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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the first-quarter 2014 NACCO Industries earnings conference call. My name is Lisa and I will be your operator for today. (Operator Instructions). As a reminder, this conference is being recorded for replay purposes.

I would now like to turn the conference over to your host for today, Ms. Christina Kmetko. Please proceed.

Christina Kmetko - *NACCO Industries, Inc. - IR Consultant*

Thank you. Good morning, everyone, and thank you for joining us today. Yesterday a press release was distributed, outlining NACCO's results for the first quarter of March 31, 2014. Copies of our earnings release and 10-Q are available on our website at nacco.com.

Our conference call today will be hosted by Al Rankin, Chairman, President, and Chief Executive Officer of NACCO Industries. Also in attendance representing NACCO is J.C. Butler, Senior Vice President, Finance, Treasurer, and Chief Administrative Officer; and Elizabeth Loveman, NACCO's Vice President and Controller. Al will provide an overview of the quarter and then open up the call to your questions.

Before we begin, I would 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. Additional information regarding these risks and uncertainties were set forth in our earnings release and in our 10-Q.

In addition, certain amounts discussed during this call are considered non-GAAP numbers. The non-GAAP reconciliations of these amounts are included in our first-quarter earnings release, which is also available on our website.

I will now turn the call over to Al Rankin. Al?

Al Rankin - *NACCO Industries, Inc. - Chairman, President & CEO*

Good morning, everyone. NACCO Industries had a net loss of $1.5 million, or $0.19 a share, and revenues of $177 million for the first quarter of 2014. And that compared with net income of $4.4 million, or $0.53 a share, and revenues of $196 million in the first quarter of 2013. The Company's cash position was $70.1 million as of March 31, and that compared with $95.4 million as of December 31, and $96.9 million as of March 31, 2013.

Debt at the end of the first quarter was $223 million. That compared with $184 million at December 31, and $174 million a year ago.

NACCO has repurchased approximately 107,100 shares for an aggregate purchase price of $5.9 million, including $5 million of stock purchased during the three months ended March 30, 2014, as part of a stock repurchase program the Company announced in November of last year. That program permits the repurchase of up to $60 million of the Company's outstanding Class A common stock.

Under our previous stock repurchase program, which ran from November 2011 to November 2013, the Company purchased approximately 624,000 shares of Class A common stock for an aggregate purchase price of $35.6 million.

Turning to individual subsidiary companies, North American Coal's net income and revenues for the first quarter of 2014 decreased to $5.7 million and $39.9 million, respectively, compared with net income of $9.6 million and revenues of $51.1 million for the first quarter a year ago. First-quarter 2014 income before income tax provision was $6.1 million compared with $11.4 million in the first quarter a year ago.

Revenues decreased in the first quarter compared to the previous year, primarily due to fewer tons and yards sold at the consolidated mining operations, as a result of a planned but longer-than-expected outage at Mississippi Lignite Mining Company's customer's power plant; and lower customer requirements at the limerock dragline mining operations.

Significantly lower royalty and other income also contributed to the reduction in revenues. The decrease in revenue was partially offset by a slight increase in Reed Minerals revenues, as a small increase in tons sold was largely offset by a lower selling price in the first quarter of 2014 compared to year ago.

Net income in the first quarter of 2014 decreased significantly compared to the quarter a year ago. The decline was primarily the result of reduced royalty and other income, and lower operating results at the consolidated mining operations, mainly due to fewer tons sold. Reed Minerals also generated a slightly higher loss than in the first quarter a year ago, primarily as a result of an increase in depreciation expense from equipment acquired during 2013 and 2014, as well as from higher repairs and maintenance.

The decrease in net income was partially offset by lower income tax expense, due to a significantly lower effective income tax rate resulting from a shift in the mix of taxable income toward entities with lower estimated effective income tax rates, and a higher tax benefit from depletion.

Looking forward, North American Coal continues to expect improved operating performance overall at its coal mining operations in 2014. At the unconsolidated mining operations, steam coal tons delivered in 2014 are expected to increase over 2013, provided customers achieve currently planned power plant operating levels in 2014.

