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Manitex International, Inc.

Second Quarter 2020 Results Conference Call

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CORPORATE PARTICIPANTS

Stoyan Filipov, *Chief Executive Officer & Director*

Steve Kiefer, *President & Chief Operating Officer*

Ruoru Yu, *Senior Vice President, Chief Financial Officer & Treasurer*

CONFERENCE CALL PARTICIPANTS

Michael Shlisky, *Colliers Securities*

PRESENTATION

Operator

Welcome to the Manitex International Second Quarter 2020 Results Conference Call.

Today's conference is being recorded.

At this time, I would like to turn the conference over to Steve Filipov, Chief Executive Officer of Manitex International.

Please go ahead, sir.

Stoyan Filipov

Thank you, Lisa.

Good afternoon, ladies and gentlemen, and thank you for your continued interest in Manitex International.

I hope everyone is safe and healthy, and I appreciate everyone taking the time to listen to our call.

Today on the call with me, we have Steve Kiefer, our President and COO, as well as Laura Yu, our Senior VP and CFO.

Please see our website or our release for replay instructions for this call, which will be available until August 13, 2020.

Moving to Slide 2 is our Safe Harbor statement, which reminds you that everything we discuss is subject to change, and described in our SEC filings for further guidance on the many risk factors associated with our Company.

I will begin with a short business update for our second quarter, followed by operating commentary from Steve, and Laura will present a financial summary, after which we will welcome your questions.

Please now let's begin on Slide 3.

First, the COVID-19 update. Thankfully, we have not had a significant number of employees who have tested positive to COVID-19, which is a testament to our focus on making sure we do everything we can to protect our global teams by making sure our facilities are safe, clean and maintaining our health protocols. The situation is changing daily, and we will continue to remain vigilant with protecting the well-being of our employees, their families and our customers.

I remain confident about our specialized clean portfolio and the opportunity it presents to become a global leader in the products we produce. COVID-19 had a significant impact in the quarter with plant shutdowns and general market uncertainty with our customers, which we will highlight later on the call.

I believe that we have done an excellent job in diversifying our portfolio away from the cyclical oil and gas markets by continuing to develop new channels and launching new products to the market. Our North American boom truck business is a market leader where we've continued to get anywhere between 30% and 40% of the orders in this category for over a decade now, and we will continue to develop new products into distribution to position this business for growth when the market starts to turn.

The Manitex straight mast boom crane is well known as a category leader throughout North America. That said, the market is a fraction of the global growth market for articulated cranes or knuckle booms. The knuckle boom crane market is a global opportunity which we estimate at over $2 billion, and we have now shown that we can consistently deliver profitable growth and gain share with the strategy we implemented in September of 2019. We are consistently gaining traction here, and we'll share some statistics to support that statement later on.

Our Valla zero-emission electric industrial crane portfolio also has a great potential to grow globally, and we have implemented a new growth strategy to develop new products and new channels to market. We signed up several new dealers in the quarter, mainly in Europe and North America, and invested in a new marketing campaign to relaunch this well-known brand.

Turning to our balance sheet.

We have $46 million in liquidity, and with the opportunity to continue to focus on generating cash from operations in the next few quarters, we feel we are well positioned to weather the current market dynamics and global pandemic.

We also reduced our net debt in the quarter to $34 million, which Laura will discuss in more detail, but this is another priority we set for ourselves, and I'm confident we will continue to deliver on this objective.

In the first quarter of 2020, we mentioned the impact due to COVID-19 closures, mainly in Italy, was close to $3 million in revenues. In the second quarter, however, due to four weeks of shutdowns, we estimate the postponement of revenues to close to $7 million.

Given the current EBITDA margin at PM, the negative impact of the shutdown equates to approximately a reduction of $0.02 per share in the quarter.

Now, given the global uncertainty in our markets, we set out to do two things in 2020.

Number one, consistently deliver cash from operations by better managing our working capital. In Q2, we delivered $4.6 million in operating cash flow. We also implemented a new process at Manitex, where we now track monthly our working capital percentage to revenues, and our Management Team's compensation in 2020 will be based on driving consistent improvement in our working capital ratios.

Number two, control what we can control and keep our costs in line with market demand. In Q1, we took down our North American business outlook and headcount, and we're forecasting a 10% to 15% decline in our straight boom crane business. We are now seeing a further decline, and expect 2020 to be in the 20% to 25% reduction.

As I explained in our first quarter call, we have developed several scenarios to adapt to changing market conditions. And as a result, in July, we announced an additional restructuring plan for our North American operations, most significantly at the Georgetown, Texas facility, which will deliver an additional $5.4 million in annualized savings. Steve will discuss the details, but this will enable us to improve our profitability over the next few quarters.

