	64.7	38.9	66.3	%	171.7	124.9	37.5	%
Lift truck business	740.8	652.3	13.6	%	2,204.2	1,972.2	11.8	%
Bolzoni	46.6	44.3	5.2	%	150.3	127.8	17.6	%
Nuvera	1.0	0.3	n.m.		1.7	3.3	n.m.	
Eliminations	(5.5)	(5.8)	n.m.		(19.5)	(13.6)	n.m.	
	\$782.9	\$691.1	13.3	%	\$2,336.7	\$2,089.7	11.8	%
Gross profit (loss)								
Americas	\$76.4	\$83.6	(8.6)	%	\$241.3	\$251.2	(3.9)	%
EMEA	23.5	20.5	14.6	%	74.4	66.6	11.7	%
JAPIC	3.8	4.4	(13.6)	%	14.4	14.1	2.1	%
Lift truck business	103.7	108.5	(4.4)	%	330.1	331.9	(0.5)	%
Bolzoni	14.4	13.5	6.7	%	48.2	39.7	21.4	%
Nuvera	(0.3)	(0.4)	n.m.		(1.9)	(1.9)	n.m.	
Eliminations	0.1	(0.2)	n.m.		(0.2)	(0.5)	n.m.	
	\$117.9	\$121.4	(2.9)	%	\$376.2	\$369.2	1.9	%
Selling, general and administrative expenses								
Americas	\$50.9	\$55.0	7.5	%	\$169.9	\$165.3	(2.8)	%
EMEA	23.4	22.2	(5.4)	%	72.0	65.1	(10.6)	%
JAPIC	10.0	7.0	(42.9)	%	24.9	19.6	(27.0)	%
Lift truck business	84.3	84.2	(0.1)	%	266.8	250.0	(6.7)	%
Bolzoni	12.7	11.4	(11.4)	%	40.6	34.8	(16.7)	%
Nuvera	8.7	7.7	(13.0)	%	26.6	26.2	(1.5)	%
	\$105.7	\$103.3	(2.3)	%	\$334.0	\$311.0	(7.4)	%

Table of Contents

	THREE MONTHS ENDED SEPTEMBER 30				NINE MONTHS ENDED SEPTEMBER 30					
	2018	2017	% Change		2018	2017	% Change			
Operating profit (loss)										
Americas	\$ 25.5	\$ 28.6	(10.8	)%	\$ 71.4	\$ 85.9	(16.9	)%		
EMEA	0.1	(1.7	)	(105.9	)%	2.4	1.5	60.0	%	
JAPIC	(6.2	) (2.6	)	(138.5	)%	(10.5	) (5.5	)	(90.9	)%
Lift truck business	19.4	24.3	(20.2	)%	63.3	81.9	(22.7	)%		
Bolzoni	1.7	2.1	(19.0	)%	7.6	4.9	55.1	%		
Nuvera	(9.0	) (8.1	)	(11.1	)%	(28.5	) (28.1	)	(1.4	)%
Eliminations	0.1	(0.2	)	n.m.	(0.2	) (0.5	)	n.m.		
	\$ 12.2	\$ 18.1	(32.6	)%	\$ 42.2	\$ 58.2	(27.5	)%		
Interest expense	\$ 3.6	\$ 6.2	41.9	%	\$ 11.6	\$ 10.6	(9.4	)%		
Other income	\$ (1.6	) \$ (4.0	)	(60.0	)%	\$ (8.9	) \$ (10.9)	(18.3	)%	
Net income (loss) attributable to stockholders										
Americas	\$ 21.6	\$ 22.7	(4.8	)%	\$ 52.2	\$ 67.0	(22.1	)%		
EMEA	0.2	(1.7	)	111.8	%	2.5	1.6	56.3	%	
JAPIC	(3.1	) (1.3	)	(138.5	)%	(4.3	) (2.8	)	(53.6	)%
Lift truck business	18.7	19.7	(5.1	)%	50.4	65.8	(23.4	)%		
Bolzoni	1.4	1.9	26.3	%	5.4	3.3	63.6	%		
Nuvera	(6.4	) (4.9	)	(30.6	)%	(20.6	) (16.9	)	(21.9	)%
Eliminations	1.7	(0.2	)	n.m.	0.7	(1.2	)	n.m.		
	\$ 15.4	\$ 16.5	(6.7	)%	\$ 35.9	\$ 51.0	(29.6	)%		
Diluted earnings per share	\$ 0.93	\$ 1.00	(7.0	)%	\$ 2.16	\$ 3.09	(30.1	)%		
Reported income tax rate	n.m.	n.m.			10.1	% 12.5	%			

Following is the detail of the Company's unit shipments, bookings and backlog of unfilled orders placed with its manufacturing and assembly operations for new lift trucks, reflected in thousands of units. As of September 30, 2018, substantially all of the Company's backlog is expected to be sold within the next twelve months.

	THREE MONTHS ENDED SEPTEMBER 30		NINE MONTHS ENDED SEPTEMBER 30	
	2018	2017	2018	2017
Unit backlog, beginning of period	41.7	35.3	33.8	30.7
Unit shipments	(25.6)	(22.0)	(74.3)	(67.5)
Unit bookings	26.2	21.8	82.8	71.9
Unit backlog, end of period	42.3	35.1	42.3	35.1

The following is the detail of the approximate sales value of the Company's lift truck unit bookings and backlog, reflected in millions of dollars. The dollar value of bookings and backlog is calculated using the current unit bookings and backlog and the forecasted average sales price per unit.