Demery Resources Company's Five Forks Mine commenced delivering coal to its customer in 2012, and full production levels are expected to be reached in late 2015. Liberty Fuels commenced production in 2013 for Mississippi Power Company's new Kemper County Energy Facility. Production levels at Liberty Fuels are expected to increase gradually from 0.5 million to 1 million tons in 2014, to full production of approximately 4.7 million tons of coal annually in 2019.

Unconsolidated mines currently in development are expected to continue to generate modest income during 2014. The three mines in development are not expected to be in full production for several years. Mining permits needed to commence mining operations were issued in 2013 for the Caddo Creek Resources Company and Camino Real Fuels projects in Texas.

Caddo Creek expects to begin making initial coal deliveries in late 2014. Camino Real Fuels expects initial deliveries in the latter half of 2015, and expects to mine approximately 3.6 million tons of coal annually when at full production. Coyote Creek Mining Company is developing a mine in Mercer County, North Dakota, from which it expects to deliver approximately 2.5 million tons of coal annually, beginning in May 2016.

Consolidated coal mining operations are expected to improve significantly. Tons sold at Reed Minerals are expected to continue to increase in 2014 compared with 2013, and productivity improvements and increased mining efficiencies are expected in the second half of 2014.

As part of its overall Reed Minerals improvement program, North American Coal plans to temporarily idle a higher-cost Reed Minerals mining area during the last three quarters of 2014 while it files a revised mining permit. This permit will allow for a larger contiguous mining area that is expected to improve productivity at reduced costs. While this mining area is temporarily idled, North American Coal will continue to supply current customers with coal mined from a nearby operation.

In addition, during the fourth quarter of 2013 and the first quarter of 2014, North American Coal continued to acquire additional reserves and equipment near the Reed Minerals operations as part of its improvement program, and the Company's plans to expand its Alabama metallurgical coal platform.

The improvements at Reed Minerals are expected to be offset somewhat by reduced results at the Mississippi Lignite Mining Company due to fewer deliveries in 2014 compared with 2013, because of a planned outage at the customer's power plant in the first quarter of 2014, which was longer than expected; and another significant planned outage at the customer's power plant in the fourth quarter of 2014.

Deliveries at Mississippi Lignite Mining Company are expected to increase over the longer-term as a result of continued operational improvements at the customer's power plant. North American Coal also has project opportunities for which it expects to continue to incur additional expenses in 2014. In particular, the Company continues to move forward to obtain a permit for its Otter Creek reserve in North Dakota in preparation for construction of a new mine.

Limerock deliveries over the remainder of 2014 are expected to continue to be lower than 2013 as a result of reduced customer requirements.

Substantial declines in royalty and other income are also expected in 2014 from the high levels realized in 2013; and, as a result, net income is expected to decrease significantly in 2014 compared with 2013.

North American Coal expects a significant decline in net income in the second quarter of 2014 compared with the first quarter of 2014, due to increased losses at Reed Minerals and substantially lower royalty and other income. However, in the second half of 2014, North American Coal expects net income to increase significantly compared with the second half of 2013.

Productivity improvements and increased mining efficiencies are expected to result in a slight profit at Reed Minerals in the second half of 2014, compared with a large loss in the second half of 2013, but are not expected to offset Reed Minerals' operating losses incurred in the first half of the year.

This improvement in the second half of 2014 is expected to be partially offset by significantly reduced deliveries at Mississippi Lignite Mining Company, due to another planned outage at the customer's power plant, and lower royalty and other income than in the second half of 2013.

Overall, net income for the full year is expected to decline due to expected lower first-half results. Cash flow before financing activities in 2014 is expected to be positive, as compared with the negative cash flow before financing activities in 2013.

Over the longer-term, North American Coal's goal is to increase earnings of its unconsolidated mines by approximately 50% by 2017, from 2012 levels, through the development and maturation of its new mines and normal escalation of contractual compensation at its existing mines.

