Operator: Greetings and welcome to the Columbus McKinnon Corporation Second Quarter Fiscal Year 2020 Financial Results Call. At this time, all participants are in a listen-only mode. A question-and-answer session will follow the formal presentation. [Operator Instructions] As a reminder, this conference is being recorded.

I would now like to turn the conference over to your host, Ms. Deb Pawlowski, Investor Relations for Columbus McKinnon. Thank you. You may begin.

Deborah Pawlowski: Thanks, Melissa, and good morning, everyone. We certainly appreciate your time today and your interest in Columbus McKinnon. Joining me on the call are Mark Morelli, our President and CEO; and Greg Rustowicz, our Chief Financial Officer. You should have a copy of the second quarter fiscal 2020 financial results, which we released this morning before the market. And if not, you can access the release as well as the slides that will accompany our conversation today at our website, cmworks.com.

If you'll turn to **Slide 2** in the deck, I will first review the Safe Harbor statement. You should be aware that we may make some forward-looking statements during the formal discussions as well as during the Q&A session. These statements apply to future events that are subject to risks and uncertainties as well as other factors that could cause actual results to differ materially from what is stated here today. These risks and uncertainties and other factors are provided in the earnings release as well as with other documents filed with the Securities and Exchange Commission. These documents can be found on the website or at www.sec.gov.

During today's call, we will also discuss some non-GAAP financial measures. We believe those will be useful in evaluating our performance. You should not consider the presentation of additional information in isolation or as a substitute for results prepared in accordance with GAAP. We have provided reconciliation of non-GAAP measures with comparable GAAP measures in the tables that accompany today's release and the slides for your information.

So, with that, if you turn to **Slide 3**, I will turn it over to Mark to begin. Mark?

Mark Morelli: Thank you, Deb. We've deployed our Blueprint for Growth strategy over two-and-a-half years now and we continue to demonstrate its effectiveness with our results this quarter. We're improving our margin and earnings even in the face of significant industrial market headwinds. After adjusting for divested businesses and foreign currency exchange rates, revenue in our second quarter of fiscal 2020 was up 2%. The impact of our 80/20 Process provided more than $3 million in revenue, driven by strategic pricing and our priority customer account program. We saw strong growth in our projects business, which overcame the decline in demand from our short-cycle business.

In total, our 80/20 Process contributed $5.2 million in operating margin, including incremental revenue, and $2.1 million in savings from overhead cost reduction. This benefit is more than offsetting industrial market headwinds, as well as enabling us to invest in growth initiatives.

As a result, net income grew 4% year-over-year and outpaced revenue growth. Adjusted net income was up over 8%. Our strategy and execution is keeping us on track as we continue to achieve our targets. Adjusted EBITDA margin expanded 80 basis points to 16.2% and ROIC was up 180 basis points to 11.7%. A hallmark of Columbus McKinnon is our strong cash generation through economic cycles. As we execute our strategy and improve our business model, we are strengthening this tradition. We generated $40 million in cash from operations this quarter. We used the cash to further reduce debt. Our leverage ratio is now just 1.5 times adjusted EBITDA, ahead of target.

The changes we've made to our business model have improved our performance as global industrial markets have weakened. After a year of decline in industrial capacity utilization and six months of ISM manufacturing declines in the U.S., we continue to make progress. We've grown organic revenue and consistently expanded margins and ROIC, while investing for innovation and strengthening our balance sheet.

Please turn to **Slide 4**. We're doubling down on Phase II of our strategy and are now raising our target for 80/20 Process benefits this fiscal year. Through the first half of this year, we've achieved $9 million in contribution to operating income. This was higher than the total benefits to earnings in the prior year and our performance year-to-date gives us confidence to raise our full-year guidance to $18 million, up from our previous target of $12 million.

Our self-help strategy sheds unprofitable revenue and focuses on areas of growth with our customers. It also provides the resources to strengthen our business. The 80/20 Process gives us the lens to reduce indirect overhead costs and improve material productivity driven by simplification of our product lines.

We're shedding footprint with our first factory closure in Ohio and one in China. I should note that China factory closure is on track to be complete by the end of this fiscal year. And we announced yesterday, we're closing a second facility in Ohio enabling us to consolidate our operations in Wadesboro, North Carolina which is our North American manufacturing center for wire rope products; and Damascus, Virginia which is our North American manufacturing center for chain hoists. This removes overhead costs and allows us to fund initiatives to improve our competitiveness.

The true value of our strategy is demonstrated through the success we are having by funding our investments. This fiscal year, we hired nearly 30 people focused on product innovation, marketing and digital initiatives. We also offset headwinds from the global macroeconomic and industrial markets. We more than offset declines in our short-cycle business, higher tariffs and higher medical costs. Our year-over-year comparisons in the quarter were also better despite the loss of income from our intentional divestiture of less profitable businesses.

