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CONFERENCE CALL PARTICIPANTS

Brian Leonard *Keeley Asset Management - Analyst*

PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the NACCO Industries Inc 2014 fourth quarter and full year earnings conference call. At this time, all participants are in a listen-only mode. Later, we will conduct a question-and-answer session, and instructions will be given at that time.

(Operator Instructions)

As a reminder, today's program is being recorded. I would now like to introduce your host for today's program, Christina Kmetko, Investor Relations.

Christina Kmetko - *NACCO Industries Inc - IR*

Thank you. Good morning, everyone, and welcome to our 2014 fourth-quarter earnings call. I'm sorry, Jonathan?

Operator

Yes.

Christina Kmetko - *NACCO Industries Inc - IR*

We have a lot of noise on the line. I'm hearing noise in the background.

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

A lot of feedback or something.

Christina Kmetko - *NACCO Industries Inc - IR*

Thank you. Yes.

Operator

Okay, I believe we're all set now?

Christina Kmetko - *NACCO Industries Inc - IR*

Okay, thank you. Sorry, everyone. Good morning, and welcome to our 2014 fourth-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. Also joining me on today's call are Bob Benson, President and Chief Executive Officer of our North American Coal Operations; and Greg Trepp, President and Chief Executive Officer of Hamilton Beach, and Chief Executive Officer of our Kitchen Collection business.

Yesterday, we published our fourth quarter and full year 2014 results, and filed our 10-K for the year ended December 31, 2014. Also, copies of our earnings release and 10-K 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 For anyone who is not able to listen to today's entire call, an archived version of this webcast will be on our website later this afternoon, and available for approximately 12 months.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 fourth in our earnings release, and in our 10-K.

Also, many amounts discussed during today's call are considered non-GAAP. The non-GAAP reconciliations of these amounts are included in our 2014 fourth-quarter earnings release, available on our website.

Now let's discuss the quarterly results. On February 13, we filed an 8-K disclosing that our North American Coal subsidiary planned to take a significant non-cash impairment charge, related to the long-lived assets of its Reed Minerals mining operations. That impairment charge totaled $66.4 million after tax, and followed a $4 million pretax write-off of Reed's goodwill in last year's fourth quarter.

As a result of the impairment charge, we reported a consolidated net loss of $40.7 million, or $5.57 per diluted share, for the fourth quarter of 2014, compared with net income of $22.6 million, or $2.85 per diluted share, in 2013. Adjusting out the long-lived asset impairment and goodwill charges provides a clearer look at the underlying operating results over our business.

On an adjusted basis, we had slightly higher consolidated adjusted income in the fourth quarter of $25.8 million, or $3.52 per diluted share, on lower revenues of $297.3 million. Which compares to consolidated adjusted income of $25.1 million, or $3.18 per diluted share, on revenues of $312 million, for the fourth quarter of 2013.

Before I talk about the fourth-quarter operating results at each of our business units, let me discuss the Reed Minerals long-lived asset impairment. We are facing a very difficult situation with our Reed Minerals mining operation.

As we have said previously, we believed that the metallurgical coal market was at a relative low point when we acquired this business in 2012. That has not proven to be the case, as the price of metallurgical coal has deteriorated far beyond our expectations, and demand for metallurgical coal has also fallen significantly since the acquisition. Since 2012, we have made significant investments to improve productivity and reduce operating costs at this operation.

While productivity has improved, and advancements were made to reduce operating costs during the second half of 2014, the operating results in the second half of the year were very disappointing, and continued to be negatively affected by sustained weakness in the Alabama and global coal markets, particularly the metallurgical coal market. In January 2015, Reed's largest thermal coal customer clarified to Reed Minerals the plan it will adopt to comply with the US environmental protection agency's new mercury and air toxic standards, beginning in the fourth quarter of 2015.

The customer's plan includes more stringent coal quality requirements than we had previously anticipated, and is expected to contribute to an overall increase in coal processing costs at Reed, beginning in late 2015, without a corresponding increase in coal sales prices. As a result of these discussions, revisions were made early in 2015 to the Reed Minerals 2015 operating plan and long range outlook, to reflect this new information about compliance with MATS, as well as to reflect decreased demand and depressed coal prices, and the lack of any reliable indicators of a recovery in coal demand or price.

As a result of these factors, North American Coal recorded the non-cash impairment charge of $66.4 million after-tax, for the fourth quarter of 2014. Following the charge, the year-end carrying value of other property plant and equipment is $37.1 million. And coal, land and reserves are $7.2 million at year end.

