Operator: Greetings, and welcome to the Columbus McKinnon Corporation Fourth Quarter Fiscal Year 2021 Financial Results Conference Call. [Operator Instructions] As a reminder, this conference is being recorded.

I would now like to turn the conference over to your host, Deborah Pawlowski, Investor Relations. Please go ahead.

Deborah Pawlowski: Thanks, Rob, and good morning, everyone. We certainly appreciate your time today and your interest in Columbus McKinnon. Here with me are David Wilson, our President and CEO and Greg Rustowicz, our Chief Financial Officer.

You should have a copy of the fourth quarter fiscal 2021 financial results, which we released this morning before the market. If not, you can access the release as well as the slides that will accompany our conversation today at our website, www.columbusmckinnon.com.

After our formal presentation, we will be opening the line for Q&A. We kindly ask that you ask only one question with a follow-up question, and then please get back in the queue to allow for continuous flow and adequate time.

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 our website or at sec.gov.

During today's call, we will also discuss some non-GAAP financial measures. We believe these 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.

With that, if you will turn to **Slide 3**, I will turn it over to David to begin. David?

David Wilson: Thanks, Deb, and good morning everyone.

Fiscal 2021 was an unprecedented year and we were happy to end on a high note. We believe the excellent execution of our strategy by the team and the development and deployment of our enhanced Columbus McKinnon Business System, or CMBS, were crucial to our success.

As markets have been recovering, we have responded with agility to increasing customer demand. As a result, sales grew 12% sequentially to $186 million, which was at the higher end of our updated guidance. Our team worked hard to drive efficiencies against headwinds as well. Fourth quarter adjusted operating margin was 10.1% compared with 10.7% last year.

Our 80/20 tools continue to contribute to our earnings power. 80/20 provided approximately $2.9 million in operating income in the quarter to help offset the headwinds that both COVID and the supply chain presented. Despite the pandemic, we were able to achieve $11.8 million in contribution to operating income during fiscal 2021. While not as visible in the year, because it

offset the operational headwinds associated with volume declines, we expect our efforts to be rewarded as volume returns.

We generated $27 million of cash from operations during the quarter and nearly $21 million in free cash flow. By year end, we had dropped our leverage ratio to nearly 0.6x. In the wake of our recently successful debt refinancing, which Greg will address in a moment, our net debt leverage ratio is about 3.4x. We expect to get that back down to our target ratio of 2.0x within two years, excluding any additional acquisitions.

A strong sequential increase in quarterly order flow drove backlog up 13% over the trailing fiscal third quarter and up 31% year over year.

As you look at **Slide 4**, our focus on 2.0 led us to identify and pursue the acquisition of Dorner Manufacturing, which we completed just following the end of the fiscal year. This acquisition created an additional platform from which we can expand our intelligent motion solutions in higher growth end markets. Specialty, high precision conveying puts us at the center of the industrial automation equation.

Backlog for Dorner at the end of April more than doubled over the same time last year to nearly $40 million. This is slightly ahead of our expectations when we closed the acquisition at the beginning of the month.

Our organic efforts were successful as well and accelerated in contribution throughout the year. Despite the pandemic, new product revenue, or N-3 revenue which is revenue from products introduced in the recent three years, was up 22%. This is the second year in a row we have exceeded 20% growth with our vitality index.

I should point out that new product innovation is also key to Dorner's growth. We are prioritizing efforts to bring their ingenuity in precision conveying to a broader customer base while continuing to introduce new conveying solutions to the market.

With that, let me turn it over to Greg for a review of our financials. Greg?

Greg Rustowicz: Thank you, David, and good morning, everyone.

On **Slide 5**, net sales in the fourth quarter were $186.2 million dollars, down 1.7% from a year ago. As David noted, this sales level was at the upper end of our updated guidance for fourth quarter revenue of approximately $184 million to $187 million. We continue to see demand improve sequentially and are closing the gap to pre-COVID revenue levels. This fourth quarter felt more like a normal fourth quarter as we saw stocking orders begin to return in our short cycle businesses. Looking at our sales bridge, sales volume was down only $11 million, or 5.8%. We did realize positive pricing as we saw year over year pricing improve by 1.0%. Foreign currency remains a tailwind and increased sales by 3.1%, or $6 million.