Please turn to **Slide 5**. Let me give you a couple of examples of how we're realizing innovation in our business as a result of solving high-valued customer problems. First, we're building on our legacy as a lifting specialist by creating solutions for intelligent motion. This quarter, we launched several new products that strengthened our business through innovation.

One of these is our revolutionary ProPath automated workstation crane, which increases productivity and improves worker safety. The ProPath provides an auto-dispatch mode that enables preprogrammed movement that powers the bridge, trolley and hoist motions or in other words provides multi-access automated movement to enable the line worker to be more productive. The automated workstation crane travels to designated locations with its load, leaving the operator free to work on other more critical tasks. This intelligent workstation assists operators to be more productive and improve safety. Without our unique solution, the worker manually guides the crane and its load to the next location, an inefficient use of valuable labor.

Another example of our innovative solutions providing Intelligent Motion is an enhancement of our smart hoist electric chain offering, now with fully integrated load sensing technology. Operators can remotely measure the load real-time. This solution improves headroom compared with external solutions. We improve equipment uptime because less of the equipment and wiring is exposed. For applications such as in the entertainment industry, the integrated load sensor also eliminates extra shipping cases, simplifying transportation and set up.

We're also creating ways to leverage and scale critical automation solutions for wire rope hoist cranes. We recently launched the No-Fly Zone control module. We standardized hardware and software options. Now we are making them available in our new and improved online Crane Configurator. Operators can easily program a crane to avoid obstacles and high-traffic areas to improve productivity and safety.

We have more projects in the pipeline as well, and I look forward to discussing more about innovation and growth through our Intelligent Motion theme.

With that, let me turn it over to Greg and he'll review the financials in greater detail.

Greg Rustowicz: Thank you, Mark. Good morning, everyone. On **Slide 6**, net sales in the second quarter were $207.6 million. As you know, we completed three divestitures last fiscal year which reduced our sales in the quarter by $9.2 million. Foreign currency continues to be a headwind which also reduced our sales by $4 million compared to the prior year. This headwind will continue in our fiscal third quarter but will negatively impact sales by approximately 1.5% at today's foreign exchange rates.

Adjusted for FX and the divestitures, we saw good organic growth of 1.8%. Our pricing power was evident as we saw pricing improve by 1.6% as a result of our 80/20 strategic pricing initiatives. Sales volume was up 20 basis points in a difficult industrial environment.

We saw double-digit organic growth in our project businesses, but a slowdown in our short-cycle businesses globally. The channel continues to manage inventory levels given this uncertainty. This quarter, we saw organic growth in the U.S. of 80 basis points adjusted for divestitures. This is largely due to strategic pricing initiatives from our 80/20 Process. Volumes were down 80 basis points. Sales outside of the U.S. were up 2.9% adjusted for the effects of divestitures and FX. We saw the benefits from strategic pricing as well as higher volumes.

Sales volume was up in EMEA, but down in Canada and the APAC region. The higher volume we saw in EMEA was primarily in the Middle East and Germany. This was the result of strong sales in our project business for STAHL branded products, along with a large rail project delivered into Germany, which more than offset weakness in our European short-cycle business.

Overall, we were encouraged with organic growth of approximately 2% in the quarter, given the industrial market headwinds that exist and our 80/20 simplification efforts that eliminate bad revenue. This reflects the progress we continue to make with customer responsiveness and ramping the growth engine. We are introducing new products that will expand our addressable market and grow share in key markets.

On **Slide 7**, our gross margin was 35.4% in the quarter. This is a 40-basis point expansion in gross margin from a year ago and our tenth consecutive quarter of year-over-year margin expansion on a GAAP basis.

As Mark mentioned earlier, we benefited from the 80/20 Process, which drove $5.2 million of gross profit expansion through strategic pricing, indirect overhead reductions and certain volume gains at our targeted accounts. This benefit was more than offset by the impact of the divestitures, FX, tariffs and higher medical costs which we saw this quarter.

Let's now review the quarter's gross profit bridge. Second quarter gross profit of $73.5 million was flat compared to the prior year adjusted for the divestitures. We did see gross profit expansion from pricing net of material cost inflation and productivity which were directly attributable to the 80/20 Process. Pricing net of material cost inflation contributed $2.6 million

and productivity contributed $400,000 of gross profit, more than offsetting the higher medical costs that I mentioned previously.

Foreign currency translation reduced gross profit by $1.5 million and tariffs had a negative impact of $800,000 in the quarter. We also incurred $200,000 of cost for the Ohio factory closure which we announced yesterday.

As shown on **Slide 8**, RSG&A was $45 million in the quarter or 21.7% of sales. This is a reduction in RSG&A of $2.3 million and an improvement of 10 basis points from the previous year. The reduction in RSG&A was largely from the impact of the divestitures which reduced RSG&A by $900,000 and FX which was a benefit in the current year of approximately $800,000. In addition, we've reduced selling costs by consolidating several warehouses in the US last year. This reduced selling costs by $400,000.

