Operator: Greetings, and welcome to the Columbus McKinnon Corporation Third Quarter Fiscal Year 2022 Financial Results Conference Call. At this time, all participants are in a listen-only mode. A question-and-answer session will follow the formal presentation. [Operator instructions]. As a reminder, this conference is being recorded.

I would now like to turn the conference over to your host, Deborah Pawlowski. Over to you, Deborah.

Deborah Pawlowski: Thank you, Peter, and good morning, everyone. We certainly appreciate your time today and your interest in Columbus McKinnon. Joining me are David Wilson, our President and CEO, and Greg Rustowicz, our Chief Financial Officer.

We released our third quarter fiscal 2022 financial results this morning before the market opened. You can access that release as well as the slides that will accompany our conversation today at our website, www.columbusmckinnon.com. After David and Greg's formal discussion this morning, we will open the line for Q&A. We kindly ask that you ask one question with a follow-up question and then get back in 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. As you know, 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 at our website or at sec.gov.

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

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

David Wilson: Thank you, Deb, and good morning, everyone. Our team is executing well in a challenging environment and, once again, we delivered a very strong quarter. Sales were up 30% despite leaving approximately $20 million of planned shipments unshipped in the quarter due to pandemic-related supply chain constraints. This reflects strong contributions from our Conveyor Solutions acquisitions, solid organic growth and the impact of our pricing power.

We achieved adjusted gross margin of 36.7%, which tied the previous record set just last quarter. This is especially noteworthy as it demonstrates the effectiveness of our strategy to drive stronger margin performance through operational improvements and acquisitions. Additionally, it is set against the backdrop of our seasonally weakest quarter. We are continuing to make good progress on driving margin expansion and, in the last 2 quarters, have delivered the highest adjusted gross margins in Columbus McKinnon's history. Strong margins, cost discipline and 2 great acquisitions drove our bottom-line growth.

Adjusted EPS was $0.60, a 67% increase over the prior year period. 80/20 continues to provide benefits and, year-to-date, has contributed $2.6 million to operating income. Adjusted EBITDA margin has expanded to 15.4% year-to-date even as sales for our organic businesses remain below pre-COVID volumes by approximately 11%.

Our new precision conveyance platform is advancing Columbus McKinnon's Intelligent Motion Solutions transformation. The Garvey acquisition, which we completed in December, is an

excellent example of the potential we have to continue to build out this platform, where we are providing unique high-value solutions to markets with strong secular growth drivers. Acquisitions provided 17% of our revenue in the third quarter and 33% of our adjusted operating income.

We continue to be encouraged with the strength of demand across our targeted markets, but remain impacted by persistent global capacity and supply chain challenges. Our conveying solutions platform is expanding our presence in life sciences, e-commerce and the food and beverage markets. We are also active in many areas, where the pandemic is driving increased demand, whether it's the production and distribution of vaccines or rapid COVID tests or just the increased use of online ordering that is driving e-commerce and parcel distribution systems. We ended the quarter with a record backlog of $295 million, of which approximately $178 million is shippable in the fourth quarter.

Please turn to Slide 4. We've been very pleased with the addition of Garvey, the acquisition we just completed in December. It's an excellent enhancement to our precision conveyance solutions offering. With the acquisition of Dorner last April and now, with the addition of Garvey, our higher growth, higher-margin businesses are becoming more relevant within our portfolio mix. Combined with our Linear Motion and Automation Solutions, over 40% of our business now has a stronger growth profile and higher earnings potential.

Let me review the Garvey acquisition in a little more detail on Slide 5. Garvey was already on Dorner's target list when we acquired them. They bring a market-leading position for accumulation solutions in food and beverage and life sciences. Briefly, accumulation is the buffering science in a conveying system. It balances volume between processes that operate at different speeds.

For example, in a pharmaceutical production process, you can imagine there would be vial unloading, filling, labeling, sealing and packaging processes. Not all of the machines in this process operate at the same rate. Garvey's patented and advanced accumulation solutions are enhancements to continuous flow production lines, such as this, and increase efficiency and productivity by balancing the flow between machines. Their solutions store and reintroduce product as needed to transform batch production from one machine into single piece flow for the next machine in a production process.