Let me provide a little color on sales by region. For the fourth quarter, we saw sales volume decline in the U.S. by approximately 10%. This was partially offset by price increases of 80 basis points. Non-U.S. sales volume was down approximately 1% which was more than offset by price increases of 1.2% and favorable foreign currency translation of 6.9%. By region, sales volume was down 16% in Canada and down 19% in Latin America, but EMEA was down less than 1% and APAC saw volumes increase 19%, albeit off of a small base.

We did push through our normal price increases to start the fiscal year, and we announced a second price increase last week to help offset inflationary pressures in commodities and labor costs. This second price increase will be effective at the end of June and will help preserve margins next quarter. We will continue to monitor inflationary pressures going forward and will take further actions if necessary.

On **Slide 6**, we saw our gross margin improve sequentially to 34.4% which compares with 34.9% last year. Sales volume is still below last year by $11 million which affects our fixed cost absorption in our factories. We also faced supply chain and logistics challenges which led to inefficiencies in our factories. We are still benefiting from our 80/20 process which contributed approximately $2.9 million of incremental year-over-year gross profit expansion in the quarter through strategic pricing, indirect overhead reductions, and factory closures. We are doubling down on product line simplification this year and are making good progress with SKU and component reductions. Unfortunately, this part of the process takes longer as you have to phase out existing products and utilize existing inventory to avoid write-offs, but this effort will pay dividends over a longer horizon.

Let's now review this quarter's gross profit bridge. Fourth quarter gross profit of $64.1 million was down $2.1 million compared with the prior year. This was driven by two factors. First, we saw a $3.6 million reduction in gross profit due to lower sales volumes compared to a year ago. We also experienced negative productivity net of other cost changes of $4.5 million, largely due to supply chain issues and COVID related labor inefficiencies. In addition, freight carriers have also been impacted as we are seeing higher costs and longer transit times.

We did see gross profit expansion from pricing net of material cost inflation of $1.7 million which includes about $200 thousand of material cost inflation in the quarter. Foreign currency translation increased gross profit by $2.1 million. Factory closure costs and business realignment costs together were lower this quarter by $1.8 million.

As shown on **Slide 7**, RSG&A costs were $46.7 million in the quarter, or 25.1% of sales. Included in this total were $4.0 million of Dorner acquisition deal costs which we have included as a pro-forma item in our adjusted operating income, adjusted EBITDA and adjusted EPS calculations. Excluding these costs, RSG&A costs were actually $3.5 million lower than the previous year despite $2.3 million of higher annual incentive costs and stock compensation costs compared with the fourth quarter a year ago. This improved level of RSG&A was due to several factors. We had lower selling costs of $1.4 million resulting from cost savings measures including lower headcount and limited travel. G&A costs were down $2.9 million compared with the prior year if you exclude the Dorner acquisition deal costs of $4 million that I just covered. We also continued to invest in R&D to drive organic growth, so those costs were up $800 thousand. FX translation also added approximately $1.2 million to our RSG&A costs which also makes this year over year performance that much more impressive.

As we move into the new fiscal year, we are increasing our Q1 estimate for RSG&A to ~$50 million which includes the impact of the Dorner acquisition. Dorner adds about $7 million quarterly to our legacy RSG&A base costs. As sales increase throughout the year, variable sales costs will increase. In addition, we plan to continue making investments in R&D and will implement merit increases in July to reward our employees. As a result, we would expect RSG&A costs to increase modestly throughout the remainder of the fiscal year.

Turning to **Slide 8**, adjusted operating income was $18.9 million. Adjusted operating margin was 10.1% of sales, only down 60 basis points from the prior year. We are close to returning to pre-COVID margin levels as we see volumes return. We have also made structural changes to the business in the past year to improve profitability which are beginning to show up. Decremental adjusted operating leverage for the year was 30.5% which is significantly better than what we saw during the Great Recession of 2009 when we experienced decremental operating leverage of 38.0%. I would like to point out that while we are still finalizing the purchase accounting for the Dorner acquisition, we expect total amortization expense to increase to $6.5 million per quarter as Dorner will approximately double the historical level of amortization expense, we have had post the STAHL acquisition.

