Operator: Greetings. Welcome to Columbus McKinnon's Third Quarter Fiscal Year 2020 Financial Results Conference Call. [Operator Instructions] Please note, this conference is being recorded. I will now turn the conference over to your host, Deborah Pawlowski, Investor Relations for Columbus McKinnon. Thank you. You may begin.

Deborah Pawlowski: Thanks, Sherry, and good morning, everyone. We certainly appreciate your time today and your interest in Columbus McKinnon. Here with me are Rick Fleming, our Chairman and Interim CEO. As you are likely aware, Rick was appointed Interim CEO, effective January 10, with the departure of our former CEO, Mark Morelli, who is now the CEO of Vontier. Also here with us is Greg Rustowicz, our Chief Financial Officer.

You should have a copy of the third 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 normal 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 provide a 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 would turn to **Slide 3**, I will turn it over to Rick to begin. Rick?

Richard Fleming: Thank you, Deb. I'm pleased to be joining all of you today. Let me take a moment to introduce myself. I've been with Columbus McKinnon as a director for almost two decades, so I'm quite familiar with the company, its products and its markets.

Before my retirement from USG Corporation in 2012, I was its Executive Vice President and Chief Financial Officer. USG had about $3.2 billion in revenue at that time. I was USG's CFO for about 18 years, and I was an employee of the company, or its subsidiary Masonite Corporation, for approximately 38 years. So most of my career has been spent in the building material and construction industry. I'm currently a Director of Boise Cascade Company, which is listed on the New York Stock Exchange, as well as O.E. Holdings, a private company.

While my role as the Interim CEO of Columbus McKinnon was not expected, I'm honored to be leading this team while we're conducting our search for a new CEO. These are exciting times at Columbus McKinnon. We have a solid, motivated leadership team at the helm, we are delivering on our promises, and we have excellent momentum with our Blueprint for Growth strategy. In short, our future is bright.

So with that, let's turn to our review of the quarter. We have deployed our Blueprint for Growth strategy for about three years and the solid results of our third quarter demonstrates its continued effectiveness. Margins expanded and earnings and return on invested capital increased despite the headwinds related to the contraction of the industrial market. Even though we experienced lower volume, we achieved our 11th consecutive quarter of year-over-year margin expansion, with our gross margin increasing 20 basis points to 34%. Diluted earnings per share were $0.63, and adjusted earnings per share grew 5% to $0.64.

Earnings growth was driven by our 80/20 Process, which contributed approximately $5.7 million to operating income. As a reminder, contributions from 80/20 are not only reflected in our cost structure, but also in our top line with strategic pricing and our priority customer account program. With the 80/20 Process, we have been able to offset industrial market headwinds and continue to invest in our growth initiatives.

Our strategy, plus great execution by the team, kept us on track during the quarter to achieve our financial targets. Adjusted EBITDA margin expanded 100 basis points to 15.2% for the quarter and 16.1% year-to-date. ROIC also improved by 140 basis points to 11.9%.

The third quarter also demonstrated our ability to generate substantial cash flow over the cycle. In total, we generated $32.4 million in cash from operations during Q3, and as Greg will discuss, we have raised our expected free cash flow target for the year to $75 million to $80 million. We have used this cash to further reduce debt. Our leverage ratio is now just 1.3x adjusted EBITDA, which is well ahead of our target. So our balance sheet provides excellent financial flexibility to pursue our Blueprint for Growth strategy, to strengthen our earnings power, and to continue to transform our business model.

Now turning to **Slide 4**. I will discuss in more detail the progress we are making on Phase II of our strategy. As noted, the simplification of our business with 80/20 contributed approximately $5.7 million in operating income during the quarter. Although we have been deploying the 80/20 Process for a couple years, we still have quite a bit of runway left and a long list of projects to further strengthen our earnings power. We have realized approximately $14.8 million in contributions to operating income year-to-date, and we are very confident that we will achieve our goal of $18 million for fiscal '20.

While it's sometimes difficult to see the impact of 80/20 on the face of the income statement due to the many factors that affect the P&L, its contributions can be seen in our margin performance and ability to manage through headwinds. We believe that our performance has measurably improved over where we would have been historically. Our Blueprint for Growth strategy has provided us with strategic direction and focus, while E- PAS™, which is our business operating system that incorporates 80/20, has provided us with the tools and discipline to execute well.

As a result, during the third quarter, we were able to offset much of the impact of lower volume and under-absorption in our factories while continuing to realign our costs to focus on growth through our product development activities, new marketing programs and our investment in our digital initiatives. The progress continued to be made on the transformation of our earnings profile.