Faced with ongoing weakness in the Alabama and global coal markets, and higher anticipated coal processing costs beginning in the fourth quarter of 2015, we have made the decision to manage the Reed Minerals business based on cash generation. We are focused on right sizing operations, in line with conservative volume estimates, altering mining plans, investigating less costly coal processing methods, managing production volumes to optimize cash flow, evaluating capital employed, and considering sales of non-core assets, if appropriate. That's the detail in the long-lived asset impairment at Reed Minerals.

Now let me discuss the business unit results, starting with North American Coal. Including the impairment charge, North American Coal reported a net loss of $59.8 million in the fourth quarter of 2014, compared with net income of $5.6 million in 2013. If you exclude both the long-lived asset impairment in 2014, and the goodwill impairment recognized in 2013, North American Coal reported adjusted income for the fourth quarter of 2014 of $6.6 million, compared with adjusted income of $8.2 million in the same quarter in 2013.

As expected, North American Coal's revenues and adjusted income decreased in the 2014 fourth quarter, because of fewer tons sold at Mississippi Lignite Mining Company, as a result of a planned outage at its customer's power plant, and reduced royalty and other income. Also contributing to the decline in adjusted income was a significantly larger loss at Reed Minerals.

While we generally do not provide financial detail at the mine level, we felt giving further detail on Reed would be helpful this quarter, in light of the impairment charge in this business. At our mining operations, gross profit includes revenues, less cost of goods sold, as well as all of the mine operating costs. At Reed, this number was a loss of $9.9 million in the fourth quarter of 2014, compared with a loss of $4.4 million in the fourth quarter of 2013.

For the full year, and again on a gross profit basis, Reed had losses of $22.4 million in 2014, and $11.3 million in 2013. The increases in the losses in 2014 at Reed Minerals were primarily due to continued deterioration of coal prices, an increase in depreciation expense on equipment acquired during 2013 and 2014, and higher repair and maintenance expenses.

During the quarter, North American Coal recognized gains totaling $3.7 million after-tax, for asset sales, which partially offset the decline in adjusted income. This quarter and year were clearly difficult for North American Coal. However, in 2015, North American Coal expects overall improved operating performance at its coal mining operations.

Before I get into the details of the North American Coal outlook, I want to highlight that, as of January 1, 2015, we changed the name of Reed Minerals to Centennial Natural Resources. This change was made for coal marketing and other operational reasons. Going forward, I will only reference Centennial Natural Resources.

Looking forward to 2015, we expect Centennial's operating results, cash flow before financing, and EBITDA to improve compared with 2014, excluding the asset impairment charge. These improvements are expected largely through efforts at Centennial to right size operations for expected volume levels, and manage costs and capital employed. We also anticipate a reduction in Centennial's depreciation and amortization expense, of approximately $5 million, as a result of the asset impairment charge taken in 2014, which will also contribute to the anticipated 2015 improvement.

That said, we still expect operating results in 2015 at Centennial, including non-cash charges, to remain in a substantial loss position. Larger losses are expected in the first quarter of 2015, compared with the first quarter of 2014, as Centennial contends with the customer's power plant outage, and significantly fewer capitalized mine development costs. We anticipate significantly improved results for the balance of the year, compared with the prior year.

Although the improvements will be partially offset by higher coal processing costs in the fourth quarter, as Centennial complies with the changes in customer requirements related to the mass regulation. Cash expenditures in 2015 will include required final reclamation at some mine areas where mining has concluded. Although cash flow before financing activities is expected to be significantly improved from 2014, Centennial is expected to have a marginally negative effect on North American Coal's 2015 cash flow, before financing activities.

While we have not been happy with what has happened to the coal market in our Centennial operations, we believe that efforts to manage this business for cash, and around conservative volume expectations, will help to position this operation to take advantage of any rebound in the coal market that may occur over time. Tons sold and results from operations are also expected to be substantially higher than in 2014 at Mississippi Lignite Mining Company, as two significant planned outages took place at the customer's plant in 2014, and there are no outages planned in 2015.

Based on our customer's currently planned power plant operating levels, including production increases at the newer mines, we expect tons sold to increase at the unconsolidated mines. While we expect coal mining operations to improve in 2015, we expect lower limerock deliveries, as a result of reduced customer requirements in 2015.

However, operating results at the limerock operations are expected to be higher, as a result of the absence of a $1.2 million pretax charge that we incurred in 2014, to reimburse a customer for damaged equipment. Finally, we expect a significant decline in royalty and other income in 2015, compared with 2014.

