Navistar Reports Second Quarter Results

On June 4, Navistar announced a second quarter 2015 net loss of $64 million, or $0.78 per diluted share, compared to a second quarter 2014 net loss of $297 million, or $3.65 per diluted share. Revenues in the quarter were $2.7 billion. Chargeouts in our core markets (Class 6-8 trucks and buses in the United States and Canada) were up 38 percent over last quarter.

Second quarter 2015 EBITDA was $85 million versus an EBITDA loss of $119 million in the same period one year ago. The $204 million year-over-year improvement was driven by an increase in truck segment sales, favorable product mix and the continuation of lower warranty expense and cost reductions. Prior year results included $149 million in asset impairment charges related to the company’s South American engine operations.

Second quarter 2015 adjusted EBITDA was $102 million compared to $82 million in the second quarter of 2014. The second quarter included one-time net charges of $17 million, compared to one-time charges of $201 million in the second quarter of 2014.

The company was cash flow positive in the second quarter 2015 and finished the quarter with $784 million in manufacturing cash, cash equivalents and marketable securities.

“Our results reflect continued progress in improving enterprise-wide business operations and positive momentum in the North American industry,” said CEO Troy Clarke. “We continue to make solid improvements in our North American truck and parts businesses and are especially encouraged by increased market share in our medium-duty business, where we saw significant improvement in sales to major rental and leasing fleets and strong results in dealer-led sales. Additionally, bus market share is up significantly year-to-date.”

Highlights from the quarter include a 10 percent year-over-year increase in chargeouts in our core markets (Class 6-8 trucks and buses in the United States and Canada). This included a 24 percent increase in Class 6 and 7 medium trucks and a 9 percent increase in combined Class 8 trucks.

During the quarter, we continued our best-in-class technology integration strategy with our first-to-market announcement of Bendix Wingman Fusion—the industry’s most advanced safety system—available on the company’s International brand Class 8 on-highway tractors.

In addition, we continued our mission to be the ‘Uptime’ leader in the industry with the purchase of a test track and proving grounds in New Carlisle, Ind. The Navistar Proving Grounds is a key strategic addition to our product development operations, allowing for comprehensive testing and validation of new vehicles and innovative technologies. The site will also be used as a customer center to showcase new products and give customers an opportunity to experience new products firsthand.

We continued to take actions to reduce fixed costs and improve our manufacturing capacity utilization with the sale of our foundry operations in Waukesha, Wisc. We will complete
our exit from the foundry business as operations in Indianapolis wind down by the end of the summer. As a result, Navistar anticipates more than $13 million in annual savings.

We provided the following guidance for the third quarter:

- Q3-2015 EBITDA of $125 million - $175 million, excluding pre-existing warranty and one-time items.
- Q3-2015 manufacturing cash, cash equivalents and marketable securities between $750 million - $850 million.

In addition, we project a continued strong North American industry for FY2016 with retail deliveries of Class 6-8 trucks and buses in the United States and Canada to be in the same range as FY2015—350,000 to 380,000 units—with a stronger mix of school buses and medium-duty trucks.

“We continue to take the right actions to improve the business and expect to achieve in excess of an 8-percent EBITDA margin run rate as we exit the year,” Troy added. “We think 2016 will be another strong year for the North American industry, and we believe we’re well positioned to take advantage of favorable market conditions for our core businesses.”

Our “H2Go” Initiative: Winning in the Second Half

Navistar launched an internal initiative called H2Go to address our second half performance challenge. The initiative is focused on capturing employees’ good ideas and positive energy to ensure we solidly meet our 8-10% EBITDA commitment exiting 2015. And H2Go aims to get there by generating a robust flow of ideas to improve the business, across every function.

According to Operations President Persio Lisboa, H2Go isn’t just about results, but also a new way of doing things, supported by a new, technology-based tool that will make it easier for more people to contribute and actively manage improvement ideas, from conception to completion.

“We are developing and launching a tool that will help us build a pipeline full of projects that will deliver results and add to our forecast,” Persio explained. “Improvement ideas will be loaded into an electronic workspace that is widely accessible. The resulting projects will then be managed in a very visible way, so that many more people will have exposure to the process, and will be able to contribute their own ideas.

