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NC - Q3 2014 NACCO Industries Earnings Conference Call

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CORPORATE PARTICIPANTS

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

PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the third-quarter 2014 NACCO Industries earnings conference call. My name is Derek and I'll 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 Ms. Christina Kmetko. You may proceed.

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

Good morning, everyone, and welcome to our 2014 third-quarter earnings call. I am Christina Kmetko and I am 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 on today's call are Al Rankin, Chairman, President, and Chief Executive Officer; J.C. Butler, Senior Vice President, Finance, Treasurer, and Chief Administrative Officer; and Elizabeth Loveman, NACCO's Vice President and Controller.

Yesterday we published our third-quarter 2014 results and filed our third-quarter 10-Q for the three and nine months ended September 30, 2014. 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For anyone who is not able to listen to today's entire call, an archived version of this webcast will be on our website later this afternoon and available for approximately 12 months.

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 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 earnings conference call, if at all. Additional information regarding these risks and uncertainties was set forth in our earnings release and in our 10-Q.

Also, certain amounts discussed during this call are considered non-GAAP. The non-GAAP reconciliations of these amounts are included in our 2014 third-quarter earnings release, available on our website.

Now let's discuss the third-quarter results. Results for this quarter were consistent with the outlook we provided last quarter, but lower than we would like. Consolidated revenue decreased to $221.7 million in the third quarter of 2014 from $228.6 million in 2013. Net income was $7.7 million or $1.02 per share for the 2014 third quarter, compared with net income of $12.3 million or $1.54 per share last year.

Here is how our quarterly results break down by business unit. As expected, North American coal's revenues decreased in the 2014 third quarter because of fewer tons delivered and reduced royalty and other income.

Net income also decreased to $3.2 million from $7.8 million in 2013. The major reasons for this decline were a significant increase in selling, general, and administrative expenses, mainly as a result of a $1.6 million pension curtailment gain recognized in the third quarter of 2013 that did not recur in 2014 and higher professional service fees. The substantial reduction in royalty and other income also contributed to the decrease in net income.

While these items were the drivers for the changes between years, there were other offsetting activities at Reed Minerals and Mississippi Lignite Mining Company that occurred during the quarter and warrant explanation.

Mississippi Lignite Mining Company sold fewer tons and reported reduced operating results because of an increase in the number of planned and unplanned outage days at its customer's power plant. This decrease was largely offset by improved operating results at Reed Minerals.

Reed Minerals sold more tons in 2014 than in 2013, and this, combined with operating and productivity improvements implemented earlier this year, efficiencies and productivity improvements resulting from personnel changes in the second quarter of 2014, and investments in equipment and reserves made in late 2013 and early 2014 contributed to Reed's improved results and are expected to help Reed Minerals achieve additional planned operating and productivity improvements in the remainder of the year.

At our consolidated mining operations, steam coal tons delivered are expected to increase slightly in the fourth quarter of 2014 from the same period a year ago, based on the customer's currently planned power plant operating level for the remainder of this year.

Overall, North American Coal expects net income in the fourth quarter of 2014 to increase significantly compared to the prior-year period. The productivity improvements and increased mining efficiencies I mentioned earlier are expected to contribute to a reduced operating loss at Reed Minerals in the fourth quarter of 2014, compared with the prior-year fourth quarter, excluding the effect of the $4 million impairment charge recognized in 2013.

These improvements at Reed Minerals and a $3.5 million gain on the sale of assets sold to Mississippi Power earlier this month are expected to be partially offset by substantially reduced deliveries at Mississippi Lignite Mining Company in the fourth quarter of 2014 because of the significant planned outage at the customer's power plant that began late in the third quarter and will continue into the fourth quarter, as well as lower royalty and other income.

Now let me say a few words about 2015. North American Coal's 2015 net income is expected to increase significantly compared with 2014 as productivity improvements at Reed Minerals are expected to continue. We also expect deliveries to increase at the Mississippi Lignite Mining Company and at the unconsolidated mines as production increases at the newer mines and based on the customer's currently planned power plant operating level.

Cash flow before financing activities in 2014 is expected to be positive as compared with negative cash flow before financing activities in 2013 and is also expected to increase substantially in 2015 over this year.

At Hamilton Beach, revenues increased slightly this quarter, mainly in the commercial and international consumer markets. However, Hamilton Beach's net income decreased to $6 million in the third quarter of 2014 from $7.4 million in 2013 as a result of higher selling, general, and administrative expenses.

In last year's third quarter, a third party committed to share in certain environmental liabilities, which reduced the 2013 selling and administrative expenses by $1.6 million. This benefit did not recur this year.

