02-May-2017

NACCO Industries, Inc. (NC)

Q1 2017 Earnings Call

CORPORATE PARTICIPANTS

Christina Kmetko
Investor Relations Consultant, NACCO Industries, Inc.

Alfred M. Rankin
Chairman, President & Chief Executive Officer, NACCO Industries, Inc.

MANAGEMENT DISCUSSION SECTION

Operator: Good morning. My name is Denise and I'll be your conference operator today. At this time I'd like to welcome everyone to the Q1 2017 NACCO Industries Earnings Conference Call. All lines have been placed on mute to prevent any background noise. After the speaker's remarks, there will be a question-and-answer session. [Operator Instructions] Thank you.

Christina Kmetko, Investor Relations, you may begin your conference.

Christina Kmetko
Investor Relations Consultant, NACCO Industries, Inc.

Thank you. Good morning, everyone, and welcome to our 2017 first quarter earnings call. I am Christina Kmetko and I'm responsible for investor relations at NACCO Industries. I will be providing a brief overview of our quarterly results and business outlook, and then I will open up the call for your questions.

Joining me today are Al Rankin, Chairman, President and Chief Executive Officer, and J.C. Butler, our Senior Vice President-Finance, Treasurer and Chief Administrative Officer, as well as the President and Chief Executive Officer of our North American Coal subsidiary. Also joining us is Elizabeth Loveman, NACCO's Vice President and Controller.

Early this morning we published our first quarter 2017 results and filed our 10-Q. Copies of our earnings release and 10-Q are available on our website at nacco.com. For anyone who is not able to listen to today's entire call, an archived version of this webcast will be on our website later this afternoon and available for approximately 12 months.

As we begin, I'd like to remind participants that this conference call may contain certain forward-looking statements. These statements are subject to a number of risks and uncertainties that could cause actual results to differ materially from those expressed in the forward-looking statements made here today in either our prepared remarks or during the following question-and-answer session. We disclaim any obligation to update these forward-looking statements, which may not be updated until our next quarterly conference call, if at all. Additional information regarding these risks and uncertainties were set forth in our earnings release and in our 10-K.

Also, certain amounts discussed during today's call are considered non-GAAP. The non-GAAP reconciliations of these amounts are included in our earnings release available on our website.

Now, let me discuss our results for the first quarter. Our consolidated revenues were $168.6 million compared with $173.4 million in last year's first quarter. The decline in our consolidated revenues was driven by lower revenues at all three subsidiaries. We reported consolidated net income of $5 million or $0.73 per share this quarter compared with net income of $2.8 million or $0.41 per share last year. The increase in consolidated net income was driven by both the North American Coal and Hamilton Beach subsidiaries.

We have continued to provide financial results excluding North American Coal's Centennial mining operation to allow for a better understanding of the performance of the company's active operations. Excluding Centennial, our first quarter consolidated adjusted income increased to $5.7 million or $0.84 per diluted share from $4.7 million or $0.69 per share in the first quarter of 2016.

Revenues at North American Coal were $28.3 million in the first quarter of 2017 compared with $30.3 million last year. And net income, including Centennial, was $9.3 million this year compared with net income of $8.3 million last year. North American Coal's revenues decreased primarily as a result of a decrease in tons sold at Mississippi Lignite Mining Company due to reduced customer requirements. An increase in limerock yards delivered at the North American Mining Company partially offset the decrease in revenues.

Before I talk about operating results excluding Centennial, I'll briefly discuss Centennial's results. Centennial's operating losses continue to moderate. Centennial had an operating loss of $1.2 million in the first quarter of this year compared with $3.1 million a year ago. Centennial's operating loss declined as expected as a result of lower operating costs, including the absence of an $800,000 charge related to an increase in Centennial's mine reclamation obligation recognized in last year's first quarter.

Excluding Centennial, North American Coal's 2017 adjusted income of $10.1 million was comparable to last year's first quarter adjusted income. An increase in operating profit at the unconsolidated mining operations from newer mining operations beginning or increasing production was offset by lower operating results at Mississippi Lignite Mining Company caused by the decrease in tons sold.

Looking forward to 2017, we expect a significant increase in North American Coal's tons sold and income before income tax compared with the prior year. Income before income tax in 2017 is expected to benefit from an increase in earnings from the unconsolidated mining operations due to the start of production at Bisti Fuels in January and to a full year of production at the Coyote Creek mine. In addition, as we explained last quarter, the North American Mining Company commenced operations at additional limerock quarries for a new customer, which is also expected to contribute to the increase in income from the unconsolidated mining operations.

