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NACCO Industries, Inc. (NC)

Q1 2016 Earnings Call

CORPORATE PARTICIPANTS

Christina Kmetko
Investor Relations

Alfred M. Rankin
Chairman, President & Chief Executive Officer

John C. Butler
Senior Vice President - Finance, Treasurer & Chief Administrative Officer

OTHER PARTICIPANTS

Jacob Wagner
Oaktree Capital Management, L.P.

Brian Patrick Leonard
Keeley Asset Management Corp.

MANAGEMENT DISCUSSION SECTION

Operator: Good morning. My name is Sean, and I'll be your conference call operator today. At this time, I'd like to welcome everyone to the NACCO Industries, Inc., 2016 First Quarter Earnings Conference Call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks there will be a question-and-answer session. [Operator Instructions] Thank you.

Christina Kmetko, Investor Relations, Please go ahead.

Christina Kmetko
Investor Relations

Thank you. Good morning, everyone, and welcome to our 2016 first quarter earnings call. I am Christina Kmetko, and I'm responsible for Investor Relations at NACCO Industries. I'll 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, 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; and Elizabeth Loveman, NACCO's Vice President and Controller.

Yesterday we published our first quarter 2016 results and filed our 10-Q for the quarter ended March 31, 2016. 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 For anyone who is not able to listen to today's entire call, an archived version of this webcast will be on our website later this afternoon and available for approximately 12 months.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 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 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 today's call are considered non-GAAP. The non-GAAP reconciliations of these amounts are included in our 2016 first quarter earnings release available on our website.

Now let's discuss our results for the first quarter. Our consolidated revenues were $173.4 million compared with $193.7 million in the first quarter of 2015. Revenues declined as a result of reduced sales volumes at Hamilton Beach. Net income, on the other hand, increased to $2.8 million or $0.41 per share from net income of $1 million or $0.14 per share last year. The improvement in net income was primarily the result of Centennial incurring a lower operating loss in the 2016 first quarter than it did in the prior year first quarter partially offset by a decline in Hamilton Beach's results.

As we did last quarter we have adjusted the financial results to exclude Centennial to provide a clearer look at the performance of the remaining operation. On an adjusted basis, our first quarter consolidated revenues were $173.1 million compared with $184.3 million in the prior year quarter. Consolidated adjusted income increased to $4.7 million or $0.69 per share from $4.4 million or $0.61 per share in the first quarter of 2015. The improvement in net income was driven primarily by our North American Coal business.

Revenues at North American Coal, including Centennial were $30.3 million in the first quarter of 2016, compared with $41.3 million in the prior year and net income was $8.3 million this quarter compared with $4.5 million in 2015. If you exclude Centennial, North American Coal's revenues declined $1.9 million from the prior-year first quarter, primarily because of a decrease in tons sold at Mississippi Lignite Mining Company, which experienced more outage days in 2016 at its customer's power plant than in the prior year first quarter.

The decrease in revenues was partially offset by an increase in revenues at the limerock mining operations which had an increase in customer requirements and an increase in royalty and other income in the first quarter of 2016. Despite the decline in adjusted revenues, adjusted income increased to $10.2 million in the 2016 first quarter from $7.9 million a year ago, primarily from improved operating results at Mississippi Lignite Mining Company due to lower operating costs and improved results at the limerock mining operations.

Looking forward, we expect an increase in 2016 tons sold at North American Coal's mining operations compared with last year. Despite this overall increase in tons, and excluding Centennial's results in both 2016 and 2015, we expect a decrease in income before income taxes, primarily because of an expected decrease in income at Mississippi Lignite Mining Company and a decrease in royalty and other income. Additional income from the unconsolidated mining operations and modestly-improved operating results at the limerock dragline mining operations are anticipated to partly offset these decreases.

Bisti Fuels commenced its transition into the contract miner role at the Navajo Mine on January 1. The production period is scheduled to begin when the customer completes a pending commercial transaction with the existing contract miner which is expected to occur by the end of 2016. We expect production levels for this mine to be between 5 million and 6 million tons of coal per year.