	THREE MONTHS ENDED SEPTEMBER 30		NINE MONTHS ENDED SEPTEMBER 30	
	2018	2017	2018	2017
Bookings, approximate sales value	\$ 560	\$ 520	\$ 1,900	\$ 1,645
Backlog, approximate sales value	\$ 1,090	\$ 860	\$ 1,090	\$ 860

Table of Contents

Third Quarter of 2018 Compared with Third Quarter of 2017

The following table identifies the components of change in revenues for the third quarter of 2018 compared with the third quarter of 2017:

	Revenues
2017	\$ 691.1
Increase (decrease) in 2018 from:	
Unit volume and product mix	50.8
Maximal revenues	19.0
Parts	11.1
Price	10.0
Other	2.5
Bolzoni revenues	2.3
Foreign currency	(3.9)
2018	\$ 782.9

Revenues increased 13.3% to \$782.9 million in the third quarter of 2018 from \$691.1 million in the third quarter of 2017. The increase was mainly due to higher unit and parts volumes, the acquisition of Maximal and improved pricing in the lift truck business.

Revenues in the Americas increased primarily as a result of increased unit and parts volumes, as well as increased pricing. Revenues increased primarily from higher sales in all truck classes.

EMEA's revenues increased mainly as a result of higher parts revenue and shipments of higher-priced Class 5 internal combustion engine lift trucks, including Big Trucks, partially offset by an overall reduction in new unit shipments and a shift in sales to lower-priced Class 1 electric-rider and Class 3 warehouse trucks.

Revenues in JAPIC increased primarily as a result of the acquisition of Maximal and higher unit shipments of Class 5 internal combustion engine lift trucks, including Big Trucks, and Class 2 warehouse trucks.

Bolzoni's revenues increased in the third quarter of 2018 compared with the third quarter of 2017, mainly as a result of higher volume in the EMEA market.

The following table identifies the components of change in operating profit for the third quarter of 2018 compared with the third quarter of 2017:

	Operating Profit
2017	\$ 18.1
Increase (decrease) in 2018 from:	
Lift truck gross profit	(4.5)
Nuvera operations	(0.9)
Bolzoni operations	(0.4)
Lift truck selling, general and administrative expenses	(0.1)
2018	\$ 12.2

The Company recognized operating profit of \$12.2 million in the third quarter of 2018 compared with \$18.1 million in the third quarter of 2017. The decrease in operating profit was mainly due to lower lift truck gross profit. The decrease in the lift truck gross profit was primarily attributable to higher material and manufacturing costs, partially offset by improved pricing and higher unit shipments in the third quarter of 2018. In addition, lift truck gross profit in the third

quarter of 2018 includes \$4.0 million of unfavorable one-time purchase accounting adjustments related to the acquisition of Maximal. Lift truck selling, general and administrative expenses in the third quarter of 2018 include an additional \$2.0 million of post-acquisition expenses related to earn-out incentives and the amortization of the write-up of acquired assets to fair market value related to Maximal.

Operating profit in the Americas decreased in the third quarter of 2018 compared with the third quarter of 2017 primarily as a result of lower gross profit, partially offset by lower selling, general and administrative expenses. The decrease in gross profit

Table of Contents

was mainly attributable to \$17.2 million of material and freight cost inflation, including import tariffs, net of price increases of \$8.8 million, as well as manufacturing inefficiencies caused by supplier parts shortages and weather-related shutdowns. The Americas implemented price increases during the first half of the year to offset higher than planned material cost inflation and aluminum and steel tariffs, but the third-quarter operating results continue to reflect the lag between when price increases went into effect and when they are fully realized since customer orders in backlog are generally price protected. Selling, general and administrative expenses decreased mainly from lower employee-related costs for incentive compensation estimates, partially offset by higher sales costs to support the Company's strategic initiatives and Maximal acquisition-related costs.

EMEA's operating profit in the third quarter of 2018 improved compared with the third quarter of 2017. Higher gross profit from a shift in sales mix to higher-margin Class 5 and Class 1 trucks, favorable currency movements of \$1.5 million and improved pricing was partially offset by higher material and manufacturing costs and an increase in selling, general and administrative expenses, including higher sales costs to support the Company's strategic initiatives.

JAPIC's operating loss in the third quarter of 2018 increased compared with the third quarter of 2017 primarily due to the acquisition of Maximal. Maximal's results for the third quarter of 2018 include \$4.0 million of one-time purchase accounting adjustments and \$0.9 million of amortization related to tangible and intangible assets acquired. Maximal contributed \$1.1 million to JAPIC's operating profit before purchase accounting in the third quarter of 2018.

Nuvera's operating loss increased in the third quarter of 2018 from the third quarter of 2017 primarily due to an increase in development and production start-up expenses.

The Company recognized net income attributable to stockholders of \$15.4 million in the third quarter of 2018 compared with \$16.5 million in the third quarter of 2017. The decrease was primarily the result of lower operating profit and unfavorable mark-to-market adjustments on an equity investment in a third-party, partially offset by a favorable tax adjustment related to the Tax Cuts and Jobs Act (the "Tax Reform Act") in the third quarter of 2018 compared with the third quarter of 2017. See Note 5 to the unaudited condensed consolidated financial statements for additional information on income tax expense.