Now turning to **Slide 5,** I'll cover in more detail some of our investments in organic growth to Ramp the Growth Engine. In December, we announced that we have formed a controls and

automation center of excellence that is dedicated to globally expanding our automation product and service portfolio. The center combines our skills as lifting specialists with the technology of our Magnetek brands that enable smart movement to create solutions that solve our customers' high-value problems. With the creation of the center, we can leverage these capabilities across more customers and markets. Of note, the center will have both testing facilities and the ability to provide our customers with hands-on experience with our solutions.

We are also launching new products such as our Intelli-Crane™ systems, which incorporates controls that can provide up to 30% improvement in productivity for critical applications. In addition, our addressable market has been expanded by the certification in the U.S. of our explosion-proof hoist and related products, the increased lifting capacity gained with the STAHL brand wireless hoist and the unique offerings of our Magnetek drives and controls.

Also, it's important to note that not all new products are digital. We are bringing innovation to our manual industrial products as well. The utility lever hoist that we will be launching this summer has an integrated safety break that eliminates the requirement for manual installation of chain safety stops. If you can imagine being a lineman working dozens of feet in the air replacing transmission lines, you would appreciate the safety features that our new tool provides.

With that, I will now turn it over to Greg to review our financial results in greater detail.

Gregory Rustowicz: Thank you, Rick. Good morning, everyone. On **Slide 6**, net sales in the third quarter were $199.4 million dollars. As you know, we completed three divestitures last fiscal year which reduced sales this quarter by $9 million compared with last year. Foreign currency also continued as a headwind and reduced our sales by $1.7 million. Adjusted for FX and the divestitures, we saw sales volume decline by $10.6 million, or 5.2%. While volume was down, our pricing power was evident as we saw pricing improve by 1.6% which was the same amount as last quarter. About half of this pricing was a result of our 80/20 strategic pricing initiatives.

Let me provide a little color regarding sales by region. For the third quarter, we saw sales volume decline in the U.S. by 4.2%. This was partially offset by price increases of 1.7%. Sales outside of the U.S. were down 6.5% adjusting for the effects of divestitures. Solid price improvement of 1.4% partially offset a volume decline of 6.2%. Sales volume was down in EMEA, Latin America and Canada, but up in the APAC region as a result of a large rail project. The weakness we saw in EMEA was in both our short cycle and project businesses.

Let’s now review orders and backlog. Our short cycle business continued to be affected by the contraction of industrial markets. This headwind impacted our project business during the December quarter, as well. Adjusted for divestitures, orders were down year over year by 9.5% overall. It’s important to note that quoting activity remains high in both the number of quotes and dollar value, but our sense is that projects are being somewhat delayed, especially in the U.S. As a result, backlog was reduced to $125 million at the end of December.

While the markets are certainly a headwind, we believe that our strong market position and leading brands will dampen the effects of the industrial market slowdown. We continue to focus on customer responsiveness and ramping the growth engine. As Rick discussed, we have

formed an automation division which will introduce new products that will expand our addressable market and grow share in key markets.

On **Slide 7**, our gross margin was 34.0% in the quarter. This was a 20-basis point expansion in gross margin from a year ago and our 11th consecutive quarter of year-over-year margin expansion on a GAAP basis. As Rick mentioned earlier, we benefited from the 80/20 process which drove $5.7 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, lower sales volume and mix, and higher medical costs and lower fixed cost absorption in our factories due to inventory reductions which are included in the productivity net of other cost changes category on the bridge.

Let's now review the quarter's gross profit bridge. Third quarter gross profit of $67.9 million was down $3.5 million compared with the prior year adjusted for the divestitures. We did see gross profit expansion from pricing net of material cost inflation, and tariffs were lower than the prior year as we imported less Chinese product. We incurred $500 thousand of one-time costs for the factory closures in Ohio and China. Foreign currency translation also reduced gross profit by $600 thousand. Productivity net of other cost changes was negative $2.2 million. This was the result of $1.1 million of higher medical costs and the impact of reducing inventories by $7 million which negatively affected fixed cost absorption in our factories.

As shown on **Slide 8**, RSG&A was $43.8 million in the quarter, or 21.9% of sales. RSG&A was $3.8 million lower than the previous year period. The reduction in RSG&A was due to several factors. The impact of the divestitures reduced RSG&A by $1 million and the benefit of FX was approximately $400 thousand. In addition, our G&A costs benefited from a $2 million reduction in stock compensation expense from the departure of our previous CEO.

While we are controlling RSG&A costs as macroeconomic conditions create headwinds, we are also actively investing for growth in key initiatives. We continue to invest in product development, marketing and digital projects while reducing costs in other parts of the organization. Taking this into account, we are forecasting our third quarter RSG&A to be in a range of $45 to $45.5 million dollars.