Also, North American Coal has a goal of at least doubling the earnings contribution from its consolidated mining operations by 2017, from 2012 levels, due to benefits from anticipated, continued operational improvements at Mississippi Lignite Mining Company's customer's power plant, and from the Company's execution of its long-term plan at Reed Minerals. The Company views its acquisition of Reed Minerals as a metallurgical coal strategic initiative, which includes significantly increased volume and profitability for the Company over the long-term.

Turning to Hamilton Beach, net income reported in the first quarter was $400,000 on revenues of $101 million. That compared with net income of $1.5 million and revenues of $106 million for the first quarter of 2013. Revenues and net income decreased in the first quarter compared with the first quarter a year ago, primarily due to a decrease in unit sales volumes, mainly in the US consumer retail markets, which was partially offset by a shift in sales to higher-priced, higher-margin products. Unfavorable foreign currency movements in the Canadian dollar and Mexico peso weakened against the US dollar, and an increase in employee-related costs and advertising expenses also contributed to a decrease in net income.

Looking forward, Hamilton Beach's target consumer, the middle-market mass consumer, continues to struggle with financial and economic concerns. As a result, sales volumes in the middle-market portion of the US small kitchen appliance market in which Hamilton Beach participates are projected to grow only modestly in 2014. International and commercial product markets in which Hamilton Beach participates are also anticipated to grow in 2014 compared with 2013.

Hamilton Beach expects sales volumes to grow more favorably than the market, due to improved placements in 2014 compared with 2013. Hamilton Beach continues to focus on strengthening its North American consumer market position through product innovation, promotions, increased placements, and branding programs, together with appropriate levels of advertising for the Company's highly successful and innovative product lines. Hamilton Beach expects the FlexBrew coffeemaker, launched in late 2012, and the Hamilton Beach Breakfast Sandwich Maker, launched in early 2013, to continue to gain market position.

The Company is continuing to introduce innovative products and upgrades to certain products in several small appliance categories. These products, as well as other new product introductions in the pipeline for 2014, are expected to affect both revenues and operating profit positively.

As a result of these new products and execution of the Company's strategic initiatives, both domestically and internationally, Hamilton Beach expects an increase in revenues in 2014 compared with 2013 at more than the 2014 market forecast rate of increase.

Overall, Hamilton Beach expects full-year 2014 net income to be comparable to or moderately lower than 2013. The anticipated increase in sales volume attributable to the continued implementation and execution of Hamilton Beach's strategic initiatives is expected to be substantially offset by the costs of implementing those initiatives, and by increased advertising and promotional costs and outside service fees. Product and transportation costs, as well as negative effects of foreign currency fluctuations, are expected to gradually increase throughout 2014 compared with 2013.

Hamilton Beach continues to monitor both currency effects and commodity costs closely, and intends to adjust prices and product placements appropriately in response to such cost increases. Hamilton Beach expects cash flow before financing activities in 2014 to be substantial, but down significantly from 2013.

Longer-term, Hamilton Beach will work to take advantage of the potential to improve return on sales through economies of scale derived from market growth, and a focus on its five strategic growth initiatives, all of which are outlined in overview in the earnings release.

During 2013 and the first quarter of 2014, Hamilton Beach continued to make strides in the execution of these strategic initiatives, and expects to continue to do so in the remainder of 2014.

Turning to Kitchen Collection, Kitchen Collection reported a net loss of $4 million on revenues of $36.9 million for the first quarter of 2014, compared with a net loss of $3.3 million and revenues of $39.7 million for the first quarter a year ago.

The decline in Kitchen Collection's revenue was primarily the result of the loss of sales from the closure of unprofitable Le Gourmet Chef and Kitchen Collection stores since March 31, 2013, and a decrease in comparable store sales at both Kitchen Collection and Le Gourmet Chef stores. The decline in comparable store sales was predominantly due to a decrease in customer visits and store transactions, partially offset by a modest improvement in the average sales transaction value.

First-quarter 2014 revenues were also unfavorably affected by an increase in the number of temporary store closures due to inclement weather. The decline in revenue was partially offset by sales at newly opened Kitchen Collection stores.