While we are controlling RSG&A costs as macroeconomic conditions create headwinds, we are also actively investing for growth and key initiatives. In fact, we made approximately $1 million of investments in product development, marketing and digital projects in the quarter. Our strategy will continue to drive a net reduction in RSG&A costs this year even while we invest and grow. We are forecasting our third quarter RSG&A to be in a range of $45.0 million to $45.5 million.

Turning to **Slide 9**, adjusted operating income grew 3.4%. When you normalize for the divestitures, adjusted operating income grew 9.6% to $26.3 million. Adjusted operating margin was 12.7% of sales, a 100-basis point improvement over the prior year. With our Blueprint for Growth strategy and specifically our 80/20 Process, we were able to grow adjusted operating income despite an overall 4.4% year-over-year decline in revenue largely driven by divestitures and FX which is outstanding operating leverage.

As you can see on **Slide 10**, GAAP earnings per diluted share for the quarter were $0.69. Adjusted earnings per diluted share was $0.74 compared with $0.70 in the previous year, an increase of $0.04 per share or about 6%. On a GAAP basis, our effective tax rate for the quarter was 23.6%. We expect the full-year tax rate to be approximately 22% to 23% in fiscal 2020.

On **Slide 11**, we continue to expand our adjusted EBITDA margin. For the quarter, our adjusted EBITDA margin was 16.2%, an increase of 80 basis points over last year. We are also making progress on driving our ROIC higher and are now at 11.7%, an increase of 180 basis points from last year's second quarter. This progress demonstrates that we are tracking our Blueprint for Growth strategic goals to achieve a 19% adjusted EBITDA margin in fiscal 2022 and achieve an adjusted ROIC in the mid-teens.

Moving to **Slide 12**, net cash from operating activities for the quarter doubled to $40 million on a year-over-year basis. Year-to-date, we have generated $33 million of free cash flow. We are on track to deliver $70 million to $75 million of free cash for this fiscal year. One of the hallmarks of Columbus McKinnon is its ability to generate cash throughout the business cycle. We expect to grow our free cash flow by approximately $10 million per year over the next several years.

Turning to **Slide 13**, our total debt this quarter is approximately $271 million and our net debt is $199 million. Our net debt-to-net total capitalization is now approximately 30%. We repaid $20 million of debt in the second quarter and have reduced our term loan debt by nearly $165 million since acquiring STAHL in January of 2017. We made excellent progress de-levering and have achieved a net-debt-to-adjusted-EBITDA leverage ratio of 1.5 times, which provides us with financial flexibility to advance into Phase III of our strategy.

Let me reiterate on **Slide 14** our thoughts on capital allocation. We will continue to use our financial flexibility to invest in growth initiatives. We will also invest in CapEx projects with good cost savings as these will be accretive to our overall financial objectives. While we have achieved our net leverage target, we will continue to use our surplus cash to pay down debt and de-lever the balance sheet for the remainder of this fiscal year.

We plan to deploy capital for smart M&A as we move into Phase III of our Blueprint for Growth strategy. We also plan to pay a dividend that is consistent and grows over time. Our final priority will be share repurchases that we would consider opportunistically as we weigh our other capital allocation priorities.

Please turn to **Slide 15** and I will turn it back over to Mark.

Mark Morelli: Thanks, Greg. Our Blueprint for Growth strategy is improving our performance even as industrial market headwinds persist into the third quarter. Our self-funded strategy will continue to be a key enabler for us to make investments for innovation and growth. We expect the Q3 organic revenue to decline approximately 2% year-over-year, about a point of this decline is related to $1.7 million in rail projects that won't repeat in the quarter because of timing of the project flows.

Overall, our global rail business pipeline is growing. However, it is uneven from quarter-to-quarter. Our expectations for the quarter would be worse if not for the benefits of the focus on growth segments, our priority customer accounts program and strategic pricing. As we look further out, we believe we will deliver solid earnings growth as we gain more benefits from Phase II of our strategy. The restructurings and cost reductions we're implementing are driven by our strategy and validate that we're on track to achieve our targets for fiscal 2022.

A key enabler is the simplification of our product lines which has allowed us to make measurable realignments in our business and improve our competitiveness. As I mentioned earlier, we now have the visibility to initiate another round of rationalization that will include another facility closure.

We announced yesterday that we will close our second manufacturing site in Ohio located in Lisbon, which we expect to complete in the first half of fiscal 2021. With the Lisbon, Ohio consolidation, we expect to realize $5 million in annualized savings. With that, we will have rationalized six facilities since we initiated our Blueprint strategy and we are now down to 16.

In addition, we've been making investments in human capital and key suppliers to drive innovation and Ramp our Growth Engine. These investments have been self-funded even as we expand margins. We continue to make progress and we're narrowing the gap to achieve 19% EBITDA margins and mid-teens ROIC in fiscal 2022. This represents top-quartile performance among very well-respected industrial technology names.