As you can see on **Slide 9**, we recorded GAAP income per diluted share for the quarter of $0.39 cents. Adjusted earnings per diluted share were $0.50 cents which were up substantially on a sequential basis, but down $0.08 cents per share from a year ago. We still believe that Dorner will be accretive to FY22 earnings per share by $0.05 to $0.10 cents. We are still working through the impact of the FY22 GAAP effective tax rate given the complexities of the Dorner acquisition and will provide our estimated tax rate in July when we report our Q1 earnings. In the meantime, we continue to use 22% as our normalized tax rate for computing adjusted earnings per share.

In addition, there have been substantial changes to the capital structure of the Company, and I want to be sure that we are transparent with the impact that this will have on Q1. With the initial $650 million bridge financing outstanding for half a quarter, the debt pay-down from the equity offering and the permanent $450 million term loan B financing outstanding for half a quarter, we expect interest expense in Q1 to be ~$7.5 million. With the additional shares from the equity offering, our share count for average diluted shares outstanding in Q1 is expected to be 27.2 million shares.

On **Slide 10**, our Adjusted EBITDA margin for FY21 declined to 11.9% because of COVID-19. Our Return on Invested Capital of 6.6% was similarly impacted. We continue to target 19% EBITDA margins and expect our ROIC to be greater than our WACC in FY23. Dorner will help us achieve our 19% EBITDA margin one year earlier than we would have otherwise done. We remain highly confident that our strategy will enable us to drive profitable growth and achieve these objectives.

Moving to **Slide 11**, we generated $20.5 million of free cash flow this quarter and an impressive $86.6 million in FY21, despite the pandemic. We took rapid actions to preserve and generate cash and utilized our strategy deployment process which is part of our business system to focus on working capital reductions. Our working capital as a percent of sales improved to 9.3% which was a significant contributor to our free cash flow improvement. We drove our days sales outstanding or DSO performance down to 51.5 days and improved our days payables outstanding to 58.7 days. Inventory turns also improved to 4.4 turns. We expect CapEx of $20 to $25 million in FY22. This includes CapEx for Dorner of approximately $3 to $4 million.

Turning to **Slide 12**, we have been very busy refinancing the capital structure post Dorner acquisition and I am pleased to report that we even exceeded our own internal expectations.

We utilized a $650 million bridge loan to acquire Dorner, pay down our previously existing term loan B, and pay various fees and expenses associated with the acquisition. We then issued $207 million of stock in an upsized equity offering in which the underwriter also exercised the green-shoe provision. This equity was issued at a price of $48 per share and resulted in net proceeds of $198.7 million, all of which was utilized to pay down the initial bridge loan. Right after the equity priced, we refinanced the remaining initial bridge loan with a $450 million term loan B at Libor plus 2.75% with a 50-basis point Libor floor and 99.75 price. This was on the tight end of the price talk and gives us a low cost, flexible capital structure that will serve us well for the coming years.

With the completion of the equity offering and debt refinancing, we estimate that as of March 31, on a pro-forma basis and excluding cost synergies, we would have been at a 3.4x net leverage ratio, using both ours and Dorner's March 31 LTM adjusted EBITDA.

Finally, our liquidity, which includes our cash on hand and Revolver availability, remains strong, and was approximately $155 million at the end of April.

Please advance to **Slide 13** and I will turn it back over to David.

David Wilson: Thanks, Greg. As you can see on **Slide 13**, orders continued to improve sequentially in Q4 and were up 24% versus Q3. We have seen improvements continuing in many markets. Projects that were previously on hold, are now being released and new projects are being quoted. This is all very encouraging. We also saw the beginnings of inventory restocking in our distribution channels for the first time in two years.