First Nine Months of 2018 Compared with First Nine Months of 2017

The following table identifies the components of change in revenues for the first nine months of 2018 compared with the first nine months of 2017:

	Revenues
2017	\$2,089.7
Increase (decrease) in 2018 from:	
Unit volume and product mix	115.1
Foreign currency	40.8
Parts	27.7
Maximal revenues	26.2
Bolzoni revenues	22.5
Unit price	17.3
Other	(2.6)
2018	\$2,336.7

Revenues increased 11.8% to \$2,336.7 million in the first nine months of 2018 from \$2,089.7 million in the first nine months of 2017. The increase was mainly due to higher unit and parts volume, favorable currency movements and

improved pricing to offset material cost increases in the lift truck business. In addition, increased Bolzoni revenues and the acquisition of Maximal contributed to the improvement in revenues.

Revenues in the Americas increased primarily as a result of increased unit shipments. Revenues increased primarily from higher sales of Class 5 internal combustion engine lift trucks, including the XT/MX standard truck and Big Trucks. In addition, increased parts volume and improved pricing to offset material cost increases also contributed to the increase in America's revenues.

EMEA's revenues increased mainly as a result of favorable currency movements of \$42.5 million from the translation of sales into U.S. dollars and increased unit and parts volume.

Table of Contents

Revenues in JAPIC increased primarily as a result of the acquisition of Maximal, higher unit and parts volume, and favorable currency movements of \$3.3 million from the translation of sales into U.S. dollars.

Bolzoni's revenues increased mainly as a result of favorable foreign currency movements of \$11.5 million and higher volume in the EMEA market.

The following table identifies the components of change in operating profit for the first nine months of 2018 compared with the first nine months of 2017:

	Operating Profit
2017	\$ 58.2
Increase (decrease) in 2018 from:	
Lift truck selling, general and administrative expenses	(16.8)
Lift truck gross profit	(1.5)
Nuvera operations	(0.4)
Bolzoni operations	2.7
2018	\$ 42.2

The Company recognized operating profit of \$42.2 million in the first nine months of 2018 compared with \$58.2 million in the first nine months of 2017. The decrease in operating profit was mainly due to an increase in lift truck selling, general and administrative expenses primarily related to employee-related costs for sales and development of new products. Lift truck gross profit decreased mainly as a result of higher material and manufacturing costs, partially offset by improved pricing and higher unit and parts shipments in the first nine months of 2018.

Operating profit in the Americas decreased primarily as a result of lower gross profit and higher selling, general and administrative expenses. The decrease in gross profit was mainly due to material and freight cost inflation and tariffs, net of price increases, as well as a shift in mix to lower-margin products. The Americas implemented price increases during the first half of the year to offset higher than planned material cost inflation and aluminum and steel tariffs but the operating results continue to reflect the lag between when price increases went into effect and when they are fully realized since customer orders in backlog are generally price protected. Selling, general and administrative expenses increased mainly from higher employee-related costs for sales and development of new products, as well as higher acquisition-related expenses.

EMEA's operating profit increased mainly due to higher gross profit from favorable currency movements of \$9.9 million and improved pricing, which was partially offset by higher material and manufacturing cost inflation and an increase in selling, general and administrative expenses, including \$3.0 million of unfavorable foreign currency movements and higher sales costs to support the Company's strategic initiatives.

The operating loss in JAPIC increased mainly as a result of increased selling, general and administrative expenses primarily from expenses incurred at Maximal since the date of acquisition and unfavorable foreign currency movements of \$0.8 million.

Bolzoni's operating profit improved primarily due to higher gross profit, partially offset by higher selling, general and administrative expenses.

Nuvera's operating loss increased in the first nine months of 2018 from the first nine months of 2017 primarily due to an increase in development and production start-up expenses.

The Company recognized net income attributable to stockholders of \$35.9 million in the first nine months of 2018 compared with \$51.0 million in the first nine months of 2017. The decrease was primarily the result of lower operating profit, unfavorable mark-to-market adjustments on an equity investment in a third-party, and the change in discrete tax adjustments in the first nine months of 2018 compared with the first nine months of 2017. See Note 5 to the unaudited condensed consolidated financial statements for additional information on income tax expense.

Table of Contents

LIQUIDITY AND CAPITAL RESOURCES

Cash Flows

The following tables detail the changes in cash flow for the nine months ended September 30:

	2018	2017	Change
Operating activities:			
Net income	\$35.5	\$51.2	\$(15.7)
Depreciation and amortization	32.4	31.7	0.7
Dividends from unconsolidated affiliates	22.2	2.8	19.4
Working capital changes, excluding the effect of business acquisitions	(1.9)	79.9	(81.8)
Other	4.1	(8.3)	12.4
Net cash provided by operating activities	92.3	157.3	(65.0)
Investing activities:			
Expenditures for property, plant and equipment	(24.7)	(25.1)	0.4
Business acquisitions, net of cash acquired	(78.0)	(1.0)	(77.0)
Proceeds from the sale of assets	5.4	1.1	4.3
Investments in equity securities	—	(5.6)	5.6
Net cash used for investing activities	(97.3)	(30.6)	(66.7)
Cash flow before financing activities	\$(5.0)	\$126.7	\$(131.7)

Net cash provided by operating activities decreased \$65.0 million in the first nine months of 2018 compared with the first nine months of 2017, primarily as a result of the change in working capital items partially offset by increased dividends from unconsolidated affiliates mainly due to the one-time benefit at HYGFS resulting from the Tax Reform Act. The change in working capital was primarily attributable to accounts payable in the Americas returning to normalized levels in the first nine months of 2018 following an unplanned systems-related acceleration of supplier payments in December 2016.

