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# **Hyster-Yale Materials Handling** (HY:NYSE)

*Financial Analysis By: Matthew Darcy – Industrials*

***Company Profile as of 2/19/2015***

Market Price: $67.46
Industrial: Industrial Machinery
Market Cap: $1.04B
52-Week: $108.13 - $62.19
Beta: 1.47

| Source | Target Price | Recommendation |
|---|---|---|
| Siena | $87.06 | Buy |
| Capital IQ | $75.67 | Hold |
| Yahoo Finance | $75.67 | Hold |
| Bloomberg | $75.67 | Hold |


**Thesis**

-Product Innovations will positively impact Sales Price and Warranty Expenses.
-Reducing Cost of Production
-As the company increases Unit Sales, they Increase the market for Replacement Parts.

**Recommendation**

Hyster-Yale Materials Handling is a BUY. They are focused on Product innovation that will decrease the cost of owning their equipment to the costumers. This will allow for an increase in sales price per Unit as the products become more desirable to customers. The decreasing cost to customers will also decrease Warranty Expenses to Hyster-Yale. They also have focused on Reducing Cost of Production by building a new factory in Brazil, Implementing new IT Systems, and modifying their products to use Common Components. The building of a new factory is an attempt by the company to reach Economies of Scale, at which they will see reduced operating costs in the future. The increase in production has other implications as well. The company is in the business of selling Replacement Parts for their Trucks, which currently makes up 13% of sales. As the company increases its sales of lift trucks, they will create more potential customers for the replacement parts. In this way growth perpetuates more growth.

**Company Overview**

Hyster-Yale Materials Handling is a designer, manufacturer, and servicer of a large product line of lift trucks, under the brand names, Hyster, Yale, and UTILEV. There are 6 classifications of Lift Trucks with maximum Capabilities of lifting from up to 5.5 tons to up to 52 tons. The company's customers range from Manufacturers, wholesalers, and retailers, to Shipping ports. The company also sells aftermarket parts required for the maintenance of the trucks, under the brand names UNISOURCE, MULTIQUIP, and PREMIER. The parts can be used to service competing brand trucks as well. Hyster-Yale is a global company, with a presence in Australia, Brazil, China, England, India, Italy, Japan, Mexico, Northern Ireland, The Philippines, The Netherlands, The United States, and Vietnam. The company was spun-off from NACCO Materials Handling in 2012, and currently has no net debt. The CEO of Hyster-Yale is CEO of NACCO, but this is not a worry, because his compensation from Hyster-Yale is $4.1 million in Stock awards while his Compensation from NACCO is only $818,989 in Stock awards.

**Product Innovation**

Hyster-Yale has been focusing on Reducing Cost of Ownership to customers. This means that customers will be willing to pay more for the products as Hyster-Yale continues to make them more fuel efficient, and durable. The company recently acquired Nuvera Fuel Cells Inc. from Hess Corp. The strategy is to integrate Nuvera's clean energy fuel cells into the Hyster-Yale lift trucks. This will optimize the energy efficiency of the lifts, as well as make the products more capable of operating indoors. It also makes the company the soul producer of replacement parts for the newly innovated product line. Another implication of the company's continuous improvement strategy is that the company has been modifying the Products to use as many of the same parts as possible. This will make it cheaper for the parts to be built, decreasing the cost of switching over production lines. The company can produce a bunch of the same part instead of producing small amounts of a variety of parts. This means the parts can be sold cheaper, and therefore the customer will enjoy a lower cost of maintaining the lift trucks.

All of these factors will add to the customer's decision to buy Hyster-Yale products, and will allow the company to increase its sales price. This will help the company realize their desire to increase profit margins.

The reduced cost of Ownership also decreases Hyster-Yale's Warranty expenses, because the company does not need to make good on their promise to fix products as often. This will also help increase profit margins.