Please turn to the next slide. We've put in **Slide 16** as a reminder of the phases and elements of our Blueprint for Growth strategy and how these phases layer upon each other. We're making excellent progress and there are significant runway improvements ahead. We're further on our efforts in Phase II and initiating Phase III. We continue pivoting our business to a growth-oriented industrial technology company. We expect to discuss with you our intelligent motion theme in further detail sometime in the first half of next calendar year.

So with that, Melissa, we'll now open the line for questions.

Operator: Thank you. At this time, we'll be conducting a question-and-answer session. [Operator Instructions] Our first question comes from the line of Mike Shlisky with Dougherty & Company. Please proceed with your question.

Mike Shlisky: Historically, we've seen your fiscal Q3 gross margins take a step down from Q2; that might be due to having fewer shipping days and maybe even some customer holidays. Given that you've done so well recently on your gross margins, is there a chance that you could actually see a seasonal decline that's close to zero this year?

Mark Morelli: I'll start the answer and I'll let Greg follow up. You're absolutely right, we do see a seasonal decline in the December quarter. Folks particularly in the short-cycle business try to manage their inventory for the calendar year-end, and I think this seasonal activity is well reported. Directionally, we are seeing more improvement in our margins because our 80/20 is driving the results.

I'll turn it over to Greg and see if he wants to add any additional color.

Greg Rustowicz: Hi, Mike. If you look at last year's gross margins and if you adjust for the divestitures and some of the non-GAAP adjustments we had, we were at about 34.4% gross margin. So, we are seeing good progress from a margin perspective with 80/20, but there have been headwinds in this current quarter, which are likely to continue, as tariffs are going to continue.

We also saw a significant increase in medical costs this quarter, well over $1 million, which we'd expect to continue into the coming quarter. As you can see, we have also been reducing our inventory levels. Therefore, it's a lot tougher from a manufacturing perspective to absorb those fixed costs. While our 80/20 Process has been taking indirect overhead out, it's a continued challenge when the production volumes drop in our facilities.

Mike Shlisky: Okay, great. That's great color. I also want to ask about the volumes in the quarter. I was actually surprised that volume wasn't down at least 1% to 2% in the quarter. Could you share a few of the puts and takes between your key end markets and whether you thought you gained any kind of share in the quarter perhaps?

Mark Morelli: Sure. Let me start off a little bit higher level and I'll break it down for you. First of all, we've been really encouraged with our project-related businesses. They were up double-digit, in fact more than 10% in the quarter, which shows outstanding traction in some of the verticals that we've been serving there. It has more than offset some of the decline in the shorter-cycle business that we saw down mid-single digits mostly due to some of the macro industrial headwinds that everybody's reporting on.

Some of the verticals that are really driving our strength are retrofits into the steel industry. There have been some really good projects there and we've seen good demand in aerospace. Entertainment has been strong for us as well. New construction and also utilities have been quite good as we're selling into infrastructure projects on the utility side.

Mike Shlisky: Great. That's great color, Mark. If I could just throw one more in here about the announcement last night for the Ohio closure. That was a press release separately on a different day, of course. Can you guys provide a sense on the timing of the upfront costs and the benefits? You had mentioned it was going to be completed in the first half of fiscal 2021, but do any of the costs or benefits actually take place in fiscal 2020, and is any of that part of the change in the 80/20 benefits you've got that went from $12 million to $18 million?

Greg Rustowicz: Hi, Mike. It's Greg. I'll take the back half of your question first. The additional benefit on the 80/20 side, going from a target of $12 million to $18 million is largely due to the success we've had in the first half of the year. We've generated over $9 million of benefit through the first half of the year and based on that run rate, we should be able to double that in the second half of the year. So, it really has nothing to do with this program, although it does have the benefit of the Salem, Ohio consolidation that took place at the beginning of this fiscal year.

Remember we had two facilities in Ohio, the Salem and the Lisbon facility. We expect the closure of the Lisbon facility to take 7 to 10 months to complete because it's a complex move. It's a sizable factory and the work and product lines have to be switched to the Wadesboro, North Carolina facility and Damascus, VA facility.

We don't really see any benefits showing up this fiscal year. In fact, we think it's really more likely that we're going to start to see the full benefits in the second half of next fiscal year, given the timing that it takes to do this. However, we have started modestly to incur some of the one-time costs that are going to be associated with the move.

Mike Shlisky: Okay. Is that plant in Lisbon a leased plant or an owned plant? Is there an asset to be sold there? And I'm asking because I'm curious whether it will have a change to your outlook for ROIC if you have a bit lower asset base or is there also some large cash chunk coming in at some point?

Greg Rustowicz: Good question. We put that into our 10-K every year. We have a schedule on all of our facilities and that is an owned facility. Roughly, I think it's about a 77,000 square foot facility and at the right time, we will work with our brokers to put that property up for sale.

The book value of the facility isn't as large as you might expect because it's an older facility. In total, it's a couple of million dollars from a size perspective. So, yes, it will have an impact on ROIC, but more importantly it's the benefit of taking out $5 million of overhead.