“We’ll then manage the improvement projects through to the finish, with discipline and transparency,” Persio continued. “Even if some ideas are not implemented right away, the ideas that are worthwhile will all stay in the pipeline for future implementation. We shouldn’t leave any idea on the table, or any idea untouched.”

Using H2Go’s new project management tool to take advantage of more people’s good thinking will strengthen Navistar’s ability to reach our goals.

According to CEO Troy Clarke, H2Go and its new project management tool can have a profound impact.

“The thrust here is that instead of just measuring results, let’s measure projects,” Troy said. “Let’s measure input into the project and planning cycle. I think that’s very profound.

“We’re only going to get out of the effort what we put into the effort,” Troy concluded. “Let’s put in some energy, some intensity, some excitement, and let’s find a way to have some fun around that.”
Indy Foundry Ramps Down Production

After decades of operation, Navistar’s Indianapolis foundry had its last day of production on June 30. Announced in December 2014, the closure of the Indy foundry is part of Navistar’s enterprise-wide focus on reducing fixed costs and returning Navistar to profitability.

“This foundry has been a huge part of the lives of so many families,” said Chuck Beatty, operations manager. “It has raised many a family, including me and mine. Many of us have shed a lot of blood, sweat and tears in this place. Come Tuesday, I’m sure we’ll share a lot more tears with each other as we say our goodbyes. I’ll miss them all.”

At one time, the foundry was part of Navistar’s large footprint in Indiana. In 1937, the International Harvester Company purchased 75 acres of farmland in Indianapolis, where it built an engine manufacturing plant, and later, the foundry in 1939. The one-million-square-foot manufacturing plant produced millions of engines before it closed in 2009, including engines for our previous Ford partnership.

The foundry completed pouring production on June 21, and commemorative pouring plaques were poured for employees on June 22.

“I am extremely proud of the entire Indianapolis team. We have built enough products to sustain Navistar into the middle of 2016 along with building banks for our other customers,” said Mitch Cheatham, manager, Foundry Operations. “This is an amazing accomplishment and the team performed with inspiration and grace until the final day.”

General McChrystal Shares “Team of Teams” Insights with Navistar Employees

Retired four-star general Stanley McChrystal, a member of Navistar’s board of directors, is also a noted author on the art of leadership. He recently talked with employees about key ideas in his latest best-selling book, Team of Teams: New Rules for Engagement in a Complex World. The book drew on his nearly 40 years of service in the U.S. Army, including his roles as leader of the International Security Assistance Force in Afghanistan and of the Joint Special Operations Command (JSOC), which combined elite anti-terror squads from multiple Armed Services into one unit.

Gen. McChrystal explained how his understanding of organizational effectiveness was influenced by JSOC’s initial difficulties in combating al-Qaeda in Iraq. The terror organization, it became clear, was not a traditional hierarchy, but a loose network of associates that shared a common vision and communicated information rapidly, enabling it to act quickly and unpredictably—especially by comparison with JSOC’s traditional chain of command.

“We were a very efficient hierarchy, really good,” Gen. McChrystal said. “They were a less efficient but adaptable network, and guess what? Adaptable trumped efficient. We were better trained, better equipped, better everything … except they were winning.”

To combat al-Qaeda more effectively, Gen. McChrystal’s team adopted a similar approach. By instituting a daily 90-minute videoconference that brought together 7,500 people, the team forged a shared vision and improved its internal...
information-sharing. Ultimately, the new approach replaced JSOC’s traditional hierarchy and service-specific silos with an agile, responsive “team of teams” that proved capable of carrying out a much higher volume of antiterrorism raids.

“When I first took over, we were doing four raids a month, one raid a week, and we thought that was really fast,” Gen. McChrystal said. “A few months after I took over, we got up to 18 raids a month, one every other night, and I was approving every single one, because they’re important. By the summer of 2006, we were doing 300 raids a month, 10 raids every night, and I was approving none of them.”

What had happened was that people on the ground had been empowered by the daily videoconference. “Because of this constant conversation, they understood,” Gen. McChrystal said. “We’d built and maintained this contextual understanding, and we empowered decentralized execution. We got much faster, we got more precise, and we got greater ownership.”

The same approach applies in today’s complex business world, Gen. McChrystal continued. Dealing effectively with unpredictable change demands “shared consciousness—a shared contextual understanding in which everybody knows everything all the time.”