At March 31, the Company operated 238 Kitchen Collection stores, compared with 255 stores a year ago; and 20 Le Gourmet Chef stores, compared with 44 a year ago. At year-end 2013, Kitchen Collection and Le Gourmet Chef operated 272 and 32 stores, respectively.

The increase in Kitchen Collection's first-quarter 2014 net loss was primarily the result of lower operating margins at both Kitchen Collection and Le Gourmet Chef stores, mainly caused by the reduction in sales and unfavorable margins from the liquidation of discontinued inventory, and inventory at stores that closed. Seasonal losses at newly opened stores also contributed to the increase in the net loss.

Looking forward, consumer traffic to all mall locations, and particularly outlet malls, continued to decline in the first quarter of 2014; and prospects for the remainder of 2014 are uncertain. Fewer households were established in 2013, and this trend is expected to continue in 2014 because the middle-market consumer remains under pressure as a result of financial and economic concerns. These concerns are expected to continue to dampen consumer sentiment, and limit consumer spending levels for Kitchen Collection's target customer in 2014.

In this context, Kitchen Collection closed 48 stores in the first quarter of 2014, and plans to close approximately 10 more in the second quarter, as part of a program to close underperforming stores and realign the business around core stores which perform with acceptable profitability. Kitchen Collection plans to maintain a lower number of stores in 2014; and, as a result, expects 2014 revenues to decrease compared with 2013.

The net effect of closing stores early in 2014, and the anticipated opening of a small number of new stores during the second half of 2014, is expected to contribute to significantly improved operating results beginning in the second quarter, and gradually improving throughout 2014, with the objective of approaching breakeven operating profit for the full year, compared with a significant loss in 2013, and to generate positive cash flow before financing activities.

As part of Kitchen Collection's program to realign its business, the Company has taken additional steps to reduce expenses through a number of cost reduction programs implemented during the first quarter of 2014 at its headquarters, distribution centers, and remaining core stores; and by terminating its medical benefit plan in late February 2014. This program is expected to be mostly finalized in the second quarter of 2014, and is expected to generate significant improvements during the second half of 2014.

In addition, during the first quarter, Kitchen Collection executed revisions to store layouts, designed to focus customers on higher-margin products. These changes appear to be working, as margins improved late in the first quarter, and are expected to continue improving during the balance of 2014. Overall, however, Kitchen Collection expects a moderate loss in 2014.

Longer-term, Kitchen Collection plans to focus on comparable store sales growth around a solid store portfolio. A particular focus will be on increasing sales of higher-margin products. And the Company will also continue to evaluate and, as leases permit, close or restructure leases for underperforming or loss-generating stores. In the near-term, Kitchen Collection expects to add stores cautiously, and focus its growth on its core Kitchen Collection stores, with new stores expected to be located in sound positions in strong outlet malls.

That completes the overview from the first-quarter earnings release. And I'd be happy to answer any questions that you may have at this point.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Michael Axon.

Mike Axon - *Moab Capital Partners - Analyst*

Hi, good morning. This is Mike Axon from Moab. I have three questions this morning. First, I was going through your segment outlooks and commentary, and trying to compare it to what you had said on the fourth quarter call in March. And from what I can tell, it's very, very similar, if not virtually identical. And I wanted to find out if there have been any changes in your outlook over the last two months, or not.

Al Rankin - *NACCO Industries, Inc. - Chairman, President & CEO*

Not really for the full year. In the coal company, the outages are still the same ones that were planned as we were coming into the year. And the royalty situation hasn't changed materially, one way or the other, from what we were anticipating.

At Hamilton Beach, I think we see pretty much the same scenario that we saw: one of continuing to outpace the market, in terms of the growth in revenues. And we had a very good year in 2013; and so, given the expenses we have for the strategic initiatives, we expect to have another good year. That looks pretty much the same as we saw before.