We also expect income before income tax to benefit moderately from lower expenses related to the Otter Creek reserves in North Dakota, and a lower more moderate operating loss at Centennial as it manages ongoing mine reclamation obligations.

We expect the improvement in income before income tax to be partially offset by a decrease in Mississippi Lignite Mining Company's 2017 results, with a substantial decrease in the first half of the year expected to be partially offset by improvements in the second half. In addition, we expect lower results from North American Mining's consolidated limerock mining operations because of an anticipated decline in customer requirements.

As a result of a new oil and gas royalty agreement finalized in the first quarter of 2017, royalty and other income in 2017 is expected to be comparable to the prior year. Finally, we expect North American Coal's cash flow before financing activities to be strong in 2017, but decrease significantly compared with last year and we expect capital expenditures to be approximately $17 million for the year, of which $3.4 million was expended during the first quarter.

Moving on to Hamilton Beach, Hamilton Beach had a solid first quarter. While first quarter revenues decreased modestly, operating profit and net income increased substantially over the prior year. An improvement in gross profit resulting from a shift in sales mix to higher-priced and higher-margin products and lower costs, partially offset by reduced sales volumes and an increase in transportation and warehousing expenses were the main drivers for the improved operating profit and net income.

Looking forward, we believe overall consumer confidence, financial pressures experienced by the middle-market consumer, and changing consumer buying patterns continue to create uncertainty about the overall growth prospects for the U.S. retail market for small appliances. In this context, U.S. and Canadian consumer retail markets for small kitchen appliances in 2017 are expected to be comparable to 2016, while international and commercial markets in which Hamilton Beach participates are expected to grow moderately. Sales are expected to continue to shift from in-store channels to Internet sales channels.

As a result of this market environment and with a number of new products in its product pipeline, we expect Hamilton Beach's sales volumes and revenues to increase modestly in 2017 compared with 2016. This increase is expected to be slightly more than the anticipated market growth, due to enhanced distribution and increased higher-margin product placements resulting from the execution of the company's strategic initiatives, both domestically and internationally.

In addition, we expect Hamilton Beach's 2017 net income to increase modestly compared with last year as benefits of the increased revenues are expected to be mostly offset by the cost to implement these initiatives, as well as by increased advertising and distribution costs. We expect cash flow before financing activities in 2017 to be substantial but lower than 2016, and capital expenditures are estimated to be approximately $8 million of which $1 million was expended in the first quarter of 2017.

Finally, our Kitchen Collection business reported a net loss of $2.1 million this quarter compared with a net loss of $1.9 million a year ago, on a modest decrease in revenue. The net loss increased moderately, primarily as a result of a shift in sales mix to lower-margin products. We expect a shift in consumer shopping patterns and ongoing financial pressures on middle-market consumers to continue to persist and limit Kitchen Collection's target consumer spending on housewares and small appliances, resulting in continued market softness in 2017.

Given this market environment, Kitchen Collection expects to continue to aggressively manage its store portfolio, and continue its focus on a smaller core group of profitable outlet stores. Kitchen Collection closed 17 stores early in the first quarter, and plans to open a limited number of new stores throughout the remainder of the year in more favorable mall locations. As a result of these actions, we expect Kitchen Collection's revenues to decline modestly in 2017 compared with last year, with full year 2017 operating results comparable to the prior year.

We also expect Kitchen Collection to generate modest cash flow before financing activities in 2017, and have estimated capital expenditures of $1.5 million of which $300,000 were expended this quarter.

Before I open up the call for questions, we want to note that the company did not repurchase any shares under our stock repurchase program this quarter. That concludes my prepared remarks. I will now open up the call for your questions.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] And there are no questions at this time. I'll turn the call back over to Christy Kmetko.

Christina Kmetko

Investor Relations Consultant, NACCO Industries, Inc.

Okay. Thank you. Al, did you have anything you wanted to say?

Alfred M. Rankin

Chairman, President & Chief Executive Officer, NACCO Industries, Inc.

No.

Christina Kmetko

Investor Relations Consultant, NACCO Industries, Inc.

All right. Thank you for joining us today. We do appreciate your interest and if you do have additional follow-up questions, you can reach me at 440-229-5130. Thanks for joining us.

Operator: The encore replay will be available May 2 at 12 a.m. Eastern Standard Time. To access the replay, please dial 855-859-2060 and please include passcode 4088332. This concludes today's conference call. You may now disconnect.