The change in net cash used for investing activities during the first nine months of 2018 compared with the first nine months of 2017 is mainly the result of the acquisition of Maximal in the second quarter of 2018.

	2018	2017	Change
Financing activities:			
Net increases (decreases) of long-term debt and revolving credit agreements	\$(71.5)	\$82.9	\$(154.4)
Cash dividends paid	(15.3)	(14.8)	(0.5)
Financing fees paid	(0.6)	(4.8)	4.2
Other	(0.9)	(0.4)	(0.5)
Net cash provided by (used for) financing activities	\$(88.3)	\$62.9	\$(151.2)

The change in net cash provided by (used for) financing activities of \$151.2 million in the first nine months of 2018 compared with the first nine months of 2017 was primarily related to the repayment of debt at Maximal and the Term Loan (as defined below) in the first nine months of 2018. The increase in the first nine months of 2017 was due to borrowings under the Term Loan, partially offset by repayments of borrowings under the Facility (as defined below) during the first nine months of 2017, primarily due to the unplanned systems-related acceleration of supplier payments in December 2016.

Financing Activities

The Company has a \$200.0 million secured, floating-rate revolving credit facility (the "Facility") that expires in April 2022. There were no borrowings outstanding under the Facility at September 30, 2018. The availability under the

Facility at September 30, 2018 was \$196.0 million, which reflects reductions of \$4.0 million for letters of credit and other restrictions. The Facility consists of a U.S. revolving credit facility of \$120.0 million and a non-U.S. revolving credit facility of \$80.0 million. The Facility can be increased up to \$300.0 million over the term of the agreement in minimum increments of \$10.0 million subject to certain conditions. The obligations under the Facility are generally secured by a lien on the working capital assets of the borrowers in the Facility, which include but are not limited to, cash and cash equivalents, accounts receivable and inventory

Table of Contents

and a second lien on the Term Loan Collateral (defined below). The approximate book value of assets held as collateral under the Facility was \$1.0 billion as of September 30, 2018.

Borrowings bear interest at a floating rate based on a base rate or LIBOR, as defined in the Facility, plus an applicable margin. The applicable margins, effective September 30, 2018, for U.S. base rate loans and LIBOR loans were 0.25% and 1.25%, respectively. The applicable margin, effective September 30, 2018, for non-U.S. base rate loans and LIBOR loans was 1.25%. The applicable LIBOR interest rates under the Facility on September 30, 2018 were 3.50% and 1.25%, respectively, for the U.S. and non-U.S. facility including the applicable floating rate margin. The Facility also required the payment of a fee of 0.350% per annum on the unused commitment as of September 30, 2018.

The Facility includes restrictive covenants, which, among other things, limit additional borrowings and investments of the Company and its subsidiaries subject to certain thresholds, as defined in the Facility, and limits the payment of dividends. If availability for both total and U.S. revolving credit facilities on a pro forma basis, is greater than fifteen percent and less than or equal to twenty percent, the Company may pay dividends subject to achieving a minimum fixed charge coverage ratio of 1.00 to 1.00, as defined in the Facility. If the availability is greater than twenty percent for both total and U.S. revolving credit facilities on a pro forma basis, the Company may pay dividends without any minimum fixed charge coverage ratio requirement. The Facility also requires the Company to achieve a minimum fixed charge coverage ratio in certain circumstances in which total excess availability is less than ten percent of the total commitments under the Facility or excess availability under the U.S. revolving credit facility is less than ten percent of the U.S. revolver commitments, as defined in the Facility. At September 30, 2018, the Company was in compliance with the covenants in the Facility.

The Company also has a \$200.0 million term loan (the "Term Loan"), which matures in May 2023. The Term Loan requires quarterly principal payments on the last business day of each March, June, September and December in an amount equal to \$2.5 million. Payments commenced in September 2017 and the final principal repayment is due on May 30, 2023. The Company may also be required to make mandatory prepayments, in certain circumstances, as provided in the Term Loan. At September 30, 2018, there was \$187.5 million of principle outstanding under the Term Loan which has been reduced in the unaudited condensed consolidated balance sheet by \$3.3 million for discounts and unamortized deferred financing fees.

The obligations under the Term Loan are generally secured by a first priority lien on the present and future shares of capital stock, material real property, fixtures and general intangibles consisting of intellectual property (collectively, the "Term Loan Collateral") and a second priority lien on the collateral of the U.S. borrowers in the Facility. The approximate book value of assets held as collateral under the Term Loan was \$625 million as of September 30, 2018.

Borrowings under the Term Loan bear interest at a floating rate, which can be a base rate or Eurodollar rate, as defined in the Term Loan, plus an applicable margin. The applicable margin, as provided in the Term Loan, is 2.25% for U.S. base rate loans and 3.25% for Eurodollar loans. The interest rate on the amount outstanding under the Term Loan at September 30, 2018 was 5.49%. In addition, the Term Loan includes restrictive covenants, which, among other things, limit additional borrowings and investments of the Company subject to certain thresholds, as provided in the Term Loan. The Term Loan limits the payment of regularly scheduled dividends and other restricted payments to \$50.0 million in any fiscal year, unless the consolidated total net leverage ratio, as defined in the Term Loan, does not exceed 1.75 to 1.00 at the time of the payment. At September 30, 2018, the Company was in compliance with the covenants in the Term Loan.