And the Kitchen Collection, I'd say the same thing. We see the solid core coming together. As you saw, we did what we had indicated we were going to do, and closed a very substantial number of stores in the first quarter. And we've taken some very substantial and significant cost reduction moves as well.

So, we don't see a big change, either of improvement in the outlook in terms of enhanced buying by the middle-market consumer, in the case of our two consumer goods businesses; or changes in coal deliveries of significance at this point.

Mike Axon - *Moab Capital Partners - Analyst*

Okay, great. Just wanted to confirm that. The second question was on the CapEx related to your consolidated coal operations. And it looked like it was going to be pretty significant in 2014, according to your guidance.

How much of that spending already occurred in the first quarter? And then if you can look forward to how you see that unfolding throughout -- how you see it unfolding throughout the rest of 2014.

Al Rankin - *NACCO Industries, Inc. - Chairman, President & CEO*

It's in the Q.

Elizabeth Loveman - *NACCO Industries, Inc. - VP and Controller*

Yes, so, during the first quarter, we spent approximately $32 million consolidated on CapEx. And we have an additional approximately $36 million in the forecast for the remainder of 2014.

Mike Axon - *Moab Capital Partners - Analyst*

Got it.

J.C. Butler - *NACCO Industries, Inc. - SVP Finance, Treasurer & Chief Administrative Officer*

In coal, that was $29.1 million expected for what are the second, third, and fourth quarters.

Elizabeth Loveman - *NACCO Industries, Inc. - VP and Controller*

Correct. (multiple speakers) $31 million in the first quarter.

Al Rankin - *NACCO Industries, Inc. - Chairman, President & CEO*

Right. So the capital requirements and the two consumer goods businesses are very, very modest. And it's really driven by the coal business and the completion, in particular, of the Reed program, in terms of getting in place the capabilities we need to get the cost structure that we want.

Mike Axon - *Moab Capital Partners - Analyst*

Got it. So roughly half was spent in the first quarter. For the other half, is that going to be concentrated in the second quarter. Or is it going to be fairly evenly spread out over the last three quarters?

J.C. Butler - *NACCO Industries, Inc. - SVP Finance, Treasurer & Chief Administrative Officer*

Well, I think that speculating on specific quarters would be not really wise, because this is stuff that's planned, but we're not necessarily committed to making the purchases in any one quarter. It's going to play out over the rest of the year; the exact quarters when it gets spent are not clear.

Mike Axon - *Moab Capital Partners - Analyst*

Okay. And then my third question was, you put out a presentation a couple weeks ago, and one of the slides showed a revenue target for Hamilton Beach of $750 million. It didn't talk about the timeframe for that. Can you talk about what the timeframe is for that target, and whether that is expected to all be organic growth or not?

Al Rankin - *NACCO Industries, Inc. - Chairman, President & CEO*

We do not put in growth that comes from anything other than organic objectives. And I would say that the $750 million is very much a longer-term goal. We think that if the five strategic initiatives we have underway are successful as we hope they'll be, over the next five years or so, that we could move up in that direction. But that's a very ambitious target.

I guess what I would say is that the reason we keep it very much in mind, and keep putting in place plans that we think can help drive us there, is that it is an economy-of-scale-driven business. And we think that that kind of volume will put us in a position to have operating profit levels that are above the kinds of positions that we can get with the volume that we have today. So, in other words, it isn't -- improvements in profitability will come mainly from leverage of additional volume, not from cost reduction.

I think that there are several elements, several different markets -- there's the US consumer market. There are the international consumer markets, where we're putting in significant efforts to open up new business in Brazil and China and India. And then we have our commercial business, which we think also has very significant opportunities, not only in the US, but around the world, over the next few years.

So, I think those targets, and the five-plus-year timeframe, are ones that we really want to shoot for, but they are ambitious targets.

Mike Axon - *Moab Capital Partners - Analyst*

Got it. Okay, thank you very much.

Operator

(Operator Instructions).

Al Rankin - *NACCO Industries, Inc. - Chairman, President & CEO*

Okay. That takes care of it, then, if there are no more questions. And we thank you all for participating.