Finally, North American Coal's cash flow before financing activities is expected to decrease substantially in 2016 compared with last year mainly because of the repayment of a large receivable from Coyote Creek in 2015 and an increase in capital expenditures in 2016. As we have discussed before, Centennial Natural Resources ceased mining operations as of December 31, 2015, but wind-down and reclamation activities are ongoing.

In 2016, we expect Centennial to incur a moderate but substantially lower loss than 2015 excluding the effect of any potential future asset sales, as it manages mine reclamation obligations and disposes of certain assets. We will continue to evaluate strategies to maximize cash flow from Centennial, including through the sale of mineral reserves, equipment, and parts inventory. Cash expenditures related to mine reclamation will continue until reclamation is complete or ownership of the mine is transferred.

Now let me discuss Hamilton Beach. Hamilton Beach's first quarter results were lower than the prior year first quarter. Revenues declined approximately 6% from $123.3 million in 2015, to $115.7 million in 2016, primarily as a result of reduced sales volumes in the U.S. consumer retail market and a reduction in commercial sales driven by increased sales of lower-priced products. Unfavorable currency movements also affected revenues.

I'd like to highlight that the reduced sales volume in the U.S. consumer retail market was in part driven by a decline in demand early in the first quarter as retailers rebalanced their inventory at the end of the holiday season. A decline in gross profit as a result of a shift in sales mix to lower-priced, lower-margin products and the reduced sales volumes was the main driver of the decrease in results from net income of $600,000 in the first quarter of 2015, to a net loss of $300,000 for the first quarter of 2016.

Looking forward, I'd like to note that overall consumer confidence and financial pressures experienced by the middle market consumer continue to create uncertainty about the overall growth prospects for the U.S. retail market for small appliances, including growth prospects for both in-store and Internet sales. As a result, volumes in 2016 in the market in which our core Hamilton Beach Brands participate are projected to be comparable or down slightly compared with 2015. We also expect the Canadian retail market to be difficult as the Canadian economy continues to struggle. However, the international and commercial markets in which Hamilton Beach participates are expected to grow moderately.

In spite of current market conditions, we expect Hamilton Beach's 2016 consolidated sales volumes to increase moderately compared with 2015 as a result of enhanced distribution and increased placement of higher-priced products in the core small kitchen appliance business. We also expect international and commercial product sales volumes to increase as a result of the execution of Hamilton Beach's strategic initiatives.

With a number of new products in the pipeline and execution of these initiatives, both domestically and internationally, we expect a moderate increase in revenues at Hamilton Beach in 2016 compared with 2015, provided consumer spending is at expected levels. In addition, we expect Hamilton Beach's full year 2016 net income to increase. However the anticipated improvement in sales volumes and revenues are expected to be partially offset by unfavorable currency relationships based on current currency rates. Cash flow before financing activities is expected to be substantially higher than in the prior year.

Finally our Kitchen Collection business reported a $1.9 million net loss in the first quarter of 2016 which was comparable to last year on a decrease in revenue. However, despite the revenue decrease, results were comparable to the prior-year quarter primarily because of benefits realized from the closure of unprofitable stores and improved gross margins at comparable stores. As we mentioned last quarter changing consumer habits have led to declining consumer traffic to physical retail locations because consumers are buying more over the Internet or utilizing the Internet for comparison shopping. Financial pressures have also adversely affected sales trends in housewares and small appliances over the past few years, while the recent strengthening of the U.S. dollar has adversely affected sales trends at retail locations near the Mexican and Canadian borders.

In the context of this market environment, we expect Kitchen Collection's 2016 revenues and results to decline slightly from 2015. However, as a result of the business realignment, Kitchen Collection completed over the past two years, we believe its smaller core store portfolio is well positioned to perform at improved operating level and to take advantage of any future market rebound. We expect cash flow before financing activities to be positive this year but substantially lower than last year.

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

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] And your first question comes from Jacob Wagner with Oaktree Capital. Your line is now open.