Mark Morelli: It also gives us a chance to reduce inventory because it's really streamlining our operations, which is driven by product line simplification. We're also seeing some pretty big benefits in ROIC that you've seen some great traction on from the 80/20 Process. So, that's kind of the lens that we're viewing it with and there should be some commensurate benefits as well.

Mike Shlisky: Perfect, guys, thanks so much. I will hop back in the queue. Appreciate it.

Operator: Thank you. Our next question comes from the line of Greg Palm with Craig-Hallum Capital Group. Please proceed with your question.

Greg Palm: Thank you. Good morning, guys, and congrats on the results here. Pretty impressive stuff given the macro.

Mark Morelli: Thanks, Greg.

Greg Palm: Starting with some of these new products, you highlighted a few on the call again, whether that's crane kit, smart movement, et cetera what are you most excited about? More importantly, what's the initial feedback or reception that you're getting from either the distribution base or end customers?

Mark Morelli: There's a couple things I'm excited about as the theme we're talking about now for the first time is intelligent motion. Under that theme, we're getting traction in a number of areas. This workstation crane that we just announced is new to the market. When you think of

us providing some automation, you think typically in the larger category such as the large wire rope hoist overhead crane.

What we're talking about here on the ProPath is a workstation and this uses our Unified light rail, so you can really enable a worker in a workstation to be more productive. We're very excited about that and it's interesting because each one of these examples that we're showing were driven by interactions with our customers. So, it's not like we're in the lab sort of inventing these things, instead we're literally out working with customers trying to figure out how can we solve their higher value problems and as a result, these ideas come up and the traction is there. So, we are getting demand for some of these products.

Another great example was the load sensor I talked about which is integrated into the hoist. Folks want to read real-time from the load sensor and having it integrated brings all of those benefits that we talked about. I'm really excited about those two new offerings. We also have more to come on the wire rope hoist side that we talked about and providing more automation there. We're actually forming a dedicated group on that automation side for those larger wire rope hoist cranes and there's a lot of runway that can be provided there.

You're beginning to see that some of these investments are starting to pay off and we're actually beginning to see some volume trickling through. However, we'll probably see about a point of revenue growth due to these initiatives this fiscal year, which kind of offsets the point of negative takeout that we get from the 80/20 Process. So, you'll be seeing us moving into the next fiscal year where we can get even more traction.

Greg Palm: Got it. That's really helpful. As it relates to the business that goes through distribution, I'm curious how you feel inventories are positioned in the current environment and in terms of your guidance for the December quarter, does it assume consistent destocking, any increase in destocking? Just curious about the thought process into how you arrived at the guidance.

Mark Morelli: We're trying to figure that out carefully given that the markets, particularly on the short-cycle side are weak. We do believe that people will continue to destock and manage the inventory levels down for the end of the fiscal year. We're trying to fight that through a number of growth initiatives, but that's what we're anticipating will happen. Obviously, we watch those orders on a daily, weekly basis, so it will unfold as we go forward towards the holiday season. Of course, you've also got downtime with folks taking time off. So, we anticipate there'll be some weakness there.

What offsets that weakness and what we're counting on is we have some good projects. Additionally, our Magnetek brand business ramps up this time of the year because folks are getting ready for this holiday maintenance shutdown period. So, they want product where they can actually do retrofits. As a result, that demand is running up and we've got some really good traction with some of the initiatives we've been working on there. We think that's going to be offsetting that. Hopefully, in the wash, it'll come out to what we're guiding to, and we've got confidence around that.

Greg Rustowicz: I'll just add on and Mark did highlight that. We do have a lumpy rail business and a year ago, we had particularly strong revenue in the quarter, so about a point of that revenue decline is really related to our rail business.

Greg Palm: That's right. Thanks for the reminder and last one for me. Really impressive cash flow here in the quarter. I mean in addition to debt pay-down, I'm curious what would you

highlight as your near-term capital allocation priorities? Would you accelerate the M&A timeline at all just given the environment we're in and some of the valuations coming down or not?

Mark Morelli: Let me take that first and I'll turn it over to Greg. I did talk about in my prepared remarks that we are initiating our Phase III, but we're not running out to accelerate any M&A there. What we really mean by those comments is that we're initiating an outreach program. It's very different than the type of things we've looked at before in the past because it's very programmatic in nature where we develop pipelines and targets, and it's once again on this intelligent motion theme.

We're going to talk more about that in the next calendar year, so I don't want to go into detail here. Again to get that out there, we're not going to rush out and buy anything right away. I'll turn it over to Greg about the priorities also on the capital allocation.

Greg Rustowicz: To add a little more color to Slide 14 which I covered in my prepared remarks. In terms of the balance of this fiscal year, we do intend to pay down another $35 million of debt. That's going to put our leverage ratio at about 1.1, 1.2 times and our target for net debt to Adjusted EBITDA is 2 times. So, clearly, we are underneath that, which will give us a lot of dry powder as we move into Phase III.