Finally, our facilities remain open in most geographies with Chile and Argentina still being affected by the increase in local occurrences of COVID-19.

Please turn to Slide 4.

Our PM group of businesses continued to perform well, and even with a four-week shutdown in Italy, we continue to see stable order intake, and the team performed well in a very challenging market by delivering another profitable quarter. Just to remind everyone, prior to COVID-19 this business was on track to deliver over $100 million in profitable revenue, up 20% from 2019.

We have also taken actions to keep our SG&A levels in line with our revenues by reducing our annualized costs by $1.7 million and only replacing headcount in critical areas needed for our growth in R&D, purchasing, and parts and service.

Our backlog in both knuckle boom cranes and truck-mounted aerials is up 15% versus the same period in 2019, which attests to the global exposure this business has in the different end markets we serve in waste management, industrial and utility applications, and construction. Our North American businesses were challenged in the quarter and in order to align our costs with market demand, we executed further headcount reductions, which Steve will cover in more detail.

Steve, please go ahead.

Steve Kiefer

Thank you, Steve.

While operating in a challenging economic environment, our first key priority during the quarter was the safety and wellbeing of our employees. We maintained compliance with all health and safety codes in each of the facilities that we operate, and we are fortunate and glad to report that we have had only a small handful of COVID-19 incidents with no fatalities.

Other key priorities during the quarter and beyond that we work towards included generating positive cash from operations, driving product improvement, continuing to prudently invest in and launch important new products at each of our businesses, reducing costs, and overall disciplined execution and accountability.

Sales of PM products in North America increased approximately 150% versus the same quarter last year. We previously announced that our knuckle boom cranes are marketed under the MAC brand in North America, which stands for Manitex Articulating Crane. Leveraging the strong Manitex brand in North America is producing positive results with both our dealers and customers.

Additionally, we began shipments of specialized MAC products to a previously announced military customer during the quarter and we anticipate additional orders for this product to be placed during the third quarter of this year.

Regarding our Manitex branded straight mast crane business, we secured over 40% of the total industry orders during the quarter which is a strong testament to the Manitex product line, our dealer network and overall customer support.

Overall industry orders remained weak during the quarter, and based on industry order activity, we expect industry shipments for the year to be down 25% to 30% versus 2019.

Based on lower demand, which has been primarily driven by COVID-19 effects at our dealers' orders and their customers' demand, we initiated a restructuring plan in the second quarter to reduce our cost structure. This plan includes reducing headcount by 31% at our Georgetown, Texas and Winona, Minnesota facilities during the second quarter and completed by the end of July.

Annualized savings from these reductions are approximately $3.6 million, and total severance-related costs were less than $100,000. The other elements of this restructuring plan comprise non-headcount cost reductions and material cost reduction, producing annualized savings of $1.8 million.

The total annualized savings from our second quarter restructuring actions are $5.4 million.

I want to take a moment to address two important points regarding our second quarter restructuring.

First, the headcount reductions were limited to production and SG&A personnel supporting our straight mast crane business. We did not implement any headcount reductions for our MAC knuckle boom activities here in North America as our sales for the MAC product line were up 150% versus the second quarter of last year, and we continue to see strong MAC sales activity.

Second, and very important, while we had to align the cost structure of the straight mast crane business to market conditions, nothing has changed regarding the fundamentals of our business itself. Our straight mast crane business is the leader in this space, and it is well positioned for the eventual economic recovery.

Thanks to our multiyear diversification strategy, our products currently serve an array of end markets, with most of those end markets supporting essential and critical infrastructure needs. In particular, approximately 45% of our revenue is generated from the telecom, electrical utility, infrastructure, military, and government sectors. Another 40% of our revenue supports the construction industry, with that revenue evenly divided between the nonresidential and residential segments. The remaining 15% of our global revenue is generated from oil and gas, rail and other applications.

The new 50- and 60-ton models we introduced at the ConExpo Show in April are being well received in the marketplace. Furthermore, even through this downturn we continue new product development investment in our straight mast crane business to support our 2020 and 2021 product plans.

As we move through the second half of the year, our top priorities are maintaining a sharp focus on the health and safety measures, meeting the needs of our customers and dealers, continuing to generate positive cash flow from our operations, cost reduction, maintaining our liquidity, and reducing our working capital.

Now, let me turn it over to Laura to discuss the financials in more detail.

Laura?

Ruoru Yu

Thanks, Steve.

Good afternoon, everyone. Thank you for joining the call today.