Jacob Wagner
Oaktree Capital Management, L.P.
Q

Hi, good morning. Thanks for taking my questions. Starting with Hamilton Beach, can you please provide some color on your international growth plans and how you develop your medium-term sales targets which imply pretty healthy international growth?

Alfred M. Rankin
Chairman, President & Chief Executive Officer
A

Well, as we've said in our annual report, one of our strategic initiatives is to enhance our international sales activities. We have two areas – three, in a way, where we have historically had substantial business, and we're trying to increase the levels in those areas. The first is Canada. We have a strong position compared to our competitors in Canada. And we're very focused on working with these retailers in Canada to enhance our placement position. We feel that those efforts are moving in the right direction, continuing to move in the right direction. The headwind of course is that the Canadian dollar has been very weak. And that's had influence on the sales volumes and also an influence on the short-term profit structure.

Secondly, we have a significant position in Mexico. Our sales volumes have been increasing recently in Mexico. The import rules changed to disadvantage certain Chinese products a while back. It took us some time to readjust to those and find some local sourcing opportunities in Mexico. We've done that. Our business is improving and we're concentrating on enhanced placements in Mexico.

Likewise in Latin America, we've had this substantial business over the years. And we've been increasing our sales representation in Latin America and certain countries in South America, and generally those sales volumes are improving. Our two major initiative focuses are on Brazil and China. Brazil is probably, as a practical matter, coming along more slowly than we would've hoped. I think that should be no surprise given the chaotic economic conditions in Brazil. On the other hand, our brands seem to be well received in Brazil and we're hopeful that we can build a substantial business over time. We have seen reasonable sell-through on the products that have been placed so far, and we're encouraged about building that business. But to some degree, really to a significant degree, the achievement of our aspirations is going to depend on an improvement in the basic economic situation in Brazil.

And in China, again, we have been focused on building our business. Again our brands are working reasonably well. They tend to be at a little higher price point than they are in the U.S. relative to local brands. That's particularly important in terms of the differentiation of the products from local Chinese products. We feel that to be successful in that market we will need to build both the online business and the physical store business and that's what we are doing. We have relatively modest sales in both China and Brazil, but they're a lot greater than they were just a couple of years ago.

As to the process of forecasting I'd simply say that in the mature, more mature areas, we look at the past sales rates and the current placements and make estimates of what we think is reasonable as we look forward. And in the more developed [ph] metro (16:14) areas of Brazil and China, we have estimates of what we think will happen in the next year. We look at them from a quarter-to-quarter basis and each quarter, we revise our thinking. And overall it's reflected, the sales volumes are reflected in the overall perspective that we provide on our sales volumes for the past quarter and for the year as we look forward.

Jacob Wagner
Oaktree Capital Management, L.P.

Q

Got it. That's very helpful. Thank you. And sticking with Hamilton Beach for one more. Has that international build-out driven the big step up in OpEx over the past two, three years? And would you expect that to continue as you continue to grow internationally or will that normalize?

Alfred M. Rankin
Chairman, President & Chief Executive Officer

A

I should have mentioned, in connection with international, that we also have efforts to expand our commercial business internationally. And that business has been growing in a substantial way. So I left that piece of the equation out. I think a great deal of our expansion has come from our domestic operations. As you know, we added the Weston business two years ago. That was both a new channel and new products for us. We think that business is developing in a sound way. We've also had considerable success with our placement position in the U.S. consumer business, both with regular placements and promotional placements. And we have, of course, had a pipeline of new product development along the way which has been a part of that whole process.

So it really isn't the international area at this point, in total that is driving the sales increases that I think you referred to over the last few years. It's more of the domestic operations. Although, we have been building our international business.

Jacob Wagner
Oaktree Capital Management, L.P.

Q

My question was more on the expense side. The increase over the past two, three years.