**Reduced Cost of Production**

Hyster-Yale has set a goal for a 7% Operating profit margin, within the next 3 to 5 years. The company will likely not see this margin in 2015 but it has an advantageous position to move towards that goal in the years following. In the proforma forecast a 6% long term operating profit margin was used in order to account for possible failure to reach that goal, and still produced a 31% upside potential. If this company can make good on the 7% margin by 2017 then the company's value would be extremely higher than its current price. The company's main tactics of achieving this goal are the Implementation of new IT Systems in manufacturing, the building of a new plant in Brazil, and the modification of products to use common components.

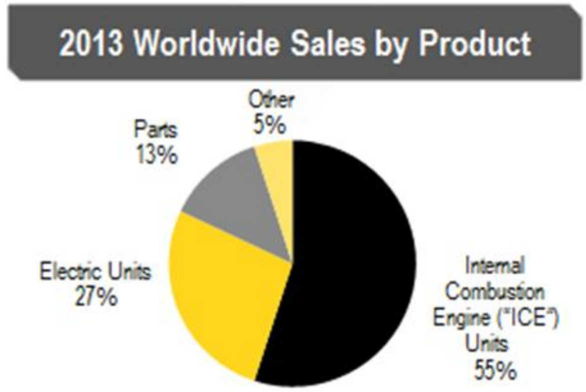
The company began implementing a new IT system throughout the company known as System Applications Products (SAP). SAP is an Enterprise Resource Planning system, which basically means that it helps integrate all aspects of the business, from corporate to manufacturing to retail. The company is already seeing benefits from the program in Brazil and Italy, and has created a Team of employees who are travelling from location to location, setting up the software and helping with change management. It was stated that the previous systems were quit old so the new SAP system should have a very positive effect.

The new Plant in Brazil is an assembly plant for lift trucks. The new factory will be more efficient, as the company strives for its goal to reach Economies of Scale. The factory is already equipped with the updated IT System so they will immediately see the benefits upon startup of production.

The company's plan to integrate Common Components between the product lines is also going to affect the cost of production. It will reduce costs in both the aftermarket parts segment, and the lift truck segment. This will increase profit margins across the board.

**Replacement Parts Market**

Hyster-Yale is one of the largest manufactures of lift trucks in the world in terms of Units Sold. They have estimated that there are currently 815,000 of their own lift trucks in operation currently, and this number will continue to rise upon completion of the factory in Brazil. As unit sales rise the company increases the number of customers available for its aftermarket sales. This means that, as the company grows, it creates a market for itself with aftermarket parts. The sale of replacement parts is a significant portion of Hyster-Yale's revenue, and it would benefit the company greatly to see growth in this area.




**Summary**

Hyster-Yale is a Buy with an upside potential of 31%. Even when using conservative Assumptions for Operating margin the proforma still finds the stock undervalued. This mispricing is due to the market overlooking the increasing operating margin that Hyster-Yale will see in the future. This increase will be created through product innovations, and a reduction in costs through improved technology, a new lift assembly plant, and the use of common components in products. In conclusion this company has positioned itself to grow well in the upcoming years, due to the fact that growth in unit sales, driven by the plant in Brazil, will increase growth in aftermarket sales.

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| Hyster-Yale Materials Handling, Inc. | HY | Analyst | Current Price | Intrinsic Value | Target Value | Divident Yield | Target Return | BULLISH |
|---|---|---|---|---|---|---|---|---|
| | | Matthew Darcy | $67.17 | $72.38 | $87.06 | 2% | 31.25% | |

**General Info**

| | |
|---|---|
| Sector | Industrials |
| Industry | Machinery |
| Last Guidance | Oct-29-2014 |
| Next earnings date | 2/19/2015 |

**Market Data**

| | |
|---|---|
| Enterprise value | $1,034.62 |
| Market Capitalization | $1,092.22 |
| Daily volume | 0.05 |
| Shares outstanding | 16.26 |
| Diluted shares outstanding | 16.80 |
| % shares held by institutions | 56.44% |
| % shares held by insiders | 29.20% |
| Short interest | 2.21% |
| Days to cover short interest | 5.45 |
| 52 week high | $108.13 |
| 52-week low | $62.19 |
| 5y Beta | 1.14 |
| 6-month volatility | 29.70% |

| Peers | Market Cap. |
|---|---|
| Titan Machinery, Inc. | $311.26 |
| Brady Corp. | $1,417.16 |
| Columbus McKinnon Corporation | $515.23 |
| Deere & Company | $31,404.53 |
| Cargotec Corporation | $2,072.30 |
| China International Marine Containe | $41,147.27 |