Overall, at North American Coal, excluding the 2014 gain on the sale of assets, we expect 2015 income before income taxes to increase significantly over the 2014 adjusted income before income taxes. And we expect cash flow, before financing activities, to be positive, as compared with the negative cash flow, before financing activities, we realized in 2014. Capital expenditures for 2015 are expected to be reduced substantially from the prior two years, to $24.1 million, comprised largely of about $21 million for replacement equipment and land at Mississippi Lignite Mining Company, and approximately $1.7 million at Centennial.

Coyote Creek Mining Company expects to complete its debt financing in the first quarter of 2015. This will allow Coyote Creek, which is an unconsolidated mine, to repay the amount due to North American Coal, which was $53.2 million at December 31, 2014. North American Coal has been using its revolving credit facility to finance mine development at Coyote Creek, and expects to use the repayment proceeds to pay down its revolving credit facility.

Before I discuss Hamilton Beach's results, I want to point out that on December 16 of 2014, Hamilton Beach acquired Weston Brands, a developer, marketer and distributer of specialty housewares products and appliances for consumers who are hunters, gardeners and food enthusiasts. While this was not a large transaction, we are still very excited about this acquisition, because this opens up a new market for Hamilton Beach, and provides new opportunities for growing placement, as interest in home harvesting and more wholesome food choices continues to expand. Because the acquisition was late in the year, Weston did not materially affect revenues or net incomes in 2014, but we look forward to it contributing in 2015.

Hamilton Beach had a strong fourth quarter. Revenues increased 6%, as a result of increased sales volumes, mainly in the US consumer retail market and commercial market. Net income also increased to $15.4 million, from $14.2 million in the fourth quarter of 2013, resulting primarily from an increase in sales of higher margin products and lower income tax expense, partially offset by an increase in distribution costs, higher product costs, and an increase in bad debt expense.

We are looking forward to continued improvements in Hamilton Beach in 2015. Although the economy appears to be improving, Hamilton Beach's target consumer, the middle market mass consumer, continues to struggle with financial and economic concerns.

These concerns, and weakened consumer traffic to retail locations, are creating continued uncertainty about the ongoing strength of the retail market for small appliances. As a result, sales volumes in the middle market portion of the US small kitchen appliance market, in which Hamilton Beach's core brands participate, are projected to grow only moderately in 2015.

The Canadian retail market is expected to follow US trends. Other international markets and commercial product markets, in which Hamilton Beach participates, are also anticipated to grow moderately in 2015, compared with 2014.

Hamilton Beach believes the underlying market conditions in the hunting, gardening and food enthusiasts markets will continue to generate increasing interest in demand in the categories in which the Company's new subsidiary, Weston Brands, participates. Given these market conditions, we expect sales volumes in Hamilton Beach's core small kitchen appliance business to grow more favorably than the market in 2015, due to improved placements and products.

In addition, we also believe there are a number of existing placements and market opportunities that can be secured for the Weston business. As a result, we expect the Weston sales volumes in 2015 to grow at or above the growth rate experienced by the core Hamilton Beach small kitchen appliance business. Finally, sales volumes in international and commercial product markets are anticipated to grow in 2015, compared with 2014, as a result of the Company's strategic initiatives.

Overall, we expect full-year 2015 net income at Hamilton Beach to be moderately higher than 2014. The anticipated increase in sales volumes, attributable to the continued implementation and execution of Hamilton Beach's strategic initiative, along with a full year of revenue from the Weston brands acquisition, is expected to be partially offset by a full year of operating expenses. Including amortization on acquired intangibles for Weston Brands, costs to implement Hamilton Beach's strategic initiatives, increases in transportation costs, and the absence of the $1.6 million tax benefit realized in 2014.

In addition, the negative effects of foreign currency fluctuations are currently expected to increase modestly in 2015, compared with 2014. Excluding the cash paid for the acquisition of Weston Brands, we expect Hamilton Beach's cash flow, before financing activities, in 2015, to be higher than 2014. Capital expenditures are expected to be approximately $9 million in 2015.

Finally, our Kitchen Collection business had a very good quarter. While revenues continued to decline, mainly as a result of the closure of over 60 stores during 2014, results continued to improve.