As a reminder on our capital structure, we have a term loan B which matures in 2024 and our revolver matures in January of 2022. So, it's likely that sometime next summer, we'll be looking to recapitalize the balance sheet because when we recapitalize the revolver, the term loan will have to go along with that. Again, in the short term, our objective is to pay down debt like we said we would. We're doing what we said we were going to do and next year we'll see how things progress with our Phase III of the strategy and determine what makes sense.

Greg Palm: Yes, makes sense. Good luck going forward. Thanks.

Operator: Thank you. Our next question comes from the line of Jon Tanwanteng with CJS Securities. Please proceed with your question.

Jon Tanwanteng: Hey, good morning, guys. Thank you for taking my questions. Given the uncertainty in end markets and the visibility you have in the short-cycle side of the business, what does the sensitivity from an EBITDA margin standpoint to a percent or dollar decline in your revenue? I know you have a lot of cost and efficiency programs going on that are going to take up the percent, but just purely from a revenue standpoint, what's the decremental flow through to profitability?

Greg Rustowicz: Good question, Jon. Historically, Columbus McKinnon has been in the 35% to 40% operating leverage range when volume goes up and we've been outperforming that. Last year, our operating leverage was 59%. This year, it's actually non-meaningful. It can't be calculated because the revenue has gone down and yet our operating income has gone up, as part of the self-help strategy, the benefits of our 80/20 Process.

So, on the downside, we would certainly expect to do better than our historical 30% to 40%, maybe in the 25% to 30% range on the way down. But once again, we have so many improvement opportunities that we can look at going forward that we're going to try and obviously dampen the negative impacts of volume.

Jon Tanwanteng: Okay, great. Thank you. To go back on the use of cash, barring any acquisitions in the near- or medium-term, would you consider share buybacks as you pay down debt and get below 1 times net debt-to-EBITDA?

Greg Rustowicz: Good question. We do review that every year with our board in the March timeframe. We'll clearly have discussions around that as a potential use of cash going forward. I think it's a great problem to have that we are a very strong cash generator throughout the business cycle.

What's more important to us, we clearly want to fund our growth initiatives. The balance sheet from a leverage perspective is going to be in really good shape which gives us the flexibility, as we talked about earlier, to move into the M&A side of things. Also, we clearly want to maintain our dividend and grow it regularly over time.

We do have an authorized share buyback which is available to us, but we look at it opportunistically because one other factor to consider is that our float is actually quite low and we have a lot of our holders who maintain positions for a long period of time, so we're mindful of that dynamic as well.

Jon Tanwanteng: Okay. Fair enough. Pointing out that you could buy your own shares at a discount to what you might be looking at in terms of industrial technology standpoint just purely from a valuation basis?

Greg Rustowicz: Yes. That's something we'd obviously consider.

Jon Tanwanteng: Yes. Last question from me, you've done a great job with consolidation and enabled by the consolidation of the product lines simplification, is there more room to rationalize your asset base as you go through that process or are you where you want to be in terms of capacity and footprint?

Mark Morelli: No, I think we have more runway there. I think what we've announced on this call and through what we released yesterday is another round of rationalization. What happens is you're looking at it through this 80/20 lens, you're figuring out your product lines, you take a pretty good swat at it and then you step back and you do some more analysis and you figure it out, what we've announced yesterday, but I think there is certainly more runway here. As we have more clarity, we'll announce it to the markets as well.

I think it's also good timing because as we do that, the markets have softened. I think that'll give us greater visibility into our next fiscal year on how we're going to generate the earnings. So, we're very encouraged by that. We're very encouraged by not only what we're doing but also the potential of what we see.

Jon Tanwanteng: Great. Just one follow-up to that. What percentage of the way through are you in terms of product simplification and rationalizing your supply and design footprint?

Mark Morelli: Well, I think just on an innings basis, we're saying we're about in the third or fourth inning of this initiative generally speaking and you see us generating more to the bottom line than we did last year. I think that's also been demonstrated, but a lot more work to do here and a lot more runway to go.

Greg Rustowicz: We're excited, Jon, about the possibilities. We haven't run out of ideas. The teams have done really well and as a reminder, we had about half of the company started a year-ago and the other half of the company started this year, so we do expect a pretty good runway of opportunities moving forward for the next several years.

Jon Tanwanteng: Great. Thanks, guys.

Operator: Thank you. Our next question comes from the line of Joe Mondillo with Sidoti and Company. Please proceed with your question.

Joe Mondillo: Hi. Good morning, guys.

Mark Morelli: Hey, Joe.

Joe Mondillo: I just wanted to ask a question on the backlog and your order trends. The backlog excluding the divestitures was down quite a bit year-over-year and order trends obviously implied that things just have weakened a little bit. Just wondering what you have seen in your order trends in October and how things have progressed throughout the quarter and in October. Just wondering how that has trended?