The Company incurred fees and expenses of \$0.6 million in 2018 related to the amendment of the Facility and Term Loan. These fees were deferred and are being amortized as interest expense over the term of the applicable debt agreements. Fees related to the Term Loan are presented as a direct deduction of the corresponding debt.

The Company had other debt outstanding, excluding capital leases, of approximately \$93.7 million at September 30, 2018. In addition to the excess availability under the Facility, the Company had remaining availability of \$41.0 million related to other non-U.S. revolving credit agreements.

The Company believes funds available from cash on hand, the Term Loan, the Facility, other available lines of credit and operating cash flows will provide sufficient liquidity to meet its operating needs and commitments during the next twelve months and until the expiration of the Facility in April 2022.

Table of Contents

Contractual Obligations, Contingent Liabilities and Commitments

On June 1, 2018, the Company completed the acquisition of a 75% equity interest of Maximal. Given the timing and complexity of the Maximal acquisition, the allocation of the purchase price is preliminary and will likely change in future periods, perhaps significantly as fair value estimates of the assets acquired and liabilities assumed are refined during the measurement period. The Company is in the process of obtaining a third-party valuation of the assets acquired and liabilities assumed; thus the provisional measurements are subject to change. See Note 15 to the unaudited condensed consolidated financial statements for additional information.

Since December 31, 2017, there have been no other significant changes in the total amount of the Company's contractual obligations or commercial commitments, or the timing of cash flows in accordance with those obligations, as reported on pages 29 and 30 in the Company's Annual Report on Form 10-K for the year ended December 31, 2017.

Capital Expenditures

The following table summarizes actual and planned capital expenditures:

	Nine Months Ended September 30, 2018	Planned for Remainder of 2018	Planned 2018 Total	Actual 2017
Lift truck business	\$ 20.9	\$ 16.9	\$ 37.8	\$ 35.3
Bolzoni	3.1	0.5	3.6	4.7
Nuvera	0.7	2.5	3.2	1.0
	\$ 24.7	\$ 19.9	\$ 44.6	\$ 41.0

Planned expenditures for the remainder of 2018 are primarily for improvements to product development, information technology infrastructure, improvements at manufacturing locations and manufacturing equipment. The principal sources of financing for these capital expenditures are expected to be internally generated funds and bank financing.

Capital Structure

The Company's capital structure is presented below:

	SEPTEMBER 30 2018	DECEMBER 31 2017	Change
Cash and cash equivalents	\$ 121.9	\$ 220.1	\$(98.2)
Other net tangible assets	580.0	527.8	52.2
Intangible assets	77.7	56.1	21.6
Goodwill	106.6	59.1	47.5
Net assets	886.2	863.1	23.1
Total debt	(296.5)	(290.7)	(5.8)
Total equity	\$ 589.7	\$ 572.4	\$ 17.3
Debt to total capitalization	33 %	34 %	(1)%

OUTLOOK

Consolidated Fourth Quarter Outlook

The Company expects its 2018 fourth-quarter consolidated operating profit to decrease compared with the 2017 fourth quarter as anticipated fourth-quarter improvements at Nuvera and Bolzoni are not expected to offset the anticipated decrease in the fourth-quarter operating profit at the Lift Truck business, which is expected to be lower, primarily as a result of the timing of price realization and the resulting cost/price differential and manufacturing inefficiencies. However, consolidated 2018 net income is expected to increase significantly due to the absence of unfavorable tax adjustments of \$18.4 million made in the fourth quarter of 2017 and the lower effective income tax rate as a result of U.S. tax reform legislation.

Consolidated cash flow before financing activities is expected to be a significant use of cash in the fourth quarter of 2018, primarily due to anticipated increased working capital and higher capital expenditures.

Table of Contents

Americas Outlook

The Americas market growth moderated in the 2018 third quarter, and is expected to continue to moderate in the fourth quarter of 2018. Although the market is moderating, the Company expects unit shipments, revenues and parts sales to continue to increase in the fourth quarter of 2018 compared with the prior year due to the high backlog and anticipated increased booking volumes resulting from the continued implementation of share gain initiatives. An increase in product pricing is also expected to contribute to the revenue improvement in the fourth quarter as price increases implemented on bookings earlier in the year are realized on shipments.

The 2018 fourth-quarter benefits from higher unit and parts volumes and price increases are expected to be mostly offset by the effects of material cost inflation and tariffs and a shift in mix to lower-margin products, primarily because Big Truck shipments are expected to continue to be impacted by supplier constraints affecting the Company's Nijmegen plant. However, gross profit is expected to decrease significantly due to increased manufacturing inefficiencies predominantly caused by supplier parts shortages. These challenges, combined with an expected increase in operating expenses are also expected to result in a substantial decrease in operating profit.

Late in the third quarter, the Americas announced a tariff surcharge that will go into effect for units booked during the fourth quarter of 2018 to respond to the impact of Section 301 tariffs. In addition, the Company is reviewing a number of approaches to moderate the effects of these newly enacted tariffs.