Similar to last year, Kitchen Collection recorded a number of charges during the fourth quarter of 2014, related to upcoming store closures. The fourth-quarter improvement in results would have been greater, but we had higher charges for future store closings in the fourth quarter of 2014 than in the fourth quarter of 2013. Nonetheless, despite these charges, Kitchen Collection's net income increased to $3.1 million in 2014, from net income of $1.6 million in the fourth quarter of last year, primarily as a result of improved operating margins at Kitchen Collection comparable stores, due to fewer promotional mark-downs, and a reduction in comparable store expenses, and a decrease in headquarters expense.

Consumer traffic to all mall locations, and particularly outlet malls, remained weak in 2014, and that weakness is expected to continue in 2015. Kitchen Collection expects continued market softness in 2015. And as such, expects to close an additional 28 stores during the year, with most of those stores closing in the first quarter. These closing will, in large measure, complete our program of closing underperforming stores to realign the Kitchen Collection business around core stores, which perform with acceptable profitability.

Kitchen Collection plans to maintain a lower number of stores in 2015. And as a result, expects 2015 revenues to decrease compares with 2014. We expect the net effect of closing additional stores early in 2015, and the anticipated opening of a smaller number of new stores, mostly during the second half of 2015, as well as the ongoing evaluation of Kitchen Collection's expense structure, to produce net income near breakeven in 2015.

Cash flow before financing activities is expected to be positive again in 2015, but down from the high level generated in 2014. Capital expenditures for 2015 are expected to be $1.4 million.

Before I open up the call for questions, I want to note for the 2014 full year, we repurchased $35.1 million of Class A Common Stock, under our $60 million stock repurchase program. Since the program began in November 2013, we have repurchased approximately 680,000 shares, for an aggregate purchase price of $36 million.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Christina Kmetko - *NACCO Industries Inc - IR*

While we're waiting for questions, let me provide you with my contact information. So if there are any additional follow-up questions, you can call me after the conclusion of today's call. My number is 440-229-5130. Are there any questions, Jonathan?

Operator

We have a question from the line of Brian Leonard from Keeley Asset Management.

Brian Leonard - *Keeley Asset Management - Analyst*

Hello, good morning.

Christina Kmetko - *NACCO Industries Inc - IR*

Good morning, Brian.

Brian Leonard - *Keeley Asset Management - Analyst*

Just a couple questions. Thank you for the additional clarity in the press release regarding Reed. That was very helpful. My question revolves, if the market continues to deteriorate in coal, just given where gas prices are going, and stringent regulations out there, what's the game plan, if you can't get cash costs at a breakeven level?

Can you shutter the mine, and supply it elsewhere? Can you -- what can you do to mitigate those losses? Because the other core business is very good, with the unconsolidated mines and whatnot. So this seems to be the last piece of the puzzle that really needs to be fixed.

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

This is Al Rankin. Let me comment that, simply by saying that we're going to look at it very carefully. In principle, if the prices and volume drop below so -- lower level, the cash generation, or cash use, would be greater than we anticipated. And at some point, it would justify shuttering some or all of the operations at Reed. We would look at it if those conditions occur.

At the moment, I think what we see is a relatively small cash impact from continuing to operate, as we currently see the situation evolving after the first quarter of this year. We're concerned about the costs, however, that are generated by the MATS standard in the fourth quarter. So we've got to look at our productivity levels, and a variety of things. And if that causes us to vary dramatically from our expectation of future ongoing modest cash losses, we would take appropriate actions.

Now there are some cash commitments that we have, no matter what we do. Those relate to the continued closure costs for some operations, and some cash activities that take awhile to play out. But we'll simply look at it every quarter, and make sure that we're still on the same path that we think we are on now.

Brian Leonard - *Keeley Asset Management - Analyst*

Is there any reason why you couldn't get a better pricing structure, given the quality of coal change -- the contract change? Is it just the market itself? Could they go somewhere else to get it cheaper? How does that dynamic work?

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

There are two kinds of coals that are involved. One is steam coal. And there's a contract structure that governs the prices for the steam coal, for a period of time, until it reaches renewal. And those prices are not going to change, despite the MATS standards. And metallurgical coal prices are simply extremely low at this time, and they're governed by the overall Alabama market. And there is -- so the answer to your question is that we believe that we're maximizing whatever the price opportunities are already.

Brian Leonard - *Keeley Asset Management - Analyst*

Is there any financial penalties? Or anything that locks you into that contract? How long is the contract? I know it wasn't disclosed. But is there anything you can tell us about that contract? Because that seems to be the one that's the biggest problem.

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

No, it's nothing that we believe would be a significant issue, we made other decisions than what we expect to make, at this time.

