THE WALL STREET TRANSCRIPT
Connecting Market Leaders with Investors

Columbus McKinnon Corp. (NASDAQ:CMCO)



DAVID J. WILSON joined Columbus McKinnon Corporation on June 1, 2020, as President and Chief Executive Officer. Prior to joining Columbus McKinnon, Mr. Wilson served as President of Flowserve Corporation's Pumps Division from 2018 to 2020. He joined Flowserve in 2017 as the President of Flowserve's Industrial Products Division. Prior to Flowserve, Mr. Wilson was President of the Industrial segment of SPX FLOW, Inc. He was with SPX Corporation, and subsequently SPX FLOW, between 1998 and 2017 progressing through a series of promotions that included the leadership of several global operating businesses and six years in Asia serving as the President of Asia Pacific. Mr. Wilson also led several successful corporate development initiatives while serving as Vice President of Business Development for multiple businesses. Before joining SPX, he held operating and engineering leadership positions at Polaroid Corporation. In addition to serving as a Director on the Columbus McKinnon Corporation (Nasdaq:CMCO) board, Mr. Wilson serves on the board of directors of Modine Manufacturing Company (NYSE:MOD) and the National Association of Manufacturers. He also serves on the board of trustees of the Manufacturers Alliance. Mr. Wilson previously served on the Hydraulic Institute board of directors and the Maine College of Art (MECA) board of trustees. Mr. Wilson is a recipient of Shanghai, China's prestigious Silver (2011) and Gold (2013) Magnolia Awards and served as an Officer and Executive Committee Member of the Pan Asia Chapter of the Young Presidents' Organization. Mr. Wilson holds a bachelor of science degree in electrical engineering from the University of Massachusetts and studied for a master's degree in business administration at the F.W. Olin Graduate School of Business at Babson College. Mr. Wilson also completed graduate-level coursework at Tsinghua University in Beijing, China, and at the University of Lausanne/IMD in Lausanne, Switzerland.

SECTOR — MANUFACTURING

TWST: Can you give us a brief history and overview of the company?

Mr. Wilson: Columbus McKinnon has nearly 150 years of a very rich and deep history. It was the original inventor of the chain link, and over time became a leader in lifting equipment, mostly manual chain hoists. During the 1980s, the company rolled up the lifting industry in the U.S. from manual to electric chain hoists to wire rope hoists, and then ultimately, automation technology got wrapped around that. The company also acquired and further developed a portfolio of linear motion actuation products.

Most recently, we took CMCO in a new direction that's centered on intelligent motion solutions for material handling, really focusing on what drives productivity uptime and safety improvements for our customers, not just with lifting equipment, but now also with conveying solutions and accumulation technologies.

These technologies move material or product through a manufacturing process that connects automated equipment like machine tools, bottling or packaging equipment, labeling machines, or even robots that are used to produce products.

The accumulation technology creates buffers between the production pieces of equipment that move at different speeds. That is largely the case in all process activity, where you need to buffer a little bit between each of those process steps, so that you don't shut down a whole line for planned maintenance or an interruption in the line.

We're helping customers around the world to improve their processes in material handling for their production activity in important industries, exciting industries like life sciences, food and beverage, e-commerce, automotive, or transportation, including e-vehicles and general industrial, power and energy applications as well.

TWST: Now, you joined the company as CEO in 2020?

Mr. Wilson: I did, yes. Came right in the heat of the pandemic.

TWST: What were some of the biggest challenges or obstacles you faced, and how did you navigate that?

Mr. Wilson: Well, I came into an organization that was going down a pretty decent path. The previous CEO and the management team had done

a nice job of advancing the business in the early stages of transformation. The chairman of the board stepped in as the acting CEO before I joined, and then I came in. It literally was three months into the pandemic.

It was difficult to engage, because we were working remotely. There was a lot of concern and many unknowns associated with the pandemic at the time. I was moving from Texas to New York and I was able to quickly sell my house, get into New York, begin getting connected with my team remotely.