Operator

There is one question, sir.

Al Rankin - *NACCO Industries, Inc. - Chairman, President & CEO*

Okay.

Operator

Brian Leonard.

Brian Leonard - - *Analyst*

Good morning, everyone. I just had a handful of questions. On the royalties at NA Coal, is this quarter a good run rate to view going forward? (multiple speakers).

Al Rankin - *NACCO Industries, Inc. - Chairman, President & CEO*

I'm sorry, I didn't pick up the question. Can you repeat it?

Brian Leonard - - *Analyst*

Is the royalties that you received in the first quarter a good run rate to use for the remainder of the year?

Al Rankin - *NACCO Industries, Inc. - Chairman, President & CEO*

A lot of those royalties are not within our control. And I think what is really significant is that the royalties will be very significantly less in total for the year, and in the first quarter, than they were a year ago when we had very significant royalties.

Brian Leonard - - *Analyst*

So the visibility is really quarter-to-quarter; not really two quarters out, three quarters out?

J.C. Butler - *NACCO Industries, Inc. - SVP Finance, Treasurer & Chief Administrative Officer*

It's quarter-to-quarter -- it's month-to-month. None of it is in our control. It's entirely determined by what third parties do, with respect to their own coal production or their own production of gas or oil.

Brian Leonard - - *Analyst*

Now, is that a post-month thing that you receive, or is it a pre-month thing? Meaning, they just tell you what they did, and the number is what it is? Or they give you a heads-up prior to that?

J.C. Butler - *NACCO Industries, Inc. - SVP Finance, Treasurer & Chief Administrative Officer*

Right, it's a combination. It depends on the situation.

Al Rankin - *NACCO Industries, Inc. - Chairman, President & CEO*

But I think, in the main, they tell us, all these are based on what they did.

Brian Leonard - - *Analyst*

Got it. And sticking with coal, on the planned outage for the fourth quarter, is that planned outage in the same realm that was already in the first quarter? Are they expected to be similar?

J.C. Butler - *NACCO Industries, Inc. - SVP Finance, Treasurer & Chief Administrative Officer*

No, they're both significant outages at the same power plant. But because these are really under the control of our customer who operates the power plant, we have a policy -- don't comment on the exact timing, or what they're going to do on those power plants.

Al Rankin - *NACCO Industries, Inc. - Chairman, President & CEO*

But it is a significant -- this next outage at Mississippi Lignite Mining Company is a very significant outage. And I say that because it is going to put in place the set of capabilities that we had hoped that we would have in the power plant for quite some time, in terms of improved potential operating characteristics. So, it may be -- it's not going to be a short outage. On the other hand, it is a major -- it does involve some major changes to power plant operation, which we think are going to be very beneficial for everybody concerned.

J.C. Butler - *NACCO Industries, Inc. - SVP Finance, Treasurer & Chief Administrative Officer*

And I guess I'd just add, we're very pleased to see our customer investing substantial amounts in the power plant.

Al Rankin - *NACCO Industries, Inc. - Chairman, President & CEO*

There's a new owner for that power plant now. And I think we've been saying in our release that we were optimistic that this was going to lead to a different operating environment. And there's a lot of potential in that operation that we think hasn't been realized. It's a little bit longer this year, but it opens up a lot of opportunity as we look forward.

Brian Leonard - - *Analyst*

Okay. And then lastly -- well, no. Let's just stay in coal. I have a few more questions after this. You mentioned in the release that the outage was a little bit longer than planned. Are we past that outage now? (multiple speakers)

J.C. Butler - *NACCO Industries, Inc. - SVP Finance, Treasurer & Chief Administrative Officer*

Yes, the outage has ended. The power plant is running again.

Brian Leonard - - *Analyst*

Okay. And then, lastly, in the North American Coal, on the Reed Materials side. You guys bought that a little over, what -- a year ago, about? How has that progressed to your expectations? Because it seems like you guys are slightly surprised, or slightly disappointed, in more costs or more overruns or more of this, more of that. How has that progressed to how you thought it would be when you originally purchased the mines?