Turning to **Slide 9**, adjusted operating income grew 1.1%. When you normalize for the divestitures, adjusted operating income grew 5.7% to $23.1 million. Adjusted operating margin was 11.6% of sales, a 110-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 decline in revenue of 8.3%, which is outstanding operating leverage.

As you can see on **Slide 10**, GAAP earnings per diluted share for the quarter was $0.63. Adjusted earnings per diluted share was $0.64 compared with $0.61 in the previous year, an increase of $0.03 per share or about 5%. On a GAAP basis, our effective tax rate for the quarter was 12.8% as we partially reversed a deferred tax asset valuation allowance in the amount of $1.9 million. This valuation allowance was originally recorded in fiscal 2019 relating to certain foreign tax credits generated by the one-time transition tax as a result of the Tax Cuts and Jobs Act. We reversed the valuation allowance on the foreign tax credits utilized in our fiscal 2019 Federal income tax return. With this benefit, we now expect this year's full year tax rate to be approximately 21% to 22%.

On **Slide 11**, we continue to expand our Adjusted EBITDA margin. For the quarter, our Adjusted EBITDA margin was 15.2%, an increase of 100 basis points over last year. We are also making progress on driving our ROIC higher, and are now at 11.9%, an increase of 140 basis points from last year's third quarter. This progress demonstrates that we are tracking our Blueprint for Growth strategic goals to achieve a 19% Adjusted EBITDA margin in fiscal '22 and achieve an Adjusted ROIC in the mid-teens.

Moving to **Slide 12**, one of the hallmarks of Columbus McKinnon is its ability to generate cash throughout the business cycle. Net cash from operating activities for the quarter was $32 million, which was a year-over-year increase of $6 million, or 24%. Year-to-date, we have generated $63.5 million of free cash flow. This represents about 94% of the free cash flow we generated last fiscal year and we still have one quarter to go. Consequently, we are raising our free cash flow guidance to $75 to $80 million for this fiscal year.

Turning to **Slide 13**, our total debt at the end of the quarter was approximately $252 million and our net debt was $168 million. Our net debt to net total capitalization is now approximately 26%. We repaid $20 million of debt in the third quarter and have reduced our term loan debt by nearly $185 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 1.3x, which provides us the financial flexibility to advance into Phase III of our strategy. We expect our leverage ratio to be 1.1x to 1.2x by fiscal year end.

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 that provide 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 Rick.

Richard Fleming: Thanks, Greg. I would now like to discuss our fourth quarter fiscal '20 outlook. Since half of our business is short cycle, it's our policy to give top line guidance only one quarter out. Right now, based on the continuing softness in the manufacturing economy and our order trends and backlog as we entered the fourth quarter, we expect that our Q4 revenue will be essentially flat with the third quarter and in the range of $196 million to $201 million. This level implies a reduction of 5% to 7% from the fourth quarter of last year. However, I want to assure you that we are working hard to mitigate these headwinds on both our top and bottom line and to continue to deliver strong performance during the slowdown.

Finally, I should mention that there are a few early indications that suggest market conditions are starting to improve for fiscal '21. For example, we've recently received a large automation system order, a large crane order and several rail project orders. It's too early to call this a trend, but does suggest that confidence levels may be firming. Having said that, we are not waiting for the recovery, as mentioned, it's our job to maximize our performance under any and all economic conditions. Here are a few examples of what I'm talking about. We completed the

closure of our China facility at the end of December, ahead of schedule. We expect about $1 million in annualized savings beginning in the fourth quarter from that effort. We are on track with the closure of our second facility in Ohio by the end of the first quarter of fiscal '21. There will be an additional $5 million in annualized savings when that is completed.

Since implementing the Blueprint for Growth strategy. We have reduced the number of facilities by 6 from 22 to 16, including the Lisbon, Ohio consolidation, which is in process. In total, these factory consolidations would generate about $8 million in reduced costs. And as noted earlier, we believe that we are well on track to achieve our goal of $18 million in contribution to operating income from the 80/20 Process in fiscal '20. We also have further business realignment efforts underway that we expect will provide additional cost savings, including projects to drive operational excellence, improve our customer responsiveness and reduce indirect costs. As such, we expect that 80/20 will continue to provide solid incremental contributions again in fiscal '21 that will further enhance our earnings power.

Longer term, we believe that the simplification of the business and our focus on operational excellence, combined with our self-funded investments in talent, innovation and growth initiatives, will enable us to achieve our goals of a 19% EBITDA margin and mid-teen ROIC by fiscal year '22.