Mark Morelli: Let me give you some color on that. First of all, let's just roll it back a little bit. If you may remember, we saw orders down April actually through the July period. They rebounded a bit in August and then declined again in September. I think orders also declined for us in October, but keep in mind that rail is also pretty lumpy and it's not really indicative of the health of the pipeline. I know it's something that we obviously watch a lot too, but there's a lot of ebb and flow with the Rail business.

Our industrial product short-cycle business improved in August and September. Also through the summer it was quite encouraging, but as you've seen, that has weakened as well. The project business is a bit lumpy, so, a trend in orders is not necessarily meaningful there as well.

But we're encouraged by the quoting activity and also the pipelines, which we are getting a lot better at measuring in terms of the health of the pipeline in quoting and we're seeing the quoting activity going up. It's obviously something that we're looking at. Greg, do you want to do a walk-through through the size of the pipeline for folks?

Greg Rustowicz: Sure. The backlog on a year-over-year basis is down about $23 million, or 14%. However, $4 million of it is just due to FX rate. So, in local currency, it's down about $19 million, and about $13 million of that is rail. As we've talked about rail, our larger projects, it's lumpy, we've had a really strong order intake a year ago on a couple of projects. The pipeline is still very strong for rail. It's just really more of a timing issue. So, the remainder of the decline is really in our short-cycle business and that's down about $6 million. Our project business backlog is about the same.

Now, when you look at it sequentially, we're down about $5 million in September from the June levels. Currency really isn't a factor in that and that's part of the reason why we guided down about 2% on revenue in the quarter. However, in October, I can tell you October backlog is about the same as it was in September.

Joe Mondillo: Okay. In terms of the rail business, are you implying that timing-wise the third quarter is going to be a little bit tougher comp just given those trends that you saw there, and that things potentially rebound on rail in the fourth quarter or is this a timing in terms of the next couple quarters and that things hopefully start to rebound next year? Just trying to figure out what you mean by the timing of what you're seeing in the rail side of things.

Mark Morelli: Let me give some color. We're going to have headwind in the December quarter by about $1.7 million year-over-year on rail. As you can see, the backlog has also decreased, but, overall, the thing that you don't see on the rail side is that our project pipeline is increasing and this is infrastructure business globally where folks are electrifying diesel trains. They're also doing more infrastructure projects on rail and this is a global business and people have not cut off that spending. A lot of it is driven by government spending and this is continuing to go forward.

So, while you're seeing some of that ebb and flow of that project business, we don't think that's on a long-term decline. We think that's actually longer term increasing and we'll guide appropriately into the next calendar year, but we are pretty happy with where that business is going and the potential that it has.

Joe Mondillo: Okay. Regarding the savings that you announced by upping the guidance from $12 million to $18 million. I'm wondering how much of that you have realized thus far? Is it more fourth quarter weighted in terms of the rest of that you haven't realized or how does that play out in the back half?

Mark Morelli: The way we look at it is we're looking for the year-over-year incremental impact of the initiatives. As initiatives from the prior year hit the one-year mark, they fall off. So, we're starting to see some of that. Those savings that were in the first half of this year start to tail off, but we've got new ideas and new actions that have been taken. In general, we should see pretty close to a 50/50 split between the additional $9 million of savings over the next two quarters. It might be a little more heavily weighted towards Q4 because there is a volume element to it with our targeted accounts. However, in terms of the actions taken to date, we feel very comfortable that we can hit the $18 million number for the full year.

Joe Mondillo: Do you have an idea of how much of that you've already realized in the first half?

Greg Rustowicz: That was $9 million.

Joe Mondillo: All right.

Greg Rustowicz: It's really double that run rate, but once again, there are actions that are grand-fathering off at the one-year mark in Q3. Where in Q4, we have actually fully grand-fathered off items.

Joe Mondillo: Okay. Greg, I don't know if you have this at your fingertips, I can follow-up with you if you don't, but I'm just wondering what the gross margin for the fourth quarter was last year, ex the divestitures?

Greg Rustowicz: Yes. I do have that, Joe, 34.4%.

Joe Mondillo: Okay, great. I'm not sure if I heard this in the prepared commentary or in any of the questions. Regarding Phase III and M&A, we're pretty healthily in the midst of all the restructuring and such, and your debt has come down quite a bit, so you've done a really good job with that. Just wondering where we are with Phase III and M&A and sort of that part of the strategy?

Mark Morelli: Sure. We've initiated Phase III in terms of thinking through how we want to approach that and it's quite different than what Columbus McKinnon has done in the past. It's much more of an outreach program based on strategic view. We're calling that theme intelligent motion. We'll talk more about that in the next calendar year, but we're pretty excited about it and we think that it's going to have a lot of benefits. It's too early to really say that we're going to be doing anything near term. We're not going to be doing any transactions clearly this fiscal year. However, the fact that we got started on it is great and because it's going to take some time to put it in place.