Brian Leonard - *Keeley Asset Management - Analyst*

Got it. All right. Moving on to Hamilton Beach. You guys didn't call out FX headwinds. Last quarter, you did. This quarter, I'm assuming you still had the headwinds. Is there a number around that?

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

I'm not sure whether we have a number around that. But you're certainly right that, to the extent that we have operations in Canada and in Mexico, those are the largest of our international operations. And there is some headwind there that is affecting us now, to the extent that our costs, which are denominated in a currency that mirrors the dollar more or less.

Chinese currency, we are trying to increase our prices to put us in a more even position. And we will continue to try to do that, as we look forward. But we -- again, quarter on quarter, in the fourth quarter, there were some FX issues. But they weren't really significant in that fourth quarter, compared to what was already difficult in the fourth quarter of the previous year.

Brian Leonard - *Keeley Asset Management - Analyst*

Okay. How much of your sales -- I know you guys haven't really disclosed that -- but on an annual basis, is international?

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

We really don't disclose those numbers for Hamilton Beach, but I'd just say they're certainly significant.

Brian Leonard - *Keeley Asset Management - Analyst*

Okay. And then, is there any update on the agreement with Sub-Zero Group? And how is that progressing? Because new products should be hitting, or being rolled out, probably as we speak, or pretty close.

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

We have Greg Trepp on the line. And Greg, would you like to give an update on the progress of that program?

Greg Trepp - *NACCO Industries Inc - President & CEO of Hamilton Beach, CEO of Kitchen Collection*

Yes, certainly. We expect to introduce Wolf Gourmet, our Wolf Gourmet line, really, in the early part of this year. And distribution will build as the year goes on, quarter by quarter. And you'll start to see it more broadly in the marketplace second quarter or third quarter, and certainly in the fourth quarter. And our Jamba Brand is also rolling out, probably -- basically about a quarter behind, in terms of impact and visibility, the Wolf Gourmet line. But Wolf Gourmet line is on track to have a meaningful rollout here, this year.

Brian Leonard - *Keeley Asset Management - Analyst*

Great. Has there been a significant amount of costs involved, so far to date, for the rollout of those two programs? Or nothing meaningful, in the way that it is something that will be recouped later, down the road?

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

(multiple speakers) We had investment costs in the design of the products. I'm not sure that you'd call them out as hugely significant. But they certainly -- there have been development costs, along the way. It's caused our overall budget to go up a little bit, I think, Greg. But on balance, we think of it as a total R&D budget for the business. And that's now one piece of it, in a way that it wasn't before. Greg, do you want to add anything to that?

Greg Trepp - *NACCO Industries Inc - President & CEO of Hamilton Beach, CEO of Kitchen Collection*

Yes, I think that's right, Al. And I think that we've been in -- as we prepare for this rollout, we've been in investment mode here for the better part of two years. So now we're moving into that point where we will have some revenue that should begin to offset that, and move us into a good position, as the year goes on.

Brian Leonard - *Keeley Asset Management - Analyst*

Great. That does it for me, thank you.

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

Thanks.

Operator

Thank you.

(Operator Instructions)

And this does conclude the question and answer session. I'd like to hand the program back.

Christina Kmetko - *NACCO Industries Inc - IR*

Al, did you want to say anything else?

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

No, I think that concludes what we have to say. I guess if I were going to add anything, it would be that we think we're at the beginning of a point now, at the coal company, where we're going to see progressive improvements over the next few years. They will be significant, excluding the impairment at the coal company in 2015. We'll have improvement at Hamilton Beach, and we'll have improvement at Kitchen Collection.

And I think, as we look into 2017, we see further improvement in each of our businesses. So we feel that things are headed in the sound direction, in each of the businesses. And will be -- the most difficult situation, of course, is managing the Centennial business. And as we've indicated, we'll manage that in a highly disciplined way, for cash, as wisely as we can think it through. That would conclude my comments.

Christina Kmetko - *NACCO Industries Inc - IR*

Great. Thank you, everyone, for joining us today. We appreciate your interest. And if you do have any follow-up questions, please feel free to give me a call.

Operator

Thank you. And a replay will be --

Christina Kmetko - *NACCO Industries Inc - IR*

Go ahead Jonathan.

Operator

A replay will be available starting today at 2:00 PM Eastern Time, and will go from March 17 at 11:59 PM. You may access the replay by dialing 1-800-585-8367, and entering the access code 74903530. Thank you, ladies and gentlemen, for your participation in today's conference. This does conclude the program. You may now disconnect. Good day.