Let's move to Slide 5 and 6, Q2 financial update and operating results. Results shown are from continuing operations.

Our revenues for the quarter were $37.1 million, a decline of 35.3% compared to the second quarter of 2019.

As discussed during our last earnings call, our Management Team was planning for a challenging quarter given the COVID-19 outbreak in early 2020 and associated challenges of keeping the pandemic under control and with minimum human loss.

During the second quarter, the order intake at PM was encouraging even in a very challenging market. And if not, for the four weeks of shutdown at PM in April and May due to the COVID-19 lockdown in Italy, we estimate that we would have remained on track to exceed $100 million in revenue from PM for this year.

The estimated sales deferred due to COVID-19 markdowns were $7 million, which lowered our earnings per share by approximately $0.02.

We continue to experience market softness in North America on three less cranes in the second quarter. And in fact, we have undertaken certain restructuring activities to bring our production in line with the slower order rate. Steve Kiefer outlined those actions, and I will make some additional comments on the expected costs and benefits later in my remarks.

While it was a small number, it's worth noting that North America MAC knuckle crane sales have increased approximately 150% compared to last year's same quarter. While we are reporting a tough quarter, it would be fair to say that demand for articulating cranes remain stable and our focus on pursuing this large global market remains our highest priority.

Our backlog was $44 million as of June 30, 2020, which declined 18% year-over-year. This reflects the slowness in order intake with our straight mast cranes in North America, which fully offset the strength we have found in our articulating crane business in PM and MAC. The backlog from the PM business increased 15% year-over-year and now represents over 50% of our backlog.

Gross margin was 14.9%, down from 18.3% from the same period a year ago. The decline in gross margin resulted from lower sales, unabsorbed manufacturing costs, and unfavorable product mix, partially offset by savings from supply chain cost reduction initiatives and improvement in operational efficiency. Also attributable to the lower gross margin was the selling of aged finished goods at no- or low-margin to generate cash in the second quarter.

The decremental margin due to the lower revenues was approximately in the mid-20% range for the second quarter. Adjusted value-add margin was 16.3% compared to 19.1% from the second quarter of 2019.

Our second quarter 2020 adjusted net loss was $1.7 million or $0.08 per loss per share.

Adjusted EBITDA was a slight loss, which was primarily driven by lower gross margins.

Adjusted SG&A expense, excluding nonrecurring charges for the quarter, decreased by $0.7 million compared to the first quarter of this year. We have taken action to keep our SG&A level in line with our revenues. Cost reduction initiatives implemented in 2019 and 2020 have resulted in $1.2 million cost savings in recurring SG&A expense in Q2 compared to the same period prior year.

As we expect North American equipment markets to remain a headwind to our straight mast boom business, our Management team has taken necessary actions to reduce costs further to preserve margins.

Additional restructuring actions taken in the second quarter and in July include headcount reductions in the North America crane business, and material and other cost reductions we expect will deliver additional annualized savings of $5.4 million. Total restructuring and related costs are expected to be less than $100,000.

The new restructuring plan, along with the cost reduction initiatives we have implemented in 2019 and 2020 will deliver estimated annualized savings of $10 million starting in 2020. We believe that these cost reduction actions will allow us to bring our gross margin back to the historical level and reduce SG&A expense even further.

Moving to Slide 7, net debt update Q2 2020.

Net debt was $34 million at quarter end, representing a $7.6 million reduction compared to the prior quarter. The Company generated $4.6 million in cash from operations by better managing our working capital, especially with inventory reduction occurring in the second quarter. The team continues to aggressively manage production levels to ensure we are not building excess inventory.

At the end of the second quarter, the Company had available liquidity of approximately $46 million, including $31 million of cash and cash equivalents. The revolver availability at June 30, 2020, was $15 million with an outstanding balance of $8.5 million.

The additional $2.5 million in revolver borrowing in the second quarter was used to pay down the Italian bank debt along with cash on hand. Subsequent to the quarter end, on July '20, the Company paid down the PM Italian debt by approximately $5.5 million at a 15% discount to its face value. The total discounts, including interest rate, was $0.9 million. This resulted in annualized savings on interest expense of $0.2 million. This was in addition to the savings, which resulted from us making $7 million early principal payments on our convertible notes in the first quarter of this year, which we have discussed on the prior quarter earnings call.

The Company has two convertible notes, of which $7.5 million will mature on December '19 this year, and the remaining $8 million will mature on January 7, 2021. We are also required to make a $2 million annual repayment related to the Italian term debt at the end of this year. Management is confident that the Company will meet its obligations over the next 12 years. We remain in compliance with all debt covenants.