Al Rankin - *NACCO Industries, Inc. - Chairman, President & CEO*

All right. I'll have to answer that question in kind of a thoughtful way, because there are two sides to the coin. I think it is fair to say that the price expectations that we hoped for -- which we thought were pretty pessimistic when we made the acquisition -- have deteriorated from what we saw, or from what we anticipated.

Secondly, I think we have found that there were more operating improvements that needed to be made than we anticipated, in a couple of areas.

On the other hand, it has been a sufficiently stressful period in the industry; and in Alabama, in particular, that we have had some opportunities to carry out our longer-term platform plans in a way that has been highly advantageous in terms of price and -- well better than anything we could have anticipated when we started the Reed undertaking. And so I think the best answer to your question is that after we get through these -- in the end, I think our cost position is going to be better than we anticipated originally.

And we're not going to be very good at forecasting prices, but we can drive our costs down, and we can bring in additional reserves and other capabilities that we had not anticipated. And so our long-term prospects in total, we think, are good in the business, even with the lower prices. And then, of course, if you look out a way, and the prices go up, there will be an enormous amount of leverage there.

So I think we're just working through the issues and getting the costs down, and taking advantage of the current difficult market conditions to consolidate our position. I think that's the best way I can answer it.

Brian Leonard - - *Analyst*

So do you anticipate working -- when all is said and done, heading to the second half is probably maybe a better run rate than what you're doing in the first half in Reed. But do you anticipate operating at a breakeven to slight profit level going forward, until the pricing environment improves?

Al Rankin - *NACCO Industries, Inc. - Chairman, President & CEO*

Well, I think what we said was that the second half of the year, we expect it to be approaching breakeven, in the press release. There will be some elements of our cost reduction program that will not be implemented by the second half. So there is more to come on the cost side, but we think we will have pretty well stabilized things. And then we'll begin to build from there, in terms of more volume. And that will probably be, in the short-term, more important than more price.

Brian Leonard - - *Analyst*

Okay. Moving to Hamilton Beach, I was somewhat surprised by the decline in revenue. In your commentary, you didn't really mention weather as much. Do you think weather had a decent impact to sales versus (multiple speakers)?

Al Rankin - *NACCO Industries, Inc. - Chairman, President & CEO*

We know it had an impact in Kitchen Collection. The number of days of store outages was way higher than it was in the previous year. I don't know when -- did we put that number in anything? But it was very significant.

As far as Hamilton Beach is concerned, I think the whole industry was a little slower. There could have been some weather. There could have been a tired retail environment after the Christmas season. But it hasn't really changed our outlook for the year.

Now, having said that, we are watching very carefully to make sure that things are coming back. There's always some inventory rebalancing that occurs at our customers in the first quarter. So I would say that's probably part of the reason. But we aren't seeing, at this point, any change in our outlook for the full year.

Brian Leonard - - *Analyst*

Got it. And you don't really comment on short-term trends. It would be interesting to know how April shaped up, if that was vastly different than what happened in the first quarter. I don't know if it's too narrow of a data point.

Al Rankin - *NACCO Industries, Inc. - Chairman, President & CEO*

We really don't comment on that. In addition, things fluctuate in a month. You can get very significant fluctuations, based on whether some of our large customers decided to pick up their orders or not, and they can fall one month or the others.

Brian Leonard - - *Analyst*

Okay. And then within Hamilton Beach, I know international is a main priority of -- or expanding international. How has that shaped up? Did international sales pick up in the first quarter as a percentage of overall sales?

Al Rankin - *NACCO Industries, Inc. - Chairman, President & CEO*

We have two substantial positions already in Canada and Mexico. And those businesses are continuing to do reasonably well. But I think you're really referring to new initiatives, which are Brazil, China, and India. And I think the answer to your question is that we're pretty much on track, but the volume at the moment is a small number. And so I wouldn't concentrate on it. But I think we are off the ground in China in an acceptable way; that Brazil is now started, and that seems to be going in the direction that we had hoped; and India -- it really is in early days.