Now let me take a moment to update you on our search for a new CEO, which is well underway. We are looking for a high-performance Chief Executive Officer, who can continue the momentum that we have built with our Blueprint for Growth strategy, and who can lead our simplification, operational excellence and ramping the growth engine initiatives. Our new CEO will also be tasked with taking our operating disciplines and business operating system, E-PAS™, to the next level. In addition to a strong operator, we're looking for an individual who is experienced in developing and executing organic growth opportunities, portfolio optimization and M&A. To date, we are encouraged by the interest in this position, and we will be starting in-person interviews shortly.

With that, we will now open the line for questions.

Operator: [Operator Instructions] Our first question is from Mike Shlisky with Dougherty & Company.

Mike Shlisky: I wanted to first ask about the 80/20 benefits for the fourth quarter. I appreciate that you maintained your outlook for the full year, but I mean that implies that based on the first three quarters, the benefits will actually slow down in the fourth quarter, below the $5 million that we just saw in the third quarter.

So can you outline some of the major moving parts there and is there any potential for some upside in the fourth quarter?

Gregory Rustowicz: Mike, it's Greg. As you know, we measure it on an incremental basis, year-over-year. In the fourth quarter, we won't have any carryover impact from the previous year, so this is all new activities that we expect. I would think that there could be some upside opportunity for us to exceed the $18 million targeted 80/20 savings.

Mike Shlisky: Okay, great. I also want to ask about your RSG&A outlook for the fourth quarter. In that number, is there some placeholder for a new CEO, that person's salary and benefits and stock grants in the fourth quarter or is that an area that you have not fully accounted for yet?

Richard Fleming: There's no placeholder for it, Mike, for a new CEO in the fourth quarter, but clearly, that will be something to be considered in fiscal '21. Having said that, as Interim CEO, my compensation is being charged during the fourth quarter and half of my compensation, by the way, is in stock.

Gregory Rustowicz: Mike, let me just add on, too. So there are other costs involved as well, like executive search costs. So we did incur some of those in the fiscal third quarter, and we'll have more of that in the fiscal fourth quarter and that's taken into account in the guidance.

Mike Shlisky: So that's included, not excluded. Okay, perfect. Just one last one for me, and then I'll hop back in the queue. I wanted to ask about one of the topics of the day. I know there will be issues in China on the coronavirus. Just kind of your thoughts as to whether anyone from Columbus has been affected by that, whether your business has changed at all in China due to that, and your facilities over there, are they still operating at the current time?

Richard Fleming: Well, that's a great question, Mike. First, let me say that we're pleased that, to our knowledge, none of our team has been impacted by the virus itself. We have taken the same precautions many companies have to effectively halt travel to China by team members. Those in China have been asked during the lunar holidays to work from home. Our factory in Hangzhou is shut down currently, but we expect it will reopen around February 10th.

Having said that, it's kind of being watched, as you can appreciate it, on a day-by-day basis. Stepping back and looking at the bigger picture, I think we all have been grappling with the uncertainty associated with this epidemic. Right now, I'm sure you've had the same experience I've had where we look at the newspaper, and we see 800 cases go to 1,000, go to 5,000, go to 9,000, go to 17,000, go to 20,000. So it's really a situation that's evolving as we speak, evolving both in terms of our knowledge of the severity of the disease as well as its ability to infect population. So we clearly have to take that uncertainty into account.

Having said all that, as you know, China is a relatively small part of Columbus McKinnon in total. If you just looked at what we know today in terms of the factory shutdown and with the expectation that we'll be getting back to business in the latter part of February, we look at about $0.5 million of revenue impact in the fourth quarter, but I think in fairness, we have to say to be continued, and we're watching it very closely.

Operator: Our next question is from Chris Howe with Barrington Research.

Chris Howe: I wanted to dive a little bit deeper into Phase III. As we consider the search for a new CEO, in the interim, can you comment on just the underlying activity that you're seeing within M&A candidates and perhaps how that's developed over the course of the past six months. As we assess Phase III and we move towards your target of 19% EBITDA margin in fiscal year 2022, is there the potential for upside to this margin target as you look towards automation or other opportunities?

Richard Fleming: Chris, Rick Fleming, that's a very good question. First, let me say that we have not paused our activity on Phase III that we have been conducting, which, as Mark explained I'm sure in previous calls, it's been largely associated with us thinking through in a thoughtful and really quantitative matter, as well as qualitative, our criteria for looking at opportunities in Phase III from an M&A standpoint. This includes thinking through our competencies, adjacencies and areas of interest, getting market research on adjacent opportunities and really conducting, as mentioned, literally a strategic review. I think Mark has contrasted that in the past to what the company did, and perhaps many companies do, where you're opportunistic about your M&A thought process. As I try to emphasize, this is really more strategic.