Our team will continue to aggressively manage the overall cost structure in line with reductions in customer demand to preserve margins and improve working capital performance with a strong focus on inventory management and Adjusted EBITDA.

With that, I will now turn the call back to Steve Filipov.

Stoyan Filipov

Thank you, Steve and Laura.

Please turn to Slide 8 to discuss what we will be focused on for the future growth at Manitex.

The COVID-19 pandemic will continue to be top of mind for the global Manitex team, and we will continue to monitor the situation and adapt as best we can in this uncertain environment. While most of our facilities are back up and running, the facilities in Chile and Argentina are currently hotspots and running at limited production levels.

As we move through the summer period with European shutdowns, we are implementing plans to make sure our teams return to work safely. We have had to make some hard decisions to restructure our facilities in North America, but our Management Team is laser-focused on making sure we control our costs and keep them in line with our market demands. These actions have been implemented and will get us back to where our profitability needs to be.

During the course of the call today, we spoke about many of our branding initiatives and new product developments. The growth in MAC sales in North America is not insignificant, and shows the potential we have going forward in the knuckle boom crane market locally.

Our partnership with Tadano continues to pay dividends and expand to new markets. As many of you know, I've known the Tadano team for decades, and they are the best partner we could ask for to help us grow the PM Tadano brand.

In a growing trend to deliver zero-emission electric vehicles, Valla presents a great opportunity for us to participate in a growing segment globally. We delivered to several new customers in the quarter, and we are ramping up our efforts to expand our product and distribution.

Our strategy is to become a diversified industrial lifting portfolio. The first step in that process was to get our PM business back to growth and profitability, which we have consistently done now for the past three quarters. In terms of unit volume for PM, to give some perspective, at our prior peak level of $175 million in revenue, we built 4,000 articulating cranes, and we're now just at 1,500. Again, that market is in excess of $2 billion a year.

Our Manitex straight boom products remain a leader in North America, and we are taking all the necessary actions to preserve our margins in a challenging market. We're also expanding much of the portfolio, which was dormant, such as our truck-mounted aerials and our Valla industrial cranes.

Most importantly, we must have a solid balance sheet and liquidity, which we have shown we can execute on by generating cash from operations and significantly reducing our debt.

I will stop there and thank you for your time and attention today, and I'll ask Lisa to please start the Q&A session of the call.

Operator

Thank you, sir. If you would like to ask a question on the phone lines today you can press star, one on your telephone keypad. If you are on a speaker phone please make sure your mute option is turned off to allow your signal to reach our equipment. Again that is star, one.

We have a question from Mike Shlisky with Colliers Securities. Please go ahead.

Michael Shlisky

I wanted to start off maybe asking about some of the cost-saving initiatives. I mean, first of all, the fact that you could spend $100,000 and save over $5 million on an annualized basis is obviously very impressive.

I guess, first maybe tell us, can you maybe break down for us how much of it is sort of temporary furloughs that might have folks coming back and how much of it could be considered to be a permanent cost reduction?

And then maybe secondly, of the $5.4 million in the back half of the year, how much do you think we should count on that you can realize in the next two quarters?

Stoyan Filipov

Okay. I'll give you the timeline, Mike, and then I'll turn it to Laura to give you kind of the details of recurring and nonrecurring. The timeline: we've executed it. What I would say is we'll get a piece of the savings a little bit in Q3 and a bit more in Q4. And then I think we'll probably be at a normal run rate at the beginning of 2020. So Q3, like I said, we executed on it in July, so we'll get a couple of months, but it will ramp up over the next couple of quarters, but really not significant in Q3, but more so in Q4.

Laura, you want to go through the recurring and nonrecurring?

Ruoru Yu

Yes. Of the $5.4 million, most of the headcount reduction will be recurring unless we see a pickup in production in the future, then we might need to increase the direct labor if we bring the production back to the normal level. But most of the savings is recurring, especially the headcount reduction in SG&A and the cost savings related to supply chain material cost reductions.

Stoyan Filipov

And the headcount reductions, Mike, are kind of 60/40; 60% in manufacturing, 40% in SG&A.

Ruoru Yu

Correct.

Michael Shlisky

And then I want to just tie that into the other comment you have on Slide 8 here, what you said, Steve, about $10 million of savings starting in 2020. Does that include the $5.4 million that was also announced in the same comment here? Is that separate from previous years? I'm not sure what that $10 million you just spoke about entails.