Brian Leonard - - *Analyst*

Okay. And then moving to Kitchen Collection, how did the new stores perform in, say, a geography that wasn't affected by weather, per se, compared to the legacy stores? Have the newer stores performed better? I know there's a comment in the release that said there was somewhat of a pull-back there, but is there any way to parse your footprint?

Al Rankin - *NACCO Industries, Inc. - Chairman, President & CEO*

Not in that way, I don't think. I think the -- generically, stronger the mall and the better our position in the mall, the better our stores do. And so we're pulling out of malls where we don't think we can make an adequate profit. And I think what I'd say is that footsteps have continued to decline. I think we said that in the fourth quarter, and we're watching that very carefully. There are a lot of things going on in the outlet mall environment that are changing the -- and to some degree, the kinds of tenants that are in those malls.

The Internet has changed the pricing landscape for both major, traditional retailers, and niche retailers like Kitchen Collection. And the target consumer for outlet malls has not shared in the recovery in a way that has made -- caused those sales to rebound as we might have hoped.

Household formation, as you have probably been reading, has not been nearly at past levels. Young people are living with their families, their parents. And of course, that affects the entire housewares industry, not just the segments that we participate in, particularly the kitchen-oriented segment.

So I think that the outlet mall environment is one where we're just aggressively moving into the very best malls where we think we can make money. And we're not going to gamble on business coming back as usual.

Brian Leonard - - *Analyst*

Well, based on that comment, my concern is that you are moving into an area where there has been, clearly, a shift in spending habits of those types of customers. And given the track record of the performance of the (multiple speakers).

Al Rankin - *NACCO Industries, Inc. - Chairman, President & CEO*

We are opening almost no stores, so don't -- this is strictly pruning. And we're going at that in an orderly way, both with the number of stores, with the cost structure in the stores, and with the cost structure in Kitchen Collection's headquarters. So I think we've opened very few new stores, so I don't think I'd over-interpret that part of the comment.

Brian Leonard - - *Analyst*

Okay. But at what point do we sit there and say that this isn't going to play out as planned, and the subtraction is greater than the addition? Meaning, you'd be losing less money, assuming you don't get a breakeven status, which we've been hoping for, for a year-plus now.

Al Rankin - *NACCO Industries, Inc. - Chairman, President & CEO*

We clearly intend to get to breakeven status, and we believe we can do that. And, indeed, we think we can do better than that. Whether we will aspire to aspirations that we might have had four or five years ago, or certainly back in 2007, I think your point is well taken. So, I think we can make it a smaller, profitable business. There's not a lot of capital tied up in the business. It's all mainly working capital. And we'll just be very prudent how we do that.

Brian Leonard - - *Analyst*

Okay. And then, lastly, and then I'll hop off, is the dividend. What's your views of the dividend? You've paid a consistent dividend since before the separation. And now the dividend has been pretty stagnant, at $0.25 a quarter. What's your views on that?

Al Rankin - *NACCO Industries, Inc. - Chairman, President & CEO*

Well, we really don't discuss prospects for dividends on an earnings call. But we do, of course, discuss dividends with our Board, quarterly. And I think, historically, we have looked at May as a time when we would consider increases in the dividend. So we'll be having discussions with the Board, and see what seems to be appropriate.

Brian Leonard - - *Analyst*

Good. Fantastic. Thank you very much for your time.

Operator

There are no additional questions at this time.

Al Rankin - *NACCO Industries, Inc. - Chairman, President & CEO*

Okay. Thank you very much, everybody.

Christina Kmetko - *NACCO Industries, Inc. - IR Consultant*

Thank you for joining us. We do appreciate your interest. And if you have any additional questions, you can reach me at 440-229-5130. Thanks, and have a great day.

Operator

Ladies and gentlemen, that concludes today's conference. To access the replay for this event, please dial, toll, 1-617-801-6888; toll-free, 1-888-286-8010, and access code is 165-698-45. Ladies and gentlemen, thank you for your participation. You may now disconnect. Have a great day.