So as part of that, a lot of dialogue, a lot of looking at opportunities and some early on conversations with possible companies. We have noticed, just due to the economic circumstances in one or two cases, there may have been interest previously by a potential target, that now it's kind of putting down the back burner till things settle down in the industrial market.

So it's fair to say right now, most of the work is planning oriented. The new CEO will really have the benefit when he comes in, or she comes in, to have a lot of that work in place. As mentioned, we are looking for an individual that has really the background as well as the opportunity to grow Columbus McKinnon in addition to being a solid operator.

Gregory Rustowicz: Chris, this is Greg. Let me add on to it. As we think about Phase III and acquisitions, we've centered on really two major themes: one, being a lifting specialist; and the other is smart movement. So we've identified and have a pipeline of over 400 companies that we're evaluating against this criteria and running through a screening process.

Now once we do identify those companies, then an outreach begins. This is a bit of a different approach than just taking inbound calls from investment bankers. This is really more of an outreach programmatic approach. We're going to continue forward with that strategy and as you can appreciate, it's very difficult to predict timing, but clearly, the balance sheet is in great shape, and we're optimistic that we will see the fruits of our labor here sometime in the next fiscal year.

Chris Howe: Has the pricing environment at all shifted versus your prior expectations? Or any comments there?

Gregory Rustowicz: Yes. Multiples are very rich right now for sure and that's something that, as we think about M&A, the one thing you can't change about a deal is the price you pay for it. It's very important that we buy smart, and that we have opportunities that either provide the technology we're looking for or have outstanding synergy capabilities for us.

Richard Fleming: In addition to multiples being a variable, EBITDA has been a variable and some companies that we have been in dialogue with or actually hit the pause button on, because I think they have some internal issues that they're thinking through relative to their EBITDA.

Chris Howe: Okay. That's all very helpful. I just didn't want it to be overlooked. Could you provide some more color on this large automation deal as well as this large crane order, more

specifically the automation deal and perhaps the size of the deal and how the pricing was there and how we could expect automation or other innovative opportunities to play into your margin expectation as we move into next fiscal year?

Richard Fleming: Well, first, I'll start, and then Greg can jump in. But first, let me say that the automation center for excellence is still being staffed up. We are putting people in place. We are creating, if you will, the operating systems and getting the management team in place. But having said all that, we were very pleased to get the order I mentioned, which is about $600,000 and more to come. I mean, the quoting activity is developing nicely in that area. So we're encouraged thus far and the month of January was sort of a proof point that we are on the right track.

Do you want add to that, Greg?

Gregory Rustowicz: Yes. That's clearly an area that we believe has higher margins than our average of our business, so to the extent we can drive our automation activities and grow them substantially that will help our overall gross margin profile.

Operator: Our next question is from Greg Palm with Craig-Hallum Capital Group.

Greg Palm: Starting out with a little bit of commentary on the macro itself. Any commentary on the end markets and specifically, it sounds like kind of project-based business fell on. I know that was a little bit stronger this past fiscal year. So can you just talk about sort of the differences in what you're seeing out there?

Richard Fleming: Sure. Well, December was, obviously, a period where we had a decline in orders. We also saw somewhat of a decline in quotes being turned into orders due to the overall industrial caution in the marketplace. Let me give you a sense for the order pattern, I think this may be helpful. November orders were about 90% of October levels and December orders about 84% of October levels.

So with that as the backdrop, January, however, has seen an uptick in orders. It's relatively small, but positive, about 1%, but nonetheless up and that's good. I would say the important thing is to look at the short cycle, which has been really the weaker part of our book of business, and that's up 11%. It is the project side, down 9%, that continues now to be softening and maybe it will take a while to firm up. But when you then look at the next level of data, which is quote, you do see some bright spots, even on the project side as we speak. Europe has seen pretty good activity in the quote area. Asia is still very soft, as you can appreciate. North America, however, it's picking up and particularly in several verticals. Steel in North America started to pick up after a seasonal slowdown in December. Construction, utilities, power generation and government segments are relatively strong and waste-to-energy activity is picking up.

We feel pretty good about how things are starting to normalize. I had a chance to meet with our sales team the other day, we got some feedback on what many of our top ten customers are saying and the word they came back with was basically that we seem to be stabilizing at this lower level. The good news is we're not seeing further decline. It looks like things are slowly but surely moving in the right direction. So it's early, it's January, basically now moving into February, but we see some green shoots and positive signs.

Greg Palm: Okay. Great. That's really helpful. So thinking about the top line guidance, specifically for the March quarter, what are the underlying assumptions behind that? Is it that it falls off again in February and March because you kind of reconcile your comments on January then looking at the specific guidance for the quarter?