Alfred M. Rankin
Chairman, President & Chief Executive Officer

A

Well we have had some additional expenses that have been associated with Brazil and with China. We also looked carefully at India and made some initial forays. We've not focused on that, at least not at this point. And I would say that the sales volumes are beginning to increase in China and Brazil and that's helping to mitigate the increase in – that was associated with the upfront investment.

There's some SG&A involved certainly, and that's a part of the buildup. I don't have the specific breakdown that I would put it forward for you, however.

Jacob Wagner
Oaktree Capital Management, L.P.

Q

Okay. Makes sense. Moving to North American Coal, given the move in diesel prices, why did gross profit per ton increase at MLMC?

Alfred M. Rankin
Chairman, President & Chief Executive Officer

A

We really don't look at things in terms of gross profit per ton. It's not a measure that we think in terms of. We think about our profitability at MLMC, it's really determined, at that particular mine, by the number of tons that are sold to the customer, that the customer takes based on the power plant operating levels, and the price which is determined by the index structure that comes to pass during that period of time. That's what really determines, though, the profitability in any given period as far as MLMC is concerned.

And I think that's where I'd leave it unless J.C. wants to add anything. You do have a decrease in tons at MLMC, as we point out in the news release, and so there were more outage days in 2016. That's a mine, really – because it's consolidated mine and because of the nature of the contract, it's different in the way it works from the unconsolidated mines in the sense that there is a fixed cost base and the revenues cover the fixed costs and contribute to – and the variable costs and contribute to profits. So if you have fewer tons, you're going to have lower price.

John C. Butler
Senior Vice President - Finance, Treasurer & Chief Administrative Officer

A

Yeah, I mean, the only – this is J.C. Butler. I think I – I really wouldn't add anything other than just in its most simple form, we provide the tons the customer needs. We've got a formula price percentage which we sell the coal. Largely, the costs are fixed. But on the margin, there are some variable cost we can control. And I think the guys at the mine are doing a great job of controlling cost.

Jacob Wagner
Oaktree Capital Management, L.P.

Q

Right, that makes sense. But – so given the move in diesel prices, shouldn't the price have gone down?

Alfred M. Rankin
Chairman, President & Chief Executive Officer

A

As we have said, I think the way that the index structure works in relation to our cost is that the index structure has caused our revenues to decline by greater amount than the decline in the actual diesel cost that we are incurring in our operating expenses. So as a result, it starts squeezing the margins.

John C. Butler
Senior Vice President - Finance, Treasurer & Chief Administrative Officer

A

The formula price affects the price per ton, that's driven by indices, that price per ton we receive for the coal. Overall, diesel cost, you know, is really a gross kind of thing. How much – how many gallons did we burn and what did we pay for it in the quarter.

Jacob Wagner
Oaktree Capital Management, L.P.

Q

Okay.

John C. Butler
Senior Vice President - Finance, Treasurer & Chief Administrative Officer
A

And you've got to remember that mining, there's a lot of work that happens around the mine. It's not like an assembly line where you're incurring cost during a given week related to the coal that's delivered that week. There's lot of activities going around all over the mine site. So it's thinking about that really in a longer term perspective. That really makes more sense for a mine like this.

Jacob Wagner
Oaktree Capital Management, L.P.
Q

Okay. And at Centennial, should we think of the $31.5 million of mine-level assets as basically funding the ARO at Centennial?

Alfred M. Rankin
Chairman, President & Chief Executive Officer
A

No. Those are not related. I mean, the assets are the assets. The ARO is the future final mine-closing liability.

John C. Butler
Senior Vice President - Finance, Treasurer & Chief Administrative Officer
A

I mean, certainly the liabilities are related to the reserve assets, but there's no connection between those two numbers.

Alfred M. Rankin
Chairman, President & Chief Executive Officer
A

The objective over time is to reduce the assets in a wise way that are associated with the former Centennial operations. That number has come down from previous quarterly levels. We have a variety of different kinds of assets in that. They can range from assets associated with reserves. They can – the assets can be associated with mining equipment. And we're working on all those.