Basically, I was learning the products, learning the business, learning the customers. We were focused on managing our cost profile and our performance profile, which we needed to do in light of dropping demand associated with the pandemic's impact.

We also were able to really quickly engage around the next chapter of our strategy. We built upon a strategy that the team had started to work on prior to my arrival and took what was really good in that to the next level. We focused on ways that we could build and grow and transform the company into an intelligent motion solutions provider.

Some of the early challenges were just being able to connect with and build a team, build a shared purpose, shared vision and shared strategy, as an organization in a remote environment. We were building upon good work that had been done, but really focusing on what needed to be done that wasn't included and what we could do next.

Mr. Wilson: I would characterize our products in four primary categories. Still the largest portion of the business is lifting, and that represents roughly 60%. There's conveyance, which represents 17%; automation, which is 14%; and linear motion, which is 9% through the first nine months of fiscal 2023.

The linear motion, automation and conveyance products serve those faster-growing markets, as I mentioned. The lifting categories are split between really attractive, fast-growing end markets, like electric vehicles, and more legacy cyclical industrial areas.

Now, we believe, those legacy cyclical markets are going through a macro trend of growth, given a number of factors. For one, there's a lot of infrastructure investment that's going on in the United States. There's also a lot of reshoring and regionalizing of manufacturing that's taking place as people try to reposition supply chains in the wake of the pandemic and with that, increased construction of manufacturing capacity in the United States.

So, manufacturing, construction, whether it's greenfield or brownfield expansion, is at a peak right now, driving capex spend in new infrastructure build for manufacturers to their highest levels historically. That's helping our business and I think it'll continue to help the cyclical elements of our business to have a longer runway for growth, despite the concerns related to a recession potentially occurring.

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TWST: What would you say has been some of the biggest changes since you joined the company?

Mr. Wilson: A focus on transformation and execution of that transformation. You have to leave first base to steal second base, right? So you need to be in a position where you start taking steps in the direction of that transformation to get the transformation to happen. We identified that as a company we had really great roots and a great core business that presented us with growth potential as well as a lot of self-help opportunity. We were executing on that, and we are continuing to execute on that.

We did the analysis around what sandboxes we wanted to play in beyond where we were currently playing in to support our strategy to move into intelligent motion solutions. We then acquired two companies, Dorner Manufacturing and Garvey Corporation. Those two additions brought the conveyance and accumulation technology into our portfolio.

These businesses are faster growing, with higher margins and better end markets. With them we are now serving secular growth-oriented end markets like life sciences, food and beverage, and e-commerce versus some of the legacy cyclical industrial markets we had been serving.

In the past, we'd been seen as more of a cyclical industrial player. We're moving into a space where over 40% of our business is tied to technologies and products that are serving customers in faster-growing end markets.

TWST: Can you talk a little bit more about some of your products? Is there anything you plan to bring to the market in the next year or two?

As I'm talking about the makeup of our business, I think we're entering a period with some really nice macro-driven growth while we're trying to take market share with new products.

As for our particular products, let me start with lifting. We're working on developing platformed products. We've grown this business over time through acquisition, so we have implemented 80/20, an approach to managing and simplifying the business.

We're really focused on rationalizing our product portfolio from a fragmented portfolio of products historically, with many brands, many sub-components to those brands, to a much more concentrated platform of products by design.

Over the next couple of years, we will launch a newly platformed product portfolio of electric chain hoists and a newly platformed orientation of products for the wire rope hoist space. Those are two very significant new product initiatives for those two largest product categories of our lifting business.

In addition, we're doing a lot of work around our automation products to ensure that we have connected products, including internet connectivity and remote monitoring. Our controls platform is being both simplified through 80/20 and expanded to include automation solutions for our conveyance technologies, as well as our linear motion technologies. We're also re-platforming our lifting and automation radio products as part of our automation solutions.