Gregory Rustowicz: Mike, what really drove us to it is the fact that orders were down in the quarter by about just under 9% when you adjust for the divestitures and FX. We're starting the quarter with a backlog of about $125 million, which is down about 12% sequentially from where it was in September. What our guidance implies is that the book and bill business picks up in the fourth quarter, when we typically do see a bit of an uptick. People buying in advance of price increases in the U.S. and we have some incentive programs for our larger customers that incent them to buy inventory and get it on the shelves for the summer season. So we think that our guidance of down 5% to 7%, given where we are with our backlog is really prudent guidance for the quarter.

Richard Fleming: Yes, and I think one way to think about is that in the fourth quarter, we still have a declining project business based on the order trends that we saw in the backlog, and we do expect an improvement in short-cycle business. As Greg mentioned, a lot of that often comes about because of pre-buying before a price increase or our partners in performance programs and then maybe a general firming of industrial confidence. But having said that, the two are sort of offsetting each other, and that's why we end up with kind of a flattish view for the fourth quarter versus the third.

Greg Palm: Got it. Makes sense and then just kind of shifting gears to the EBITDA margin targets for fiscal '22. What are the underlying macro assumptions behind that? I mean, do we have to get some pickup in growth between now and then in order to achieve those targets?

Gregory Rustowicz: When we set the 19% EBITDA target in fiscal '22, as you recall, we originally came out with a 15% target, but we got there in a year. Certainly, we had some benefits over the last two years on the top line with mid to high single-digit growth. The presumption is that the 19% was achievable in a low-growth GDP kind of environment. We clearly are working hard on the margin side with both 80/20 operational excellence footprint consolidation and then just really trying to lift the margins of our business with investments in new product development automation that Rick spoke about as well. So this year, we should end north of 16%, or right around 16%. We're at 16.1% on a year-to-date basis. While we still have a little bit of a gap to close, we've got two years to do it, and we're not giving up on that goal, and we think that's an achievable number for us. However, it does not assume that there's a downturn or a recession.

Greg Palm: Got it. And the delta between the 16% and the 19%, does the majority of that come from gross margin expansion from here?

Richard Fleming: Yes.

Gregory Rustowicz: Yes, and you'll see it in the 80/20 and the operational excellence categories.

Operator: Our next question is from Jon Tanwanteng with CJS Securities.

Jon Tanwanteng: Maybe to start, the gross and operating margins as we head into Q4, given roughly flat expectations for revenue, are they biased to the upside or downside and kind of what are the puts or takes going into that?

Gregory Rustowicz: Well, I would say, Jon that we did take inventories down $7 million sequentially from September to December, and that had an impact on our gross margin. We also saw a negative $1.1 million impact due to higher medical costs. With our medical plans, in essence, they reset January 1 of every year, they're high deductible plans. So we would expect there to be positive gross margin in Q4, relative to Q3. I think the RSG&A guidance is about the same as it was. I mean it was a little bit lower this quarter, but we think the $45 million to $45.5 million level is, the right landing spot for Q4.

Jon Tanwanteng: Great, and then you also mentioned additional activities and realignments going on under the hood. I understand the 80/20 plan hasn't been implemented across all your geographies and product lines. So what kind of further accretion could we see in fiscal '21 above the $18 million that you plan to realize in '20?

Richard Fleming: Sure. Well, as you can appreciate, we're working on our budget for fiscal '21 right now, and we're already in discussion with our business units on that very topic.

Having said that, there are a number of efficiencies that we are working on. Our early view is that could be something in the area of $9 million alone. Then in addition, we are looking at additional 80/20 opportunities, but they are still in discussion. I think our hope and desire is that we will have pretty good numbers similar to what we've had in the past going in with budget cycle.

Gregory Rustowicz: Yes. Let me give you a little bit more color, Jon, too. Just to remind everybody on the phone that we will have the consolidation of our Lisbon, Ohio facility done in the first quarter, and that's about a $5 million annualized savings number. We won't get all of those savings this coming fiscal year, but that's a big accretive number for us as we reduce our footprint.

The one thing the management team is absolutely committed to is driving double-digit earnings growth and so we're looking at developing a plan that does that.

Jon Tanwanteng: Great. And then in future, after you close the two plants, is there room for more consolidation or are you at the asset base and the size that you want to be at for this year?

Richard Fleming: Well, there's definitely room for more consolidation and I can't give specifics, as you can appreciate, that would be premature. We have a lot of discussions to do internally, but we see opportunity not only in the U.S., but overseas.

Jon Tanwanteng: Okay. Great and then just finally, on the CEO search. I assume there hasn't been any appreciable significant impact, but if anything, has there been any change in the morale or in the operations of the company due to Mark leaving?