I should point out that there is a degree of seasonality in our orders. We typically have stronger demand in the fiscal fourth quarter whereas orders in the fiscal first quarter tend to decline sequentially. This reflects distributor purchasing behavior in advance of annual price increases. We know that year-over-year comparisons for the first quarter in fiscal 22 will be favorable considering what was happening at this time last year. In fact, through last week, the average daily order rate for our lifting business was up over 50% compared with last year.

Book to bill for the fiscal fourth quarter was greater than 1.1x to 1.0x. Demand was strong in defense and government with a variety of projects including shipbuilding and material handling automation at supply depots, among other projects.

Demand from energy markets globally was encouraging. Utilities were stocking up for summer grid work and in advance of the hurricane season. We also had requests for solutions in nuclear and thermal power generation facilities.

Demand for our fixed venue entertainment products has been improving. Inquiries in this market in general are picking up. We would expect to continue to see this trend improve, and to start seeing this convert to orders for touring shows as we progress through the year.

Both short- and long-term backlog were up sequentially. Short term, which is expected to ship within the first quarter, grew nearly 15% to $104 million while long-term backlog was up nearly 10%. This does not include approximately $40 million of additional backlog from Dorner.

We are entering fiscal 22 in a solid position with the expansion of the markets we serve, our strong competitive position and the tailwinds of recovery.

Please turn to **Slide 14**. For the first quarter of fiscal 22, we expect net sales to range between $212 and 217 million. This of course includes the Dorner acquisition.

The addition of the specialty conveying solutions platform diversified our markets into those with enduring tailwinds. We are seeing strong demand from e-commerce, life sciences and food processing industries. With this platform, we are accelerating our pivot to growth and improving our margin profile.

As to the supply chain, we are actively addressing inflation, shortages, and logistics constraints. We began implementing additional price increases this month and are working closely with our suppliers to get better purchasing and delivery performance. We have historically been able to cover material cost inflation and believe we are positioned to continue to do so.

Looking beyond the next quarter there is a lot that makes us excited about where we are headed. We are driving progress with our strategy and employing new business tools to drive scalability. We expect to deliver growth through targeted organic initiatives including opportunities within our specialty conveying solutions platform.

And, while de-levering our balance sheet and integrating Dorner are high priorities, we will continue to actively develop our M&A pipeline.

Turning to **Slide 15**, I would like to remind you of our Blueprint for Growth 2.0 strategy. CMBS provides the foundation, and our core growth framework defines the potential that we have in front of us. We truly believe there is a lot to look forward to here at Columbus McKinnon.

With that, Rob, we can open the line for questions.

Operator: [Operator Instructions] Our first question is from Mike Shlisky with Colliers Securities.

Mike Shlisky: I want to ask quickly about the backlog at Dorner. You mentioned it had more than doubled year-over-year in the quarter. Can you remind us of last March, to your knowledge, was there a very large dip at the very end of the quarter last year, kind of like what you saw or is it a very apples-to-apples pre-pandemic comparison for them?

David Wilson: As we look at the quarter ending March for them in the prior year, the pandemic was early in its cycle. I think their backlog was around $17 million at that time, and they saw the first quarter of our period last year. So, our first quarter, their third quarter in their annual cycle was their worst from the pandemic.

Remember, they have a year-end in September, so that would have been their fiscal third quarter, which is equivalent to our first fiscal quarter of 2021. That was the period when they were impacted the most by COVID. However, their March ending balance, or what we refer to as their April ending balance at $40 million, is up more than double. I think it was $17 million at the time that we are referring to.

Mike Shlisky: Okay. You had mentioned on the slide that you are still looking at 19% EBITDA margins in fiscal 2023. Do you anticipate that being a full year type of scenario or just kind of attaining by the end of the year as an exit rate?

Greg Rustowicz: We are looking at that as being the average for the full year.

Mike Shlisky: Okay. That is great color. I appreciate it.

Operator: Our next question is from the line of Michael McGinn with Wells Fargo.

Mike McGinn: You walked through some SG&A numbers, and I think the SG&A ramp, you said was $7 million with Dorner and then amortization on top of that. Is that $7 million fully burdened with R&D and everything?