John C. Butler
Senior Vice President - Finance, Treasurer & Chief Administrative Officer
A

One of the things we called out in our Q was that the $17.5 million worth of assets held for sale.

Jacob Wagner
Oaktree Capital Management, L.P.
Q

Right. Okay. And then last question, can you provide any more color on what types of opportunities in aggregates you're pursuing at North American Coal?

Alfred M. Rankin
Chairman, President & Chief Executive Officer
A

Well, the most important ones that we're pursuing when the opportunity arises – and we don't have a lot of control over it are ones like the Bisti opportunity that came to pass recently where we had an opportunity to make a proposal to become the miner in replacement for someone else. And that was a successful process for us. We look for other opportunities, but they have to present themselves. We can't really make those happen.

To the extent that your question is, are there are likely to be many new coal mines, new power plants that are coal-fired built, the answer is basically no. And we'll look for other opportunities as we have done in the past, in aggregates, in other areas. But the – at least for the time being, in the coal side we don't see major opportunities lying ahead for us unless we can – unless new opportunities present themselves for mining for existing coal-fired power plants.

John C. Butler
Senior Vice President - Finance, Treasurer & Chief Administrative Officer
A

And specifically to aggregates, that's a business that we operate that's really – exists entirely in Florida running drag lines for aggregate producers. We certainly are spending time looking at ways that we could expand that business but largely in line with its current business model.

Jacob Wagner
Oaktree Capital Management, L.P.
Q

Got it. Okay. Thanks very much.

Operator: [Operator Instructions] Your next question comes from Brian Leonard with Keeley Asset Management. Your line is now open.

Brian Patrick Leonard
Keeley Asset Management Corp.
Q

Hi. Good morning.

Alfred M. Rankin
Chairman, President & Chief Executive Officer
A

Good morning.

Christina Kmetko
Investor Relations
A

Good morning.

John C. Butler
Senior Vice President - Finance, Treasurer & Chief Administrative Officer
A

Good morning.

Brian Patrick Leonard
Keeley Asset Management Corp.
Q

I just wanted to follow up on the last questioners question on North American Coal. I was under the impression that we would see a decline in gross profit for the simple fact that diesel pricing was coming down, at least that's what was communicated by you all last year heading into this year. Is that more of an impact to revenues and you made it up somewhere else for the gross profit? Like how does that dynamic work and how do I reconcile that?

Alfred M. Rankin
Chairman, President & Chief Executive Officer
A

First of all, I think you have – we call out different – in our earnings release the different segments of the business. One is our unconsolidated mining operations, and those are basically fee-based. They are unconsolidated and we're paid fees for doing the mining on those different properties. And secondly, we have the consolidated mines, and by far the most significant of those is the Mississippi Lignite Mining Company. And I think that's the only one that we called out that has an impact from diesel prices.

And we simply said that the profits from that would be under pressure for the reasons that I gave a few minutes ago, which is that basically the index price for diesel fuel has declined. So the revenues have declined and the costs of mining have not gone down by as much as the decline in revenue. Now in the first quarter, in addition, as I said a few minutes ago, the number of tons also declined in the first quarter compared to previous, and that caused us a decline in the profits from our consolidated mining operations.

Brian Patrick Leonard Q
Keeley Asset Management Corp.

But if I look on your earnings release and the supplement to North American Coal as you strip out Centennial, I don't know what page I'm talking about.

Alfred M. Rankin A
Chairman, President & Chief Executive Officer

[indiscernible] (30:19).

Brian Patrick Leonard Q
Keeley Asset Management Corp.

That I don't know – I'm looking at on the computer. It is after the EBITDA reconciliation. So I don't know the page.

Christina Kmetko A
Investor Relations

11.

Brian Patrick Leonard Q
Keeley Asset Management Corp.

Where is at? But it shows that your gross profit for consolidated mines at $6.4 million versus gross profit of $4.8 million last year. So if diesel is a big component of that or a bigger component of that, I would have thought that it would have been much closer to last year, if not below.