**Current Capital Structure**

| | |
|---|---|
| Total debt/market cap | 3.77% |
| Cost of Borrowing | 4.73% |
| Interest Coverage | 3494.74% |
| Altman Z | 4.80 |
| Debt Rating | BAA |
| Levered Beta | 1.39 |
| WACC (based on market value weig | 9.82% |

**Management**

| Professional | Title | Comp. FY2011 | Comp. FY2012 | Comp. FY2013 |
|---|---|---|---|---|
| Rankin, Alfred | Chairman, Chief Executive ( | $ 6,733,740.00 | $ 7,474,789.00 | $ 7,052,415.00 |
| Schilling, Kenneth | Chief Financial Officer, Prin | $ 619,999.00 | $ 821,404.00 | $ 1,268,999.00 |
| Prasad, Rajiv | Senior Vice President of Glc | $ - | $ - | $ 1,396,686.00 |
| Wilson, Colin | Chief Executive Officer of N | $ 1,411,134.00 | $ 1,593,272.00 | $ 2,670,959.00 |
| Bittenbender, Charles | Senior Vice President, Gene | $ - | $ - | $ - |
| Miller, Lauren | Chief Marketing Officer | $ - | $ - | $ - |

**Historical Performance**

| | HY | Peers | Industry | All U.S. firms |
|---|---|---|---|---|
| Growth | 21.2% | 7.5% | 6.5% | 6.0% |
| Retention Ratio | 0.0% | 63.8% | 44.1% | 61.6% |
| ROIC | | 18.4% | 19.4% | 11.8% |
| EBITA Margin | 0.0% | 11.9% | 11.5% | 13.7% |
| Revenues/Invested capital | 358.4% | 131.5% | 149.3% | 202.3% |
| Excess Cash/Revenue | #DIV/0! | 12.6% | 12.1% | 18.5% |
| Unlevered Beta | | 0.89 | 1.29 | 0.95 |
| TEV/REV | 0.4x | 1.3x | 1.5x | 2.4x |
| TEV/EBITDA | 7.5x | 9.2x | 10.3x | 11.3x |
| TEV/EBITA | 9.2x | 10.9x | 12.6x | 15.4x |
| TEV/UFCF | 20.5x | 102.0x | 28.1x | 26.8x |

**Past Earning Surprises**

| | Revenue | EBITDA | Norm. EPS |
|---|---|---|---|
| Last Quarter | 3.6% | 6.8% | 15.6% |
| Last Quarter-1 | -0.8% | -9.2% | -19.5% |
| Last Quarter -2 | 0.0% | -4.3% | -6.4% |
| Last Quarter -3 | 4.6% | 15.2% | -33.6% |
| Last Quarter -4 | -0.6% | 0.0% | 4.5% |

**Non GAAP Adjustments**

| | | | |
|---|---|---|---|
| Operating Leases Capitalizatic | 100% | Straightline | 10 years |
| R&D Exp. Capitalization | 100% | Straightline | 10 years |
| Expl./Drilling Exp. Capitalizatio | 0% | N/A | N/A |
| SG&A Capitalization | 3% | Straightline | 10 years |