EMEA Outlook

Markets in EMEA are expected to continue to grow in the fourth quarter of 2018 compared with the prior year period but at a more moderate rate than the double digit growth seen throughout 2017 and 2018. In the remainder of 2018, unit shipments of lower-priced truck classes are expected to increase moderately compared with the prior year fourth quarter. However, despite the increase in unit shipments and the favorable effect of price increases, overall revenues are expected to be comparable to the prior year as a result of anticipated unfavorable effects of current currency rates.

Operating profit is expected to decrease in the 2018 fourth quarter compared with the prior year period as a result of material cost inflation, net of price increases, unfavorable manufacturing efficiencies caused by supplier parts shortages and the possibility of National labor-related strike days, specifically at the Company's Nijmegen plant. To support the Company's growth initiatives, the fourth quarter is expected to have higher operating expenses, particularly higher sales costs to increase the Company's sales and marketing teams and increased product development costs, both of which will contribute to the decrease in operating profit. This decrease in operating profit is expected to be partially offset by anticipated currency benefits based on current currency rates.

JAPIC Outlook

For the fourth quarter of 2018, JAPIC is expected to be comparable to the fourth quarter of 2017. Despite this market environment, JAPIC unit shipments and revenues, excluding Maximal, are expected to improve in the fourth quarter compared with the prior year. Maximal's revenues are expected to be modestly higher than the third quarter of 2018.

Despite the revenue increase, fourth-quarter operating results are expected to decrease substantially. The Company expects Maximal to generate an operating loss largely as a result of transition costs. Excluding Maximal, JAPIC operating results are expected to decrease primarily due to unfavorable manufacturing efficiencies caused by supplier parts shortages and higher sales costs to support the Company's strategic initiatives.

Overall Lift Truck Outlook

The Company remains focused on increasing unit volumes and market share over the remainder of 2018 and in future years through the continued implementation of its key strategic initiatives, which include delivering industry- and customer-focused solutions, providing low cost of ownership and enhanced productivity for customers, enhancing independent distribution, growing in emerging markets, maintaining leadership in the attachments business and providing leadership in fuel cells and their applications. The Company has realigned its sales and marketing teams and increased its sales resources to execute the Company's specific industry strategies more effectively.

To meet customer needs, the Company is developing new products in many segments that are expected to support its increased market share objectives. The Company is currently enhancing its electric and warehouse products. In October 2018, the Company launched a new EMEA retail Reach Truck, with a tilting mast, improved visibility and higher lifting heights for 1 ton

Table of Contents

to 1.4 ton retail applications. Also in October 2018, the Company introduced a new Class 3 end-rider pallet truck in the Americas targeted to low-level order picking and horizontal transport applications. In addition to the new electric trucks, in the third quarter of 2018, the Company introduced a new mast and front end for its 8- to 16-ton Class 5 Big Trucks that provides improved operator visibility. Production began on these trucks in October. The Company is also working with a customer to test a 52-ton Big Truck powered by lithium-ion batteries, and is testing an 8 to 9 ton high-performance, lithium-ion counterbalanced truck. These new products, as well as those recently launched and the introduction of other new products in the pipeline, including trucks with new Nuvera® Fuel Cell System battery box replacements ("BBRs"), are expected to contribute to market share gains, improved revenues and enhanced operating margins.

The overall global lift truck market remained strong throughout the first three quarters of 2018 and is expected to grow only modestly in the fourth quarter of 2018. Unit shipments and unit and parts revenues in the Lift Truck business are expected to increase during the fourth quarter of 2018 compared with the same period in 2017.

Despite benefits from expected increases in unit and parts sales, as well as anticipated benefits from favorable currency effects at current rates, the Lift Truck business gross profit is expected to decrease significantly in the fourth quarter of 2018 compared with the prior year quarter. Benefits from higher unit and parts volumes and price increases are expected to be more than offset by the effects of material cost inflation and tariffs, a shift in mix to lower-margin products, primarily because Big Truck shipments are expected to continue to be impacted by supplier constraints, as well as increased manufacturing inefficiencies caused by supplier parts shortages. These challenges, combined with an expected increase in operating expenses, particularly higher sales costs to increase the Company's sales and marketing teams, increased product development costs and Maximal integration costs are also expected to result in a substantial decrease in operating profit. Nevertheless, the 2018 fourth-quarter net income is expected to increase substantially over the prior year quarter as a result of the absence of the tax adjustments made in 2017 for U.S. tax reform legislation.

The Company anticipates that commodity costs will continue to increase in the fourth quarter of 2018, although these costs, particularly for steel, remain volatile and sensitive to changes in the global economy and to tariffs. The Company has announced a tariff surcharge and will continue to monitor these costs closely and adjust pricing accordingly.

Bolzoni Outlook

As a result of anticipated growth in the EMEA market and the continued implementation of sales improvement programs, Bolzoni expects revenues in the fourth quarter of 2018 to increase significantly compared with the prior year fourth quarter.

In addition to the anticipated increase in revenues and the expected operating leverage resulting from sales growth, the continued implementation of Bolzoni's strategic programs to increase its presence in North America and to develop its industry and product solutions is expected to generate substantial growth in Bolzoni's operating profit and net income in the fourth quarter of 2018 compared with the prior year.

Nuvera Outlook

BBR unit bookings and shipments are expected to increase during the fourth quarter of 2018. In addition, due to new projects, overall, Nuvera expects lower operating and net losses in the fourth quarter of 2018.