Joe Mondillo: Okay. Regarding some of the growth initiatives that you've been taking in terms of new products, R&D, the kit crane opportunity, some of the opportunities at engineered products, where are we would you say, Mark, in terms of seeing some of the benefits from that? Is it still really early and we haven't seen a whole lot and maybe next year we see a lot more?

How would you describe how the progression is with trying to take share and drive more growth?

Mark Morelli: Sure. I think it is early. If you think about Phase II, one of the elements of Phase II is ramping the growth engine and we're still planting those seeds and kind of nurturing as they come up, but we are beginning to see measurable traction from that. I think it is early innings, we are seeing some results hitting our revenue line, and we think that it's offsetting some of the negative attributes of the 80/20 rationalization on the top line too. So, you'll see into the next fiscal year that this will certainly build, so we're very encouraged by this. As you can see, we're building out our teams on this and we're making the necessary investments. We're super happy about that because even though times are not great from an industrial market perspective, we're beginning to see the benefits.

One thing I do want to throw out is that last time that this business saw ISM contraction below 50, it's hard for us to compare. However, when we look back on that in December 2015, this business saw organic revenue declines of about 4%. It saw adjusted operating margin decline about 120 basis points, and we had operating margins around 8%. If you were to compare to this past quarter, it's a pretty big difference where we're growing 2%, 100-basis point margin improvement, and our 13% operating margin. So, I think the combination of us rationalizing and also ramping these seeds for growth is a really good strategy, and I think we're executing right on plan and we're very encouraged by it.

Joe Mondillo: Okay, great. Thanks a lot. I appreciate you taking my questions.

Operator: Thank you. Our next question comes from the line of Walter Liptak with Seaport Global Securities. Please proceed with your question.

Walt Liptak: Good morning. Thanks for taking my question, and thanks for going through the backlog. I think that we've got a lot of clarity on the decline. The question I had about the backlog was you mentioned the short-cycle business being down I think $6 million and I wonder how much of that or if you can quantify how much is related to POS, kind of your own actions to get rid of bad revenue as you described earlier, or how much is related to just distributors or other short-cycle customers?

Mark Morelli: We see probably about a point take out at the top line of the business due to overall rationalization efforts from 80/20, but there is well-reported slowdown in the short-cycle business. People have really cut back on inventory levels a lot. They are waiting to see what's going to happen next on trade wars, related to Brexit-type things in Europe. Europe has been really hit hard by an industrial softness that I think is also well-reported. So, that's clearly reflected there in our numbers.

Walt Liptak: Okay, great. With regard to your inventory levels, Greg, I think you mentioned that your inventories in which you alluded to are coming down again in the next quarter. I wonder what's the right inventory level for where we are with this industrial slowing?

Greg Rustowicz: We're clearly focused on bringing our inventory levels back down. We look at it on a turns basis; we are about 3.8 turns in September. We want that number to be four or better by the end of the fiscal year. The operations team is focused on it; it's a lot of hard work to do that, but we're committed to driving working capital improvement. In fact, when you look at our overall working capital as a percent of sales, we're down to about 17.2% and that compares to a year ago of 19.7%. So, a lot of progress was made this quarter with the working capital initiative.

As we continue to move through the 80/20 Process, product line simplification is going to help as well take inventory out of the system, and we think that the total benefit of 80/20 from an inventory perspective is tens of millions of dollars of potential, once it's fully integrated.

Walt Liptak: Okay, great. Yes, that 80/20 is really impressive. Well, I'll save my questions on that offline. One item that you guys didn't comment on was pricing, and I wonder if you could help us with what are the pricing strategies, maybe the timing of pricing given the way raw materials had moved around over the last six months or nine months, how are you thinking about pricing?

Greg Rustowicz: In terms of pricing, we've seen a great benefit in strategic pricing initiatives through 80/20. I think overall in the quarter, we saw price of about 1.6%, and 80/20 strategic pricing was a good bit of that. Our normal price increases vary by region. Typically in the U.S., it's in the March timeframe, in Europe, it's around January, in APAC, it is in April, and in Latin America, it's generally in the April timeframe.

Those are more or less market increases based on what the competition is doing, based on what raw material prices are doing, et cetera. However, what we're really bullish about are the strategic pricing initiatives coming out of 80/20 which are very sticky and very strategic in terms of what we're going after, and that has been very beneficial this year for us for sure.

Walt Liptak: Okay, sounds great. Thank you.

Operator: Thank you. Our next question comes from the line of Mike Shlisky with Dougherty and Company. Please proceed with your question.

Mike Shlisky: Hey, guys. Thanks. It looks like my question was actually answered. Appreciate it.

Operator: Thank you. Ladies and gentlemen, this concludes our question-and-answer session, and I'll turn the floor back to Mr. Morelli for any final comments.

Mark Morelli: Great. Well, thanks folks, for your time and interest in Columbus McKinnon. Have a nice day.

Operator: Thank you. This concludes today's teleconference. You may disconnect your lines at this time. Thank you for your participation.