Greg Rustowicz: Just to be clear, amortization is not included in our SG&A costs. Legacy is $43 million; Dorner is $7 million and that gets to the $50 million of RSG&A. As I mentioned, we do expect to ramp our spend for new product development, which falls into R&D for the quarter.

David Wilson: That $50 million includes the R&D and we are going to continue to make selected targeted investments in growth throughout the year.

Mike McGinn: Got it. You also alluded to the second pricing increase and that your backlog is filling up a little quicker with the shorter-cycle distribution products. Can you walk us through what the expectations are for price increases on the front end, shorter cycle products being delivered in the front half and then projects picking up the back half, what your incremental margin estimates, or assumptions would be in a scenario like that?

David Wilson: We are working to make sure that we are ahead of the inflationary pressures that are out there in the market. Our second price increase is really targeted at ensuring that we stay positive as it relates to net price versus inflationary pressures. We are not seeing this as an action that expands margins specifically in the second price increase, and it is more of a movement to make sure that we are out ahead of inflation. The back half, as it relates to longer cycle projects, we obviously price them as an engineered-to-order project off an understanding of the market value of the project, the competitive landscape, and the pricing pressures on the cost base. So, we will be making sure that we have the appropriate adjustments in there to ensure that we are maintaining, if not expanding, margins.

Greg Rustowicz: Just to add on to that, Mike. With engineered-to-order product because it is a unique SKU, we do not count that as price, so our price calculations are year-over-year by SKU, but the change in prices with engineered-to-order, every time you quote, you have the opportunity to adjust your input costs in our quoting software. So, when we talk price, it is just on standard short-cycle product that was sold in the previous year, which is about half of the business.

When we talk about 1% price realized in the quarter, you might think of it as really, it is 2% on what we are actually raising prices on standard product. However, there is also pricing embedded in engineered-to-order products based on how we are quoting it and adjusting the input cost for that.

Mike McGinn: Got it. On the CapEx number, is this sort of a catch-up plus integration or is this the run rate to use going forward for the combined business?

Greg Rustowicz: In general, this is probably a more normal level of CapEx at the $20 million to $25 million. We spent $12.3 million this past year. In other years, we have been as high as $20 million to $22 million on just the legacy Columbus McKinnon. Dorner is typically in the $3 million to $4 million range, and that should be plenty on a go-forward basis. I think that this would be a good number going forward.

Operator: The next question is coming from the line of Chris Howe with Barrington.

Chris Howe: As far as the guidance that we have discussed for the first fiscal quarter, can you talk in more detail as to how this may look for a Dorner sales expectation? In the context of this fiscal year, can you remind me again about Dorner seasonality and its comparisons over, let us say, your last fiscal year?

And that is too many questions on there, but the previous Dorner expectations laid out for their year ending September 30, are those still in line?

David Wilson: Chris, let me jump in, and then I will ask Greg to help out. Dorner's performance is tracking consistent with our expectations at the acquisition timeframe and, as I mentioned in my opening comments, even slightly ahead of those expectations, so we feel really good about where the business is.

Their order development has been really promising. From a cyclicality standpoint on their build-to-order business, which is their base business, it is relatively stable. The Q3 Columbus McKinnon period tends to be their highest period at calendar year-end, and then goes into the Q4 period at a slightly lower level.

But Q1 and Q2, if there is any seasonality, would tend to be a little bit lower on the build-to-order in a general cycle, if you will. However, that is exclusive of more macro drivers, which includes a lot of activity in the life sciences and e-commerce sectors.

We are seeing terrific development in terms of order pipeline there. On a year-over-year basis, their orders are materially up on a quarter-to-date basis. Again, the Columbus McKinnon first quarter last year was their worst quarter. To answer your question, yes, really good development there, and Greg, I do not know if you have anything you want to add to that.

Greg Rustowicz: Just to add on, from a seasonality perspective, we do not really see seasonality in the business other than the number of working days. When David talks about our December legacy quarter being less for them, it is really a function of the Thanksgiving and Christmas holidays, but there is not really that cycle. Given their growth trajectory, they have been blowing through any kind of concept of seasonality.