Also, an increase in outside service fees and advertising expenses incurred to execute Hamilton Beach's five strategic initiatives, and unfavorable foreign-currency movements, as both the Canadian dollar and Mexican peso weakened against the US dollar, also contributed to the decrease.

The net income decline was partially offset by a shift in sales mix to higher-margin products.

Unfavorable conditions are creating continued uncertainty about the strength of the retail market and expectations regarding consumer activity in the fourth quarter of 2014. 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 moderately in the remainder of the year.

The Canadian retail market is expected to follow US trends, while other international and commercial product markets in which Hamilton Beach participates are anticipated to grow in the remainder of 2014.

Sales volumes at Hamilton Beach are expected to grow more favorably than the market, due to increased promotions and placements of products in the fourth quarter of 2014 compared with 2013. We expect an increase in Hamilton Beach's revenues in the 2014 fourth quarter compared with the same period in the prior year, provided consumer spending is at expected fourth-quarter levels.

In the near term, the anticipated increase in sales volumes attributable to the continued implementation and execution of Hamilton Beach's strategic initiatives is expected to be partially offset by the planned cost of implementing those initiatives and by increased advertising and promotional costs and outside service fees.

As a result, we expect Hamilton Beach's fourth-quarter 2014 net income to be moderately higher than the fourth quarter of 2013, although full-year 2014 net income is expected to be lower than the prior year because we do not anticipate the improvements expected in the second half will offset the decline in net income reported in the first half of this year.

Cash flow before financing activities at Hamilton Beach is expected to be substantial in 2014, but down significantly from last year.

Switching to Hamilton Beach in 2015. 2015 revenues and net income are expected to increase over 2014, due to increased product placements and sales volumes resulting from the execution of the Company's strategic initiatives, partially offset by the cost to implement these initiatives, modest increases in product and transportation costs, and unfavorable foreign-currency translation.

Cash flow before financing activities in 2015 is actually expected to be slightly higher than 2014.

Finally, at our Kitchen Collection segment, while revenues continue to decline, mainly as a result of the closure of over 60 stores during the first nine months of the year, results improved. Kitchen Collection's third-quarter 2014 net loss decreased to $1 million from a net loss of $2.8 million in the third quarter of last year, mainly due to the closure of unprofitable stores.

Improved operating margins at the Kitchen Collection stores, due to a shift in mix to higher-margin products, fewer promotional sales, and a reduction in comparable-store expenses, as well as a decrease in corporate expense, all contributed to the improvement.

Consumer traffic to all mall locations and particularly outlet malls remained weak in the third quarter of 2014 and prospects for the remainder of this year and 2015 remain uncertain.

Kitchen Collection expects to continue to refine its business plan on the assumption of continued market softness and will continue to close underperforming stores and realign the business around core stores, which perform with acceptable profitability. Kitchen Collection also expects to maintain a lower number of stores during 2015 as a result of closing a number of additional stores during the first quarter of that year.

As a result, revenues in the fourth quarter of 2014 and in 2015 are expected to decrease substantially compared with the comparable prior-year period.

Despite a decrease in revenue, cost-reduction actions and revisions to store layouts that focus on higher-margin products, as well as the absence of charges totaling $2 million recorded in 2013 related to the 2014 store closures and business realignment that took place earlier this year, are all expected to contribute to substantially improved net income in the fourth quarter of 2014 compared with 2013.

However, these improvements, while positive, are not expected to offset the losses from the first nine months of the year, and as a result, Kitchen Collection still expects to recognize a loss for the 2014 full year.

Positive cash flow before financing activities in 2014 is expected to be generated in Kitchen Collection compared with negative cash flow before financing activities in 2013. Cash flow before financing activities is expected to continue to improve in 2015 compared with 2014.

Before I open up the call for questions, I want to note that during the nine months ended September 30, 2014, we repurchased $26.4 million of Class A common stock under our $60 million stock repurchase program. Since the program began in November 2013, we have repurchased approximately 517,600 shares for an aggregate purchase price of $27.4 million.

That concludes my prepared remarks. I will now open up the call for your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions).

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

While we are waiting for questions, if you don't have an opportunity to ask questions on this call, you can reach me at 440-229-5130.

Operator

At this time, I am showing no questions in queue.

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

Okay, if there are no questions, I think, Christy, as you indicated, you are available to answer questions either from people listening now or from people that may listen to this recorded material, answer them at a later time. We thank you very much for joining in. I think that concludes the earnings call.

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

Thank you.

Operator

Ladies and gentlemen, that concludes today's conference. We thank you for your participation. You may now disconnect. Have a great day.