Richard Fleming: No, the team is intact. Morale is good. As you can appreciate, one of my first orders of business was to meet with each individual team member, and I feel really good about the conversations. I'll be with the team next week in Charlotte as we go through our planning for the budget.

I can just say, right now, it's all positive and I really appreciate the work and the support of the team. Our mantra internally has been "same strategy, same team and same results", and that's what we're working on.

Operator: Our next question is from Walt Liptak with Seaport Global.

Walt Liptak: It's good to hear about the green shoots and so I wanted to add one more question on that. As you were talking about these projects and some of the short-cycle, specifically, where are you seeing the green shoots on a geographic basis, are they U.S. or Europe, or where do you think if we get things coming back, what region first?

Richard Fleming: North America is where we're seeing really a more of a firming, if you will, in activity for quotes, and these are some early-on signs that we're getting quotes turned into orders. So that's basically the major focal point in my comments. Asia, up in the air right now with coronavirus, clearly and some of our project business in Europe, particularly as it relates to Mid-East oil and gas, so pretty good, but I'd say, North America has been the early area of the green shoots.

Walt Liptak: Okay, good. Thinking about the work that you're doing from 80/20. If I recall, the U.S. was started first and followed by international and so my question is, in the non-U.S. sales, was there some of that decline related to PLS (product line simplification) and some of the 80/20 activity? Maybe if you could help us understand how much of the decline was divestiture or related to market versus kind of internal improvement things, the usual?

Gregory Rustowicz: When we think about sales outside of the U.S., we did see volume declines of about $6 million in total, or roughly 6.2%. Where we saw the larger volume decline was in EMEA, down double digits. Latin America was also down double digits. We saw some nice growth in APAC, but that's off of a small base, and Canada was down a little bit as well.

The 80/20 impact, I would say, were not in Europe, specific to your question, we are not yet seeing a negative impact due to product line simplification. I think that work is underway, and it's being looked at, but that particular part of the 80/20 Process takes a little bit longer.

Walt Liptak: Okay. Got it. And then the last one for me. I think we're all very impressed with the E-PAS™ strategy and what you guys are doing is impressive with the margins, the profits coming up with revenue down or if profit's flat. As you're doing the CEO search or as the Board is going through this, it sounds, based on the information that you gave like you're getting high interest and the CEO that the Board is going to pick is someone who can fit into the E-PAS™ strategy. I want to make sure I understand that kind of the focus of the search is not changing the E-PAS™ strategy and that CEOs that are in the running understand this and that they are accepting of it because usually a CEO tries to imprint his own business plan on to a company.

Richard Fleming: Sure. I'll be happy to give you some additional information. Let me first kind of set the table on where we are in the search process, and then I'll answer your question more

directly. Just to give you a sense that we hit the ground running, basically, before Christmas. We have hired our search firm, Korn Ferry, who also did the search for Mark Morelli and we got our specification documents completed in terms of what we're looking for out in the marketplace. So we moved pretty fast, as you're going to appreciate, in December before the holidays. We've been having a number of talks with our search firm literally every week and are now scheduled, as I alluded to, to have our first round of interviews with some candidates who've risen to the top by mid-February. So it's early in the process still as often, you have several rounds of interviews and you certainly have other people to come into the process after the first wave, but we feel pretty good that we're on track to get somebody on board, as we've all said within six months. My gut says sooner and we're certainly working on that.

Now what kind of individual are we looking for? As you can appreciate, we are very pleased with the 80/20 Process. We're very pleased with the discipline that it brought to the company, and we certainly want that to be part of the new individuals' portfolio. However, we also want, as I alluded to, an individual that also has experience growing companies, both organically and through M&A and portfolio optimization. You'll probably have a frown on your face when I say, here's a laundry list of what we're looking for because it almost sounds like the perfect individual, but there are people out there that can touch a lot of these bases.

So let me just review that we're looking for:

- People that have strategy development experience, operational excellence and, as I mentioned, a commercial track record of growing businesses organically.
- People who understand mergers and alliances: experience leading the identification, due diligence, negotiation of potential acquisitions and joint ventures,
- Global accountability, as we are a global firm. That person has to have had the opportunities in their background of that experience with that aspect of running the company.
- Multiple operating units, new market channels, innovation and well-meaning leadership, which is talent management and attracting and developing the right talent in the team.

So it's a long list, but we are pleased with what we're seeing so far and we've got, as I mentioned, a pretty high level of interest. So more to come on it.

Operator: Our next question is from Joe Mondillo with Sidoti & Company.

Joe Mondillo: Most of my questions have been answered, but just a couple, maybe a follow-up question to some of the comments you've made. The $9 million of savings that you sort of roughly estimated for next year, is that including the China and the Ohio facility closures?