Now we did give a couple of markers on revenue as part of the S-1 filings and 8-K filings and when we announced the Dorner acquisition, through December, the revenue was about $98 million and change. Furthermore, we said for their September timeframe, it was about $124.7 million, which says that there is a tremendous amount of growth that is happening in the second half of the year, and that is just continuing.

We are very pleased with the first month and a couple of weeks that we have owned Dorner. It is a very profitable, high-margin business with a great double-digit growth trajectory.

David Wilson: Yes, and a fantastic team. We really, really feel good about where we are, and we are excited about how things are coming together right now and working really hard on all the things that we have committed to do to make sure that we achieve and exceed our targets.

Chris Howe: That is great. As it relates to Dorner, in some of your comments in the press release, David, you said there were strategic opportunities in a fragmented market. Can you

expand on these thoughts and how it may relate to the different opportunities that you are seeing in your inorganic pipeline?

David Wilson: The market that Dorner serves is a global market that approximates $5 billion. They are obviously growing at the rates that Greg was just referring to, a small piece of that total market, but there are two other major global players in addition to Dorner, and then we see a long tail of fragmentation. Dorner today has approximately 85% of their business in the U.S. and the balance, overseas.

As we look at the competitive landscape and we look at the market, there are a number of nice niche technology opportunities. There are also opportunities that will enable more global scale and there is just a tremendous runway and a nice pipeline of opportunities that exist. Obviously, we are very focused on what is right in front of us and making sure that we execute to the plans that we have committed to, but the pipeline of opportunities is really nicely concentrated in areas that we think will be very attractive for Dorner.

Operator: Our next question is from the line of Greg Palm with Craig-Hallum Capital.

Danny Eggerichs: This is Danny Eggerichs on for Greg today. It sounds like Dorner growth rates have been accelerating recently. I am wondering if you could dig into the drivers behind that. I know, certainly, with the labor constraints, a lot of companies are putting more emphasis on warehouse automation. Anything you are seeing from that perspective?

David Wilson: Danny, I am sorry, you broke up just a little bit there in the front end of the question. So, you are asking about order rates in Dorner, just to confirm?

Danny Eggerichs: Yes. It seems like order rates have been accelerating recently. I was wondering what the drivers were behind that. I know with the labor constraints it seems like companies are putting more of an emphasis on warehouse automation in their distribution centers.

David Wilson: We are certainly seeing that as well. The two primary markets that we are seeing most of the significant activity and although across the board markets are pretty favorable, would be life sciences, which is primarily concentrated around pharmaceutical distribution automation in the life sciences space and then e-commerce growth, in terms of warehousing and order fulfillment activities.

Yes, a lot of demand generation coming from those areas and the order pipeline continues to develop positively, and we are starting to receive more and more commitments from customers for orders that will come in the future relative to that opportunity, and we are pretty encouraged.

Danny Eggerichs: Got it. That is good. Piggybacking off one of the last questions on inorganic growth opportunities on a worldwide basis, what is the opportunity organically for Dorner for geographic expansion?

David Wilson: On a CAGR basis Dorner has historically grown organically at about 13% over the last five to seven years, so really attractive organic performance profile. Clearly, the work we are doing together is focused on driving incremental growth beyond that.

We have got a nice set of opportunities that exist from a channel synergy standpoint and from a geographic expansion perspective, particularly as we look beyond the U.S. into Europe. We

have got reach that they do not necessarily have, legal entities and the opportunity to plug resources in to help them scale.

As it relates to Columbus McKinnon product that has not had access to some of the channel partners that Dorner enjoys, we have the opportunity to bring some of our actuation and other overhead workstation crane products through their channels for growth in the near term.

There are some really interesting opportunities that are organic and synergistic in both directions on top of the already terrific performance that they have been delivering. Remember, they have been owned and operated under a private equity structure for the last seven years. They have been somewhat capital constrained, and we are working with them to expand capacity and make sure that they can scale to accommodate the growth opportunities that are in front of them. I think the organic growth opportunities will be material in addition to the acquisitive opportunities.