Early in the third quarter of 2018, Nuvera finalized an agreement with Zhejiang Runfeng Hydrogen Engine Co., Ltd. to manufacture and assemble fuel cell engines designed by Nuvera for use in the Chinese "New Energy Vehicle"

market. The agreement provides a product license for the exclusive manufacture of 45 kW fuel cell engines based on Nuvera's Orion® Gen1 fuel cell stack for sale in China over the next three years. Fuel cell engines are expected to be deployed in transit buses and delivery vehicles in the cities of Ningbo, Hangzhou, Kunming and Xi'an. The agreement provides compensation to Nuvera in the form of royalty and technology services income. The agreement includes a minimum initial purchase volume after successful engine testing, with annual minimum purchases increasing significantly throughout the term of the contract. The fuel cell stacks used in these engines will be manufactured exclusively by Nuvera, initially at its facility in Billerica, Massachusetts, with localized China manufacturing expected in the 2019 to 2020 timeframe.

Nuvera is also working with a second significant Chinese company and has a signed agreement for the development of a fuel cell system for use in their internally developed electric power train. Nuvera expects significant near-term payments, which will be amortized into income over the remainder of 2018 and 2019 as the development work is completed. This agreement is an extension of an initial proof of performance review completed during the third quarter. After significant testing against both objective benchmarks and third-party systems, the Nuvera technology was selected to move forward. During 2019, this contract is expected to generate substantial income. Additional phases, if successful, would be completed over the next four years, and

Table of Contents

would result in commercial production and the non-exclusive use of Nuvera fuel cell stacks by the partner, with Nuvera retaining rights to use the stacks globally.

In addition to these activities, earlier in 2018, Nuvera and the Lift Truck business were selected to partner with the Center for Transportation and the Environment, which received an award in the second quarter of 2018 from the California Air Resources Board, to demonstrate operation of a Hyster® 1150-CH Top Loader Big Truck using an electrified power train and Nuvera's Orion®-based fuel cell engine for the Port of Los Angeles. This will be the first demonstration of Nuvera's plan to develop easily integrated, high-power fuel cell engines for use in OEM products.

Consolidated 2019 Perspective

On a consolidated basis, the Company's base perspective is that 2019 revenues, operating profit and net income are expected to improve over 2018.

Overall Lift Truck 2019 Perspective

Global markets in 2019 are expected to be comparable to 2018. The Company's preliminary base perspective is that anticipated benefits from expected unit and parts revenue increases driven by continued investments in the Company's strategic initiatives, will be partially offset by higher operating expenses and material cost inflation, net of price increases and tariff surcharges, resulting in an increase in both operating profit and net income in 2019 compared with 2018. However, the Company has a number of opportunities and challenges that have not yet been fully factored into its 2019 operating plan due to uncertainties in the general market environment.

At present, the Company's biggest concern is the effect of tariffs on its operations, but component shortages due to supplier constraints appear likely to become a more serious challenge to increasing volumes in 2019. However, the Company also has a number of cost saving opportunities which it is reviewing, but the effect of these opportunities are not fully calibrated at this time.

Bolzoni 2019 Perspective

Overall, the EMEA market, where Bolzoni is the strongest, is expected to grow moderately in 2019 compared with 2018. Bolzoni's revenues are expected to remain strong, but the growth rate is expected to moderate from the double digit growth experienced in 2018. Both operating profit and net income are expected to increase in 2019 compared with 2018 on improved margins.

Bolzoni has a significant opportunity to grow in the Americas market, where it has a lower market position than in EMEA. This will be a major focus in 2019 and beyond.

Nuvera 2019 Perspective

The Company expects demand for fuel cell stacks and systems, as well as BBRs used on lift trucks, to increase significantly in 2019. The Company is also encouraged by the amount of interest from third parties, particularly in China, wanting to partner with Nuvera through various types of arrangements. Nuvera believes this interest can be a significant and profitable near-term growth opportunity.

Nuvera continues to expect its cost base to decrease due to substantial cost reductions on future purchases of core components, and expects to continue to leverage improved designs and higher volumes throughout its supply chain to generate further cost reductions in 2019. However, recently implemented tariffs on imported components may partially offset these reductions.

Production of BBRs at Nuvera's Billerica, Massachusetts facility will be phased out and transferred to the Lift Truck business. Manufacturing of BBR products at the Lift Truck business' plant in Greenville, North Carolina is expected to begin in 2019 and ramp up at prudent rates.

With the phase out of BBR production in Billerica, Nuvera will focus on the design, manufacturing and sales and marketing of fuel cell stacks and engines. The growing demand for engines used in BBRs is expected to be reinforced by the recently extended federal fuel cell tax credit. As Nuvera ramps up production of fuel cell stacks and engines and leverages the partnership opportunities, its losses are expected to moderate substantially during 2019, especially in the second half of the year. As noted in previous releases, the Company has had a target to achieve break-even by late 2019. In light of the additional business opportunities in China within the non-forklift truck markets, as well as additional costs to be incurred associated with

Table of Contents

these opportunities, the Company is currently assessing the appropriateness of this target.

EFFECTS OF FOREIGN CURRENCY

The Company operates internationally and enters into transactions denominated in foreign currencies. As a result, the Company is subject to the variability that arises from exchange rate movements. The effects of foreign currency fluctuations on revenues, operating profit and net income are addressed in the previous discussions of operating results. See also Item 3, "Quantitative and Qualitative Disclosures About Market Risk," in Part I of this Quarterly Report on Form 10-Q.