Ruoru Yu

Yes, I can provide that. So the $10 million includes the $5.4 million. It's an annualized number. Besides the $5.4 million we just implemented, the rest coming from SG&A savings. As I mentioned before, in the second quarter, we achieved $1.2 million SG&A savings compared to the same period a year ago. These are recurring SG&A savings of $1.2 million. So to annualize that, it's around $4.8 million plus the $5.4 billion - equal to around $10 million annualized savings.

Michael Shlisky

You mentioned some of the topline run rates here. Based on what you've seen so far, guys, from an order perspective or delivery perspective, was July better than June? And do you think Q3 will be better than Q2, and Q4 better than Q3?

Stoyan Filipov

Yes, Mike, we're not going to give guidance at this point. And the way I would caveat this a bit is Q2 we obviously had a four-week shutdown in Italy. And we had some furloughs in the U.S. - minimal. You look at Q3, I mean, we're doing furloughs in North America, obviously, restructuring. We have a two-week shutdown in Q3. So Q3 is going to be slow. And I think as I've mentioned before, our expectation is that Q4 gets a little bit better, but it's really hard to predict at this point.

I think the good news is that when I mentioned the increase in the PM backlog, I mean, that's obviously good for us when we get back to work after the shutdowns, we've got good visibility. So I really don't want to peg a number for you, Mike. But I think Q3, we still got a lot of shutdowns going on both in Europe and the U.S.

Michael Shlisky

I also want to get a sense of your straight mast market share. I think Steve Kiefer, you mentioned that the share of orders was over 40%. How stable is that? I don't recall it ever being that much higher than that in the past. So can you just give a sense as to where you think your share is kind of trending today? And maybe you can keep in this range over the next couple of quarters?

Steve Kiefer

In the first half of this year, Mike, our market share of the orders was over 40%. I'm sure our competitors - who you know, they're very well run companies - I'm sure they've taken notice of that, and will be responding. But at the same time, Mike, we're very, even more than usual, focused on our dealers and our customer channels and maintaining more closest probably than ever. And also have a product pipeline of new machines that we're continuing to invest in in a downturn. As you know full well from our history together, strong dealer relations and a good dealer network, first; and second, solid product portfolio has allowed us to achieve the gains that we have realized. And at this time, and through the COVID pandemic, we're continuing a very laser focus in both of those areas.

Stoyan Filipov

Yes. I'd just add to that, Mike. I mean, it's a solid business. Manitex has always been the market leader in boom trucks. I think the team has done a great job with the business over the past decade or so, since growing, getting into the larger machines into longer boom technology, and we're going to continue to push the envelope there. So as Steve said, we launched a new 50-ton, new 60-ton at ConExpo. It's gotten great traction from our dealer network, and then we're going to continue to develop new products there. Because even in a down market, this is a time where we've got to continue to invest in building new products for the future, for growth, when it comes.

Michael Shlisky

Okay. Maybe one last one. I was wondering if you can give me a little bit of detail on the dealer inventories. They spent a lot of time selling down so far this year? And are we worried about ordering more? Do you feel like inventories are in a little bit low shape right now? Or are most of your folks okay with what they have on hand today?

Stoyan Filipov

Steve, do you want to take that on dealer inventory?

Steve Kiefer

Sure. So the dealer inventory has overall, from the channel checks that we do for the products that we sell into the market, have come down modestly because our dealers are so cautious to reorder, Mike, in this environment. Rental activity, of course, is down, and it's a mixed picture. Of course, it's down lower in energy. But for dealers and, in particular, support utilities, for example, and ongoing repair and upgrade to telecom and electrical utility grids, activity is still quite strong.

Stoyan Filipov

Yes. I was going to say that, Mike. I mean, there are certain parts of the industry that are obviously hit more than others. And speaking to one of our dealers, customers a couple of weeks ago, they've been clear that utility, the grids and the development there continues to be strong. Construction, depending on the region, is okay, but I would say it's stable. And last but not least, I mean, we monitor our dealers' inventory, and we want to make sure that we're not putting them in a position where they're carrying too much inventory and using up cash.

At the end of the day, we're all in the same situation. We're trying to keep our powder dry, generate cash, and I think our dealers are trying to do the same thing. So from that perspective, I think we've got a good partnership with our dealers, and they keep us posted on where they're having problems moving machines, and we help them out when we can.

Operator

And that does conclude the question-and-answer session. I'd like to turn the call back over to Steve Filipov for any additional or closing remarks.

Stoyan Filipov

Great. Well, thank you all again for your interest in Manitex International, and we look forward to talking to you next quarter, and appreciate your time and interest in Manitex.

Thank you all very much, and have an excellent evening. Thank you.

Operator

And that concludes today's presentation. Thank you for your participation. You may now disconnect.