Operator: Our next question is from the line of Matt Summerville with D.A. Davidson.

Matt Summerville: A couple of questions. First, I was wondering if you could comment on where you think we are with respect to distributor inventory levels currently versus prior up-cycles and what inning we are in with the restock process?

David Wilson: Matt, I guess I have not lived through those historic cycles, but I am trying to get as smart as I can on it. I will let Greg comment a little further after I highlight, but we saw channel partners lean in in Q4 and start to place orders for the first time in a couple of years and lean in positively towards where the market was going. Since then, we have seen that lean becomes more forward leaning, if you will, and becomes accelerated.

We see our customers beginning to open up. What we are reporting here in Q4 is the beginnings of that. On a quarter-to-date basis, we are up about 70% short-cycle in comparison to the prior year. That is for the first three weeks of May. Our project business is up about 30% year-over-year in that same cycle, so when I commented that through the first three weeks of May, we see orders up year-over-year approximately 50%, that is the split. What the short-cycle demand increase would indicate is that our channel partners are leaning in a little bit further on inventory and being bullish about it, but I would say, we are in the early to mid-innings in terms of restocking.

Greg Rustowicz: Just to add on, Matt, having been here for a while, this is substantially less than what we would typically see, and the stocking always would take place and the orders would come in the March timeframe with delivery either in March or in the first quarter of the next fiscal year. While we did see stocking orders, it is still significantly below than what we would normally see.

Matt Summerville: Given the moving pieces associated with how raw material costs are rolling through, how your pricing schematic is going to play out this year, how should we be thinking about core incremental margins in the base business ex-Dorner this year?

Greg Rustowicz: With the pricing that we have implemented, we want to be sure we stay ahead of the inflationary pressures that we are going to see. We have inflationary pressures in raw materials and freight and labor costs. The labor cost inflation is not unusual, but in the past year, we did not provide increases to our associates. There is going to be a bit of a catch-up

here starting in July, but I think all in, we expect that we will cover inflation and maybe have a little bit of upside to it like we always do, but this is really meant to cover the inflationary pressures that we are expecting.

David Wilson: I think the net comment is we do not expect any erosion, and we are anticipating that we will be able to lean in a little bit more.

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

Jon Tanwanteng: Maybe just to drill down the previous question a little bit further for the first quarter, do you expect any gross margin deterioration just in that quarter because the price increases do not take place until June and then maybe end up the year up as those roll through, or is it more of that you are still able to stay ahead based on the pricing increases that you already did?

Greg Rustowicz: We expect that we will still be able to stay ahead, Jon. If you recall, we implemented our normal round of price increases that took effect some in January, some April 1, and in the U.S., the third week of March. Those are all in place, and we should not expect any erosion to margins as a result of inflation in the first quarter. Once again, we are trying to get ahead of what we anticipate coming down the road.

Jon Tanwanteng: Great. Since you have announced your next price increase, are you seeing another spike in demand from people who are trying to stock up ahead of that rolling through kind of counter season what you usually see?

David Wilson: No, nothing material yet at this point. As Greg indicated, we announced last week, we have had a lot of positive discussions with our channel partners and customers. They understand, they are expecting it, and it is not a challenge as it relates to implementation at this stage. We have not seen a lot of movement in terms of order rates in the short-term that we have been talking about it.

Jon Tanwanteng: Great. Greg, just a great job on cash flow once again. Do you see that reversing out as you grow this year and maybe building inventory like some of your customers? It seems like everybody's supply chain is trying to if they can.

Greg Rustowicz: That is exactly what we would expect to happen. As we look at free cash flow going forward, we are going to have higher interest expense as a result of the refinancing that we have done. We are going to have higher CapEx.

Working capital is going to be significantly higher. We did benefit in our accrued liabilities. Our working capital as a percent of sales was 9.3%, but that benefited from a derivative that was classified as current. So, our more normal working capital as a percent of sales is going to be in the 14% to 15% area.