For our conveyance business, we recently launched some really interesting and attractive gap-filler products and expect to launch more.

We have a new mid-market-focused product that was recently launched in the conveyance space that has strong demand and is very effective.

Also, we recently launched a very attractive sanitary solution for the food and beverage and life science spaces that received some awards and is patented for sustainability and cleanliness. It's easy to clean, requires fewer chemicals to clean, and is just a better product for servicing that market.

Additionally, in our linear motion product category, we're introducing a brand-new line of sanitary linear motion products that provide the full gamut of lifting motion.

TWST: What is your global reach, and what are the biggest markets that you serve?

Mr. Wilson: We are a global company. By geography, about 65% of our business is in North America; about 25% of our business is in Europe, the Middle East and Africa; and the balance 10% is split between Asia Pacific and Latin America. And so, we do have a global footprint, including manufacturing locations in all of the geographies that I mentioned. But the largest geographic location for the business is in North America.

TWST: How has the war in Ukraine and inflation impacted your business in Europe, if at all?

Mr. Wilson: Our business in Europe has remained robust. We've had good demand. We're up year over year in orders and shipments. The foreign exchange impact has been material on the business. So that has had an effect on us, and obviously higher interest rates as the central bank's work to fight inflation have had an impact on our interest costs on the debt that we carry. So that's been material in terms of its impact, but the European demand has remained robust.

Our plan is to become more uniform and simple. In that regard, it'll enable us to leverage shared services, leverage good data warehousing and data analysis tools to improve decision making and allow us to be more fast acting.

The other thing that the investment in Mexico enables for us is we have two manufacturing facilities down there today. This allows for a common and shared infrastructure that we can begin to leverage and scale across those two groups.

As we look to the future and think about future footprint simplification opportunities, having a standard ERP system allows us to more easily move products and product lines and shift manufacturing to more cost effective positions, as we execute on our EBITDA and margin expansion strategy.

TWST: And can you talk about or elaborate on the mega trends that may drive opportunities in the future?

Mr. Wilson: We do see important mega trends around digitization and e-commerce, and reshoring or supply chain transformation, and then the investments in infrastructure, particularly in the United States, as being major trends over the next several years which create demand drivers for automated material handling equipment for manufacturers.

Production processes are more and more connected with our equipment. They're automated. They improve efficiency, safety and uptime. They allow for manufacturers to be more pandemic proof because they can separate workers, they have more automation in their factories, they're less reliant on a labor force that's becoming increasingly more and more challenging to source.

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Our teams were recently reorganized into regional leadership structures. Historically, we had four global divisions that were relatively small, and again, fairly fragmented. We concentrated our talent in each region under one structure. And now, we're able to leverage the best of the talent in each region and bring more strength to the markets that we're serving. I think that's having a positive impact because we're not only able to leverage the best talent in that structure, we're able to cross-sell more.

I do see the realignment helping us, and we've been able to continue to remain fairly successful in that regard despite disruptions from the pandemic recovery and the war in the Ukraine.

TWST: In December, the company launched and went live with a new ERP system in Mexico. Why was this an important step in your overall plan for growth?

Mr. Wilson: We have a digital roadmap, a digital strategy for the company that we've been executing on over the past few years. We started with a major ERP implementation in Germany that we launched in May of last year. And then, in December, we went live with our ERP system in Mexico. Both of those are critical in terms of enabling our strategy to be more connected and leverage good business intelligence tools around the data that's managed in a central and standard ERP system across the enterprise.

Today, there are 750,000 open jobs in the United States from a manufacturing perspective and only 450,000 applicants. We've got a lot of manufacturing job openings that are not being filled. We're in a position where we need to fill jobs as a country and as a manufacturing base, and we can't find people to fill them.

There's less and less available resource that's creating opportunity for our material handling equipment over the long term as these overall mega trends around digitization, automation, e-commerce, infrastructure investment, reshoring supply chain transformation are occurring.