Once they are joined together by a shared vision and rapidly shared information, teams in the field are in the best position to respond to the demands of change. Management’s role then becomes less about making decisions and more about facilitating the sharing of information across teams, every day.

“You always worry the people down close to the problem can’t make a decision, because they don't have all the information that people in the C-suite or the headquarters do,” Gen. McChrystal continued. “The solution is not to pull the decisions up. The solution is to push the information down, and then have them decide.”

During the session, CEO Troy Clarke told employees how Team of Teams had influenced his own thinking.

“The book has helped me to better see how we can implement a team concept at the enterprise level at Navistar,” Troy said. “As we passed through the crisis of EGR, many decisions, by necessity, were made at the top. The next phase of our efforts must be more focused on developing the capabilities of the organization at many levels: trust, common purpose and transparency. ‘Team of Teams’ is the right title for the book, and the right vision for Navistar.”

“One Navistar” Approach Leads to Major Used Truck Opportunity in Vietnam

When Carlos Junquera traveled to Vietnam several months ago, his main objective was to identify a new International dealer—a local partner who could be relied on to deliver parts and service for the many used International trucks that were already in that country.

An important mission, for sure. But thanks to our “One Navistar” teamwork, what Carlos ultimately uncovered turned out to be much bigger.

“The Government Relations team worked with the Gold Key program of the U.S. Commerce Department to identify a number of viable potential partners,” says Carlos, who is Navistar’s director for Parts & Service for the Eastern Hemisphere. “When we got to Vietnam, Michael Ralsky from Government Relations and I met with 11 companies in three days. Of those, we quickly determined that four or five candidates were potentially a good fit.”

One possible partner who seemed especially promising was a company named the Hoang Huy Group, which is based in Hai Phong, a major port city. Hoang Huy, a family-run
business, possessed diversified business expertise and had built a strong distribution network, with 30 locations throughout Vietnam. More than that, they also offered up an exciting new business opportunity for our Used Truck business.

Heavy trucks like the International ProStar are well suited to hauling shipping containers from Vietnam’s three major ports to the large urban markets of Hanoi and Ho Chi Minh, as well as for transporting the country’s major exports of consumer electronics, textiles, coffee and rice.

“We already knew there was potentially a very high demand for International used trucks in Vietnam, as reflected by the fact that non-International brokers have sold more than 200 ProStars in the country,” Carlos says. “That’s why we wanted to get a new parts and service dealership up and running.”

But the availability of a large supply of non-SCR trucks in our used truck inventory opened up a broader opportunity. Most trucks built in the U.S. in recent years use SCR emissions technology, which relies heavily on the availability of ultra-low-sulfur diesel fuel. Since such fuel is not readily available in Vietnam, new trucks with SCR can be difficult to operate there.

However, many of the vehicles in Navistar’s used truck inventory rely on legacy MaxxForce 13 engines that do not use SCR, and therefore can be much more easily adapted for use with the higher-sulfur fuel.

To take advantage of this potential opportunity, Carlos and Michael enlisted a broader team of experts from around Navistar, including representatives from Used Truck Sales, Export Sales, Engineering and Dealer Operations.

In addition, many other groups, including Global Truck, Global Credit, Global Parts, CSO and Finance, contributed to putting together a solution that would address the potential opportunity.

Based on this cross-functional team’s hard work and “hours, not days” approach, Hoang Huy Group was quickly selected to be the new dealer, and purchased 300 used trucks for resale. The new dealer also expects to purchase 200 additional vehicles a month for the foreseeable future.

“The result was tremendously positive for everyone involved,” says David Gerrard, senior vice president, Distribution. “Navistar generated added revenues, reduced our inventory of used trucks, and built the International brand in Vietnam.”

In addition, our new dealer, Hoang Huy, gained a real competitive advantage. As the sole International-branded truck dealer in Vietnam, it now enjoys full access to our Parts & Service network. It is also taking on the work of retrofitting the trucks for the Vietnamese market.

“This payoff really shows ‘One Navistar’ collaboration and creativity,” says Tom Clevinger, senior vice president and general manager, Mexico, Latin America and Export Markets. “Everyone on the team demonstrated their ability to work outside their comfort zones—their ‘normal’ jobs—in order to generate new opportunities. This is the kind of approach we need to celebrate and emulate.”

Photo: One of the estimated 10,000 International 9800s in Vietnam.