**Proforma Assumptions**

| | |
|---|---|
| Operating. Cash/Cash | 0.0% |
| Unlevered Beta | 1.31 |
| Rev/Invested Capital | 131.5% |
| Continuing Period Revenue Gro | 3.0% |
| Long Term ROIC | 13.3% |
| Invested Capital Growth | Reverts to Maintenance |
| Justified TEV/REV | 0.6x |
| Justified TEV/EBITDA | 8.0x |
| Justified TEV/EBITA | 9.8x |
| Justified TEV/UFCF | 21.0x |

| Period | Rev. Growth | Adj. Op. Cost/Rev | Revenue | NOPLAT | Invested capital | UFCF |
|---|---|---|---|---|---|---|
| | | | **Forecasted Profitability** | | | |
| LTM | 5% | 92% | $2,774.40 | $100.83 | $745.48 | $81.45 |
| LTM+1Y | 2% | 92% | $2,829.97 | $97.22 | $833.51 | $52.01 |
| LTM+2Y | 3% | 92% | $2,915.04 | $101.68 | $868.39 | $66.80 |
| LTM+3Y | 3% | 92% | $3,002.49 | $108.65 | $904.73 | $72.30 |
| LTM+4Y | 3% | 92% | $3,092.56 | $112.68 | $941.49 | $75.93 |
| LTM+5Y | 3% | 91% | $3,185.34 | $115.47 | $983.05 | $73.90 |
| LTM+6Y | 3% | 91% | $3,280.90 | $118.81 | $1,016.21 | $85.64 |
| LTM+7Y | 3% | 91% | $3,379.33 | $122.48 | $1,044.39 | $94.30 |
| LTM+8Y | 3% | 91% | $3,480.71 | $126.40 | $1,071.32 | $99.47 |
| LTM+9Y | 3% | 91% | $3,585.13 | $130.34 | $1,103.59 | $98.07 |

**Valuation**

| | ROIC | WACC | EVA | Enterprise Value | Total Debt | Other claims | Equity | Adjusted Price |
|---|---|---|---|---|---|---|---|---|
| **LTM** | 13.9% | 9.8% | $18.91 | $1,148.02 | $39.00 | -$18.40 | $1,127.43 | $75.59 |
| **LTM+1Y** | 12.2% | 10.0% | $18.47 | $1,255.63 | $31.50 | -$164.90 | $1,389.03 | $90.90 |
| **LTM+2Y** | 12.2% | 10.1% | $17.80 | $1,318.34 | $31.50 | -$321.49 | $1,608.34 | $103.99 |
| **LTM+3Y** | 12.5% | 10.2% | $20.37 | $1,375.93 | $31.50 | -$477.84 | $1,822.28 | $117.42 |
| **LTM+4Y** | 12.5% | 10.3% | $19.74 | $1,434.35 | $31.50 | -$644.57 | $2,047.42 | $131.31 |
| **LTM+5Y** | 12.3% | 10.4% | $17.70 | $1,495.93 | $31.50 | -$809.97 | $2,274.40 | $146.21 |
| **LTM+6Y** | 12.1% | 10.5% | $15.43 | $1,567.75 | $31.50 | -$988.95 | $2,525.20 | $161.43 |
| **LTM+7Y** | 12.1% | 10.6% | $14.39 | $1,635.01 | $31.50 | -$1,181.52 | $2,785.04 | $177.64 |
| **LTM+8Y** | 12.1% | 10.7% | $14.24 | $1,700.88 | $31.50 | -$1,385.41 | $3,054.79 | $194.41 |
| **LTM+9Y** | 12.2% | 10.8% | $14.28 | $1,768.51 | $31.50 | -$1,595.41 | $3,332.42 | $204.94 |

**Monte Carlo Simulation Assumptions**

| | Base | Stdev | Min | Max | Distribution |
|---|---|---|---|---|---|
| **Revenue Variation** | 0 | 10% | N/A | N/A | Normal |
| **Op. Costs Variation** | 0 | 10% | N/A | N/A | Normal |
| **Market Risk Premium** | 6% | N/A | 5% | 7% | Triangular |
| **Long term Growth** | 3% | N/A | 3% | 21% | Triangular |
| **Terminal Value** | 0 | 0.1 | N/A | N/A | Normal |

**Monte Carlo Simulation Results**

| | Intrinsic Value | 1y-Target |
|---|---|---|
| **Mean est.** | $75.59 | $90.90 |
| **σ(ε)** | $1.07 | $1.28 |
| **σ(ε) adjusted pric** | $72.38 | $87.06 |
| **Current Price** | $67.17 | |
| **nalysts' median est.** | | $75.67 |