TWST: And can you talk about the gross margin trends, and when you anticipate seeing a change?

Mr. Wilson: We've actually been quite successful over the past several years of improving gross margins. If you go back to roughly 2018, gross margins in the business were around 33%, and we've driven them up closer to 37% over the past five years. We've been very clear to our investors and analysts that we expect over the next five years to push up towards 40%.

We've driven roughly 300 basis points of improvement thus far, and we have to deliver another 300 basis points of improvement to get to our targeted outcomes, being 39% to 40% gross margin levels at that point. I'm really pleased with the progress we have made.

These are not going to be big step-function changes. We're doing really good work to improve productivity, to improve our manufacturing overhead rates, to reduce the complexity in the organization. And there's a chunk of that benefit that comes from self-help and work that we can do within our own four walls.

There's a level of improvement in that gross margin that'll come from faster-growing, higher-margin portions of the business. So as those higher margin portions of the business grow faster, they contribute to the total of the business in a more meaningful way and drive-up margins.

Ultimately, as we grow and we can get more volume through our manufacturing footprint and cover our fixed manufacturing costs, we'll be able to expand margins further. So there's a lot of levers that we have that we can pull to drive improvement, and we're really excited about our prospects as we execute on our transformation strategy. Our goal is to have top tier performance as an industrial technology, motion control-focused intelligent motion solutions company.

TWST: And what would you say was the most important takeaway from your most recent earnings report?

Mr. Wilson: Continued steady progress on the execution of our transformation. We are moving forward and continuing to make progress on the transformation strategy that we've outlined over the next five years.

The other thing that we talked about in our most recent earnings report is anticipating that we will continue to grow over this next coming fiscal year. Our fiscal year is from April until March, so we're approaching our 2023 fiscal year end at the end of March. Going into our new year, fiscal 2024, we anticipate that we can grow in the low- to mid-single-digit growth rate over that period.

TWST: The company announced last year that it was moving its headquarters from Buffalo to Charlotte. What's the timetable for that move?

Mr. Wilson: It's in process. We had talked about it being something that would take place for my key executives over the next 12-to-18-month period from the time that we announced that change until people are resituated. And as you can imagine, these things take on a life of their own once you start trying to list property and find buyers and see who wants to buy your home and so forth. And what I'll say is that things have moved a little bit faster than we originally anticipated. It may be more along the lines of 12 months than 18 months.

TWST: Why make this move?

Mr. Wilson: We have a really rich history and excellent team in Buffalo. We have roughly 130 people sitting in that location. As we looked at what had happened with the company over the past several years, we had developed a team of people in the Greater Charlotte area over the past five years that has now amounted to about 70 key high talent including three of my executive team.

As we were recruiting for growth around the world for the best talent and the next chapter in the business, we were finding a lot of that talent in and around Charlotte, so we have a pretty significant base in Charlotte already.

Other contributing factors were the fact that we have three of our primary manufacturing locations near Charlotte, and we have a lot of our manufacturing in the southeast. We also have a lot of our domestic customer concentration in the southeast. In Buffalo, we're not very proximate to either manufacturing activity or the largest percentage of our customers.

This was an opportunity for us, as we were looking at the next chapter of our development, investment and growth to make sure that we were positioning our business and our top resources to be closest to our customers and our manufacturing base.

We still have a presence in Buffalo where we have a very rich and important history and will continue to have an important future.

TWST: Before we conclude, is there anything you'd like to add that we haven't touched on?

Mr. Wilson: It's great to tell our story and I'm excited about the work we're doing. I'm really proud of our team. We've been working closely together to navigate this transition and we're gaining momentum. We're excited about the work we're doing and about the future that we're creating. And I think the best is yet to come. We're only at the beginning stages here, but we've made great progress and we're building momentum.

TWST: Thank you. (CJ)

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