Gregory Rustowicz: We haven't fully formed all of our plans yet for 80/20, but clearly, as we think about our budget for next year, we are going to include roughly $5 million from the facility consolidations.

Richard Fleming: That is absolutely correct. Having said that, we're going to drive the number higher.

Joe Mondillo: Okay. So just to clarify those comments that you made, $9 million includes the facility closures and then potentially some additional 80/20 savings that you haven't exactly determined at this point?

Richard Fleming: Yes. Greg is absolutely correct, $5 million of the savings in 2021 comes from the Ohio facility closure. Now in my capacity as leading the team, we're looking for $9 million as well.

Joe Mondillo: Okay. And I just wanted to also clarify the comments that you made on sort of January business trends. You stated that orders were up 1%. Is that a 1% year-over-year change?

Richard Fleming: It is.

Gregory Rustowicz: Yes.

Deborah Pawlowski: Joe, adjusted for divestitures and FX.

Richard Fleming: Yes.

Joe Mondillo: Right. Okay. And then one thing that was not touched on exactly with pricing. I'm just curious given sort of the weaker trends or some of the slowing in just the end markets overall, what kind of pricing you think you'll get going forward?

Gregory Rustowicz: What we've got in the quarter and year-to-date is about 1.6% price, and about half of that is 80/20 related, so call it strategic pricing where you're surgically going in and raising prices on certain products that you sell.

In the upcoming year, we think it's going to be somewhat of a weaker environment, but nonetheless, we would expect positive price, and we historically have had price exceed inflation. I think it's going to be probably at a similar sort of a level.

Richard Fleming: Yes, and industrial products in North America went out with their price increase in February.

Gregory Rustowicz: So, they're about a month earlier than they had been historically.

Joe Mondillo: Okay, great. Just lastly, you stated that your search costs for the new CEO is baked into the SG&A guide for the fourth quarter. How much do you have baked in there for that?

Gregory Rustowicz: Yes, it's in the neighborhood of $250,000.

Operator: Our next question is a follow-up from Greg Palm with Craig-Hallum Capital Group.

Greg Palm: One last one on capital allocation. I guess, you're generating massive amounts of free cash flow here and it sounds like M&A will become a big focus here, especially with the eventual appointment of a new CEO. I mean, correct me if I'm wrong, but my guess is that you could buy back your own stock at current levels at a much cheaper price or, I guess, valuation than doing any M&A, especially if prices for potential targets remain elevated. So I guess my question is, at some point, do you approach share repurchases differently and if that's not the case, why won't you?

Gregory Rustowicz: We thought about it similar to you, Greg, in that we didn't have that ability in the past, but the Board recently authorized a $20 million share repurchase authorization earlier in the fiscal year. We look at it as more of an opportunistic lever for us. Our focus has been on de-levering this year, and we said we would delever $65 million, and we will do that, we're planning to do that. Clearly, our balance sheet is below our targeted leverage ratio, but the other factor we think about in regards to share repurchase is that our float is quite low. So, we really would look at share repurchases more from an opportunistic perspective. If, for some reason, there was an anomaly in the capital markets and our price dropped to a level that just didn't make sense, we could see that as an opportunity to go back in and perhaps offset some of the dilution that we have every year from our LTIP plan.

Richard Fleming: Let me just mention, too, Greg, that we will be having a discussion as we do each year at our March Board meeting on capital allocation. It will be a priority this year to have that discussion because of the fact that our cash flow generation has been so positive and so ahead of schedule. So, a good way to summarize it is it's under discussion right now.

Gregory Rustowicz: It's a good problem to have.

Richard Fleming: It's a good problem to have, right. We always go back to this and it was implicit in Greg's comments, our highest and best return is investing in our company either through capital spending and opportunities to reduce costs or through organic growth and obviously, inorganic growth gets in that equation as well.

Greg Palm: Yes. Makes sense. I mean can you give us any sense for what your valuation criteria might be when looking at M&A going out or is it really going to be kind of a case-by-case basis?

Gregory Rustowicz: It's going to have to be on a case-by-case basis. As you think about lifting specialists, a STAHL acquisition fits that category. As you think about smart movement, the Magnetek acquisition fit that category. They each have different profiles from a business perspective on the smart movement, there could be a smaller company that offers the right sort of technology that would allow us to move forward much quicker in developing a technology by ourselves. It will be a case-by-case for us.

Richard Fleming: Right. I mean, in general, how do you create value, growth and return on capital?

Operator: We have reached the end of our question-and-answer session. I would like to turn the call back over to management for closing remarks.

Richard Fleming: Well, thank you very much for your continued interest in Columbus McKinnon Corporation. We really appreciate the chance to share with you our performance for the quarter and our outlook. Have a nice day.

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