Alfred M. Rankin A
Chairman, President & Chief Executive Officer

Remember the Mississippi Lignite Mining Company's Red Hills mine is not the only thing that's in that nu mber.

Brian Patrick Leonard Q
Keeley Asset Management Corp.

Right.

Alfred M. Rankin A
Chairman, President & Chief Executive Officer

The company isn't there.

Christina Kmetko
Investor Relations A

Royalties are [ph] below, below (31:15). I'm sorry. But it is Florida.

Alfred M. Rankin
Chairman, President & Chief Executive Officer A

So Florida is in there, right, and royalties right below. I'm sorry. Florida, you know, the Florida limerock is in there as well.

John C. Butler
Senior Vice President - Finance, Treasurer & Chief Administrative Officer A

I think, too you need to take into account that some of our comments are related to the prospects for the year, in comparison to [indiscernible] (31:51) for 2015. So I think our comments about the diesel fuel and – the diesel fuel expense, are particularly related to the prospective orders.

Alfred M. Rankin
Chairman, President & Chief Executive Officer A

Which I mentioned earlier, right? I mean, you can't think of these mines as necessarily having all the costs in a quarter related to all the – all of the – all the sales that happened in that quarter, right? I mean, this is – mine is a big complex thing when you're doing lots of work and lots of – it's not all related to every ton of coal that's delivered.

Brian Patrick Leonard
Keeley Asset Management Corp. Q

Right. No, I understand. But I as look for the remaining three quarters, is it going to be similar to this or it's really just kind of variable where you can't really project it out?

I guess the same – is diesel fuel is still your major concern where you should see a decline in gross profit year-on-year.

Alfred M. Rankin
Chairman, President & Chief Executive Officer A

What we have said and what we continue to believe is true is the decline in diesel prices over the last couple of years. Really, it's not even a couple of years. It's more like 18 months, has had a significant effect on the formula pricing that's used for each ton of coal that's sold. In a given quarter of course, you have to then think about the number of tons that are sold as well, right? In a given quarter you have to think about gross cost as well. Now I think in the first quarter, our guys did a great job at – I mean, at controlling costs not just – diesel fuel – price is one part of the cost.

Brian Patrick Leonard
Keeley Asset Management Corp. Q

Right.

Alfred M. Rankin
Chairman, President & Chief Executive Officer A

Number of gallons you use is another one. But there are lots of other costs at a mine site as well. I think the other one we called out were lower cost for major repairs.

Brian Patrick Leonard
Keeley Asset Management Corp.

Q

Okay. CapEx is going to be up as you guys mentioned in North American Coal. What are you spending on, or what's that planned to be spent on?

Alfred M. Rankin
Chairman, President & Chief Executive Officer

A

So essentially all associated with the Mississippi Lignite Mining Company, and since that's a mine that is consolidated and that we bear the responsibility for capital, we have replacement of equipment that has to occur on a regular basis, and that's all associated with that.

Brian Patrick Leonard
Keeley Asset Management Corp.

Q

Is there any opportunity to transfer some of the Reed or now Centennial equipment in your spread out CapEx?

John C. Butler
Senior Vice President - Finance, Treasurer & Chief Administrative Officer

A

We have done a complete analysis of the opportunity to use Reed equipment in our other mines. And I think that was accomplished. And it's a very significant reduction in the capital balance for Reed operation. But it's already occurred.

Alfred M. Rankin
Chairman, President & Chief Executive Officer

A

We do continue to look at opportunities when other mining operations could use that equipment. But it's got to make sense for that mine that would be

John C. Butler
Senior Vice President - Finance, Treasurer & Chief Administrative Officer

A

But the bulk of that has been done already.

Alfred M. Rankin
Chairman, President & Chief Executive Officer

A

Correct.

Brian Patrick Leonard
Keeley Asset Management Corp.

Q

Okay. And Hamilton Beach, given that your exposure to Canada, is Canada your largest international exposure?

Alfred M. Rankin
Chairman, President & Chief Executive Officer

A

Yes.

Brian Patrick Leonard
Keeley Asset Management Corp.