We would expect free cash flow is not going to be as rich as it was this past year, and the bulk of it really coming from an increase in working capital as we expect revenue to improve. On top of that, we also have transaction costs and debt refinancing fees that have been paid in the month of April and May. For all those reasons, we will benefit from Dorner's free cash flow, but net-net, we are going to have less free cash flow in the coming year than this past year.

Jon Tanwanteng: Great. Did you have a breakout as to what Dorner was expected to contribute to the first quarter within your guidance?

Greg Rustowicz: We did not. The revenue number that we have guided to includes both legacy Columbus McKinnon and Dorner. We broke out the Dorner SG&A at $7 million. We talked about Dorner being roughly $3.2 million to $3.3 million of additional amortization because we said that it is approximately double what we had historically for amortization expense.

David Wilson: We did not break it out explicitly in the full P&L. We had a few guides that we provided relative to Dorner performance.

Operator: Our next question is from the line of Steve Ferazani with Sidoti.

Steve Ferazani: A follow-up from the last question. I know even if you are not breaking out Dorner, you can sort of ballpark it, and I know you are coming off typically your strongest quarter seasonally, but it seems like maybe you are not looking at much sequential growth certainly at the low end of your guidance. I am just trying to figure out, if the chip shortage in the automotive business is slowing sales to certain end markets like automotive or if there are any labor issues? Anything that is hampering growth in Q1 that goes away?

David Wilson: I do not think there is anything specific from a market perspective that we see as negative as it relates to the sequential activity in the markets. It is more simply sequential performance in the core business based on the cycle in the market.

We see a lot of demand that gets placed, as we talked about, given our year-end price increases, et cetera, are being placed in the last fiscal quarter of the year. That is not necessarily market development driven; it is more just get-out-ahead-of-price-increases behavior in the channel. As we head into Q1, we are anticipating a typical cyclical decline in the core business, but certainly, with a tendency towards acceleration as we head into the second quarter.

Greg Rustowicz: The only thing I would add is, one of the movers to our revenue line is our rail business which can have some larger projects, and while we had very strong orders in the fourth quarter from our rail business, and due to the timing of projects in our Q1, there is probably about a $5 million delta in revenue timing.

David Wilson: Revenue timing. Good point.

Steve Ferazani: In terms of leverage and certainly, it is easy for us to model out how you get net leverage under 2.0x within two years, given your strong cash flow, but you may have touched on this, what are you thinking about and what are you allowed to do in terms of actual debt repayments? Just in general, how are you thinking about cash?

Greg Rustowicz: From a debt repayment perspective, the Term Loan B requires an annual principal payment of 1% per year, which would be $4.5 million and divide that by four, so $1.25 million a quarter starting in the next quarter.

Furthermore, there is what is called an excess cash flow sweep, which is 50% of, in essence, your free cash flow that is due based on your annual free cash flow at the end of March, and it depends on your leverage ratio; once we are below 3.0x, that steps down to 25%, and then it

steps down again. We filed our credit agreement, so that is publicly out there, so we can chat about that later.

In terms of other cash requirements, pension contributions would be one that we would anticipate that will be similar this new fiscal year versus what we did last year, probably in the neighborhood of around $7 million. Also, there are no prepayment penalties on debt. What we have typically done in the past is use any excess cash we have to pay down debt, save the interest expense and de-lever quickly. Even though it is a net leverage ratio, we will use excess cash to pay down debt.

There are no prepayment penalties and the financial covenant for those of you who are not familiar with the Term Loan B, only kick in if we draw down off the revolver. If we do not draw off the revolver, the covenant is not tested, and we typically do not need our revolver for intra-period cash requirements, given our strong cash flow profile.

Operator: We have reached the end of the question-and-answer session. I will now turn the call over to David Wilson for closing remarks.

David Wilson: Thank you, Rob and to everyone joining us today.

I would like to take a moment to thank all of my Columbus McKinnon associates for their resilience and adaptability this last fiscal year. We truly appreciate your dedication to the Company and to our customers. We are looking forward to working together to create the bright future that we believe lies ahead for Columbus McKinnon.

I appreciate everyone's attention and I hope everyone has a great day. Thank you and goodbye.

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