FORWARD-LOOKING STATEMENTS

The statements contained in this Form 10-Q that are not historical facts are "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These forward-looking statements are made subject to certain risks and uncertainties, which could cause actual results to differ materially from those presented. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. The Company undertakes no obligation to publicly revise these forward-looking statements to reflect events or circumstances that arise after the date hereof. Among the factors that could cause plans, actions and results to differ materially from current expectations are, without limitation: (1) reduction in demand for lift trucks, attachments and related aftermarket parts and service on a global basis, (2) delays in delivery or increases in costs, including transportation costs or the imposition of tariffs, of raw materials or sourced products and labor or changes in or unavailability of quality suppliers, (3) the successful commercialization of Nuvera's technology, (4) customer acceptance of pricing, (5) the political and economic uncertainties in the countries where the Company does business, (6) the ability of dealers, suppliers and end-users to obtain financing at reasonable rates, or at all, as a result of current economic and market conditions, (7) exchange rate fluctuations and monetary policies and other changes in the regulatory climate in the countries in which the Company operates and/or sells products, (8) delays in manufacturing and delivery schedules, (9) bankruptcy of or loss of major dealers, retail customers or suppliers, (10) customer acceptance of, changes in the costs of, or delays in the development of new products, (11) introduction of new products by, or more favorable product pricing offered by, competitors, (12) product liability or other litigation, warranty claims or returns of products, (13) the effectiveness of the cost reduction programs implemented globally, including the successful implementation of procurement and sourcing initiatives, (14) changes mandated by federal, state and other regulation, including tax, health, safety or environmental legislation, (15) unfavorable effects of geopolitical and legislative developments on global operations, including without limitation, the United Kingdom's exit from the European Union, the entry into new trade agreements and the imposition of tariffs and/or economic sanctions, and (16) the Company may not be able to successfully integrate Maximal's operations and employees.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

See pages 34, 35 and F-26 through F-29 of the Company's Annual Report on Form 10-K for the year ended December 31, 2017 for a discussion of the Company's derivative hedging policies and use of financial instruments. There have been no material changes in the Company's market risk exposures since December 31, 2017.

Item 4. Controls and Procedures

Evaluation of disclosure controls and procedures: An evaluation was carried out under the supervision and with the participation of the Company's management, including the principal executive officer and the principal financial officer, of the effectiveness of the Company's disclosure controls and procedures as of the end of the period covered by this report. Based on that evaluation, these officers have concluded that the Company's disclosure controls and

procedures were effective as of the end of the period covered by this report. Management has excluded Maximal from its assessment of the Company's disclosure controls and procedures because the Company acquired a majority interest in Maximal on June 1, 2018. As of September 30, 2018, Maximal constituted 10% of the Company's total assets.

Changes in internal control over financial reporting: During the third quarter of 2018, there were no changes in the Company's internal control over financial reporting that materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting. The Company acquired a majority interest in Maximal on June 1, 2018 and is currently in the process of integrating Maximal's processes and internal controls.

Table of Contents

PART II

OTHER INFORMATION

Item 1 Legal Proceedings

None

Item 1A Risk Factors

There have been no material changes from risk factors previously disclosed in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2017 in the Section entitled "Risk Factors."

Item 2 Unregistered Sales of Equity Securities and Use of Proceeds

None

Item 3 Defaults Upon Senior Securities

None

Item 4 Mine Safety Disclosures

Not applicable

Item 5 Other Information

None

Item 6 Exhibits

The following exhibits are filed as part of this report:

Exhibit

Number* Description of Exhibits

- | | |
|----------|---|
| 10.1 | <u>Third Amended and Restated Joint Venture and Shareholders Agreement between Wells Fargo Financial Leasing, Inc. and Hyster-Yale Group, Inc., dated September 17, 2018 is attached hereto.</u> |
| 10.2 | <u>Second Amended and Restated Recourse and Indemnity Agreement, dated September 17, 2018, by and between Wells Fargo Financial Leasing, Inc., HYG Financial Services, Inc. and Hyster-Yale Group, Inc. is attached hereto.</u> |
| 10.3 | <u>First Amended and Restated Guarantee Agreement, dated September 17, 2018, by Hyster-Yale Materials Handling, Inc. in favor of Wells Fargo Financial Leasing, Inc. is attached hereto.</u> |
| 10.4 | <u>First Amended and Restated Guarantee Agreement, dated September 17, 2018, by Hyster-Yale Group, Inc. in favor of Wells Fargo Financial Leasing, Inc. is attached hereto.</u> |
| 31(i)(1) | <u>Certification of Alfred M. Rankin, Jr. pursuant to Rule 13a-14(a)/15d-14(a) of the Exchange Act</u> |
| 31(i)(2) | <u>Certification of Kenneth C. Schilling pursuant to Rule 13a-14(a)/15d-14(a) of the Exchange Act</u> |
| 32 | <u>Certifications pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, signed and dated by Alfred M. Rankin, Jr. and Kenneth C. Schilling</u> |
| 101.INS | XBRL Instance Document |
| 101.SCH | XBRL Taxonomy Extension Schema Document |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document |

101.PRE XBRL Taxonomy Extension Presentation Linkbase Document

* Numbered in accordance with Item 601 of Regulation S-K.

38

Table of Contents

Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Hyster-Yale Materials Handling, Inc.

Date: October 30, 2018/s/ Kenneth C. Schilling

Kenneth C. Schilling

Senior Vice President and Chief Financial Officer (principal financial and accounting officer)