Q

What – I know you called out currency as an issue, but is currency a bigger issue than not especially in that division?

Alfred M. Rankin
Chairman, President & Chief Executive Officer

A

Well, it has two impacts, frankly. The Canadian economy is not all that strong at this point. They've had a lot of impact from a decline in mining and commodities. And the currency decreases the revenues and getting price increases to compensate for the difference in exchange rates to flow through into the marketplace is extremely difficult. So the margins are squeezed in Canada at the same time that the revenues decline.

The best way to think about it is that our products, essentially all, are sourced in China. The Chinese have pretty much put the Chinese currency to the U.S. dollar. The U.S. dollar has appreciated so, our Chinese costs have appreciated on a trade-weighted basis and it causes a squeeze to both revenues and margins in Canada.

Brian Patrick Leonard
Keeley Asset Management Corp.

Q

Okay. I saw that working capital decreased quite a bit in this segment. Given that revenues were down, I'm assuming a good part of that was due to the currency. But why was working capital down so much in the quarter? What are the components of that?

Alfred M. Rankin
Chairman, President & Chief Executive Officer

A

The volume was down and we managed the receivables, we managed the inventory, and we managed the payables in a thoughtful way. Our cash conversion cycle isn't dramatically different in the two periods. I would note, however, that there can be swings that are related to the receipt of receivables in particular, which is hard for us to predict from one quarter to the next and particularly, at year end. But we think that the working capital performance for Hamilton Beach in the first quarter was very good.

Brian Patrick Leonard
Keeley Asset Management Corp.

Q

I would agree. Hopefully it would be sustainable throughout the year. How is the inventory levels and how do you see that progressing throughout the year?

Alfred M. Rankin
Chairman, President & Chief Executive Officer

A

Well, we feel – we monitor our inventory levels based on the inflow of orders. We do that on a very frequent basis. Obviously, we have to give our suppliers a significant lead time and there's shipping time associated, as well as the manufacturing time. So there are some limits with regard to the speed with which we can have an impact on our inventory levels in terms of working with our suppliers. But those numbers are adjusted very quickly, in some cases as often as every week, as we see changes in our sales rates and volumes.

We have a pretty good sales forecasting system. But things vary, consumers change their behavior, they change their interest in particular products, from year to year and period to period. And so all of that has to be taken into account. I think if you look at the comparison of our inventory management with our competitors, you'll find that it's very good.

Brian Patrick Leonard
Keeley Asset Management Corp.

Q

Okay. In Kitchen Collection, the gross margins were very good at 45.4%. I think it's been the highest in quite some time. A level that so high, is it kind of sustainable? Because it tends to build throughout the year due to seasonality. But what are your thoughts there?

Alfred M. Rankin
Chairman, President & Chief Executive Officer

A

Well, the team at Kitchen Collection has put a tremendous amount of effort into trying to manage the discounts and to keep the margins as high as reasonable and competitive. I think the first quarter results were terrific. We certainly will try to sustain the margins at that level. It's a very healthy level for this kind of business. I think that's about all I would say about it.

Brian Patrick Leonard
Keeley Asset Management Corp.

Q

Okay. That's it from me. Thank you very much.

Alfred M. Rankin
Chairman, President & Chief Executive Officer

A

you.

Operator: [Operator Instructions] And there are no further questions. I turn the conference back to Ms. Kmetko for closing.

Christina Kmetko
Investor Relations

Al, did you have any final comments you wanted to make?

Alfred M. Rankin
Chairman, President & Chief Executive Officer

No, I have no final comments.

Christina Kmetko
Investor Relations

All right. Thank you very much for joining us today. If you do have follow-up questions, please contact me 440-229-5130. Thanks and have a good day.

Operator: And this concludes today's conference. And as a reminder, a replay for this conference will be available for seven days by dialing in at 855-859-2056 and referencing conference ID 92431196. Again, a replay for this conference will be available for seven days by dialing in to 855-859-2056 and referencing 92431196. Have a great day.