Founded in 1926 and highly regarded for its engineering expertise to design systems that can handle a large variety of product shapes and sizes, Garvey's solutions convey, accumulate, orient, combine and align products rapidly. They offer a broad product offering across both modular standard and highly engineered accumulation solutions. In fact, they are a leader in bottling operations that range from small vaccine vials to reverse tapered wine bottles and more.

With approximately $30 million in annual revenue when we acquired them, their gross margin was approximately 40% and EBITDA margin was 30%. We are truly excited about the combination of this business with Dorner in our precision conveyance platform. In just our first months together, we were successful in creating sales synergies, winning a $700,000 combined solutions project for a ready-to-eat packaged food products company. Our combined solution manages the product throughout the process from assembly to packaging through metal detection and bulk packaging. We expect $0.05 in EPS accretion from the acquisition in fiscal '23.

I'll now turn the call over to Greg, and he will cover the details of the quarter. Greg?

Greg Rustowicz: Thank you, David. Good morning, everyone. On Slide 6, net sales in the second quarter were $216.1 million, up 29.7% from the prior year period and slightly ahead of the guidance we provided last quarter. Our guidance included an estimated impact to sales for

supply chain challenges that we and every other industrial company are addressing. As David mentioned earlier, we estimate that the impact to revenue was approximately $20 million in the third quarter.

Sequentially, sales were down 3.4%, but, as we discussed last quarter, our fiscal third quarter is our seasonal low point due to 3 less shipping days in the U.S. and even less shipping days in Europe due to their holiday schedule. The third quarter had the benefit of 1 month of our most recent acquisition, Garvey Corporation, in our results. Overall, Dorner and Garvey together delivered over $36 million of revenue in the quarter.

Looking at our sales bridge, sales volume was a major driver of growth, with volume up $9 million or 5.4%. We also realized positive pricing as we saw year-over-year pricing improved by 3.4%. Our pricing actions resulted in $5.6 million of year-over-year price, up from the $4 million of year-over-year price we reported last quarter. Foreign currency was a headwind and reduced sales by $1.5 million or 0.9% of sales.

Let me provide a little color on sales by region. For the third quarter, we saw continued strength in the U.S., with sales volume up 7.5%. We also improved pricing 3.6%, up 120 basis points from second quarter levels. Outside of the U.S., sales volume was up approximately 3% as volume increased 10% in Latin America, 5% in Europe and 2% in Canada. Volume declined 7% in APAC off of a relatively small base. We also improved pricing internationally by 3.1%. This was up over second quarter levels by 40 basis points.

We expect that, with the pricing power inherent in our value proposition, we will continue to see our pricing actions mitigate inflationary pressures. With raw material inflation accelerating globally, we are taking more pricing actions in the fiscal fourth quarter, which is also our time frame for implementing annual price increases. With these actions, we expect to stay out in front of material cost inflationary pressures.

On Slide 7, gross margin was 34.7%, which included a $1 million negative impact from the recent Garvey acquisition for amortization of backlog acquired and inventory step-up expense. This represents 1 month’s amortization. The fourth quarter will include an additional $2.9 million negative impact from both of these items as the balances are fully amortized.

We also settled a $2.9 million product liability legal claim in the quarter. This claim was for a product that was sold over 48 years ago by a predecessor company that Columbus McKinnon acquired in 1995. Normalizing for these items as well as some business realignment costs, we matched the record adjusted gross margin of 36.7% reported last quarter. This was up 320 basis points from the prior year. This was a meaningful accomplishment, given the normal seasonal decline of about 100 basis points to 120 basis points that we typically experience in gross margins in the fiscal third quarter, as well as the significant supply chain constraints we experienced. Overall, our precision conveyance acquisitions were 180 basis points accretive to our adjusted gross margin this quarter. In addition to the impact of our acquisitions, adjusted gross margins reflected improved year-over-year productivity in our factories.

Let me point out a few highlights on our gross profit bridge for the quarter. Third quarter gross profit increased $19.8 million compared with the prior year and was driven by several factors. Our acquisitions provided $16.7 million of gross profit. As just discussed, productivity added $3.6 million. Sales volume and mix added $3.2 million and pricing net of material inflation added $1.4 million. Offsetting these items were higher product liability costs of $3 million, which included the $2.9 million legal settlement I just discussed.

As shown on Slide 8, RSG&A costs were $53.5 million in the quarter or 24.8% of sales. The acquisitions added $6.7 million to RSG&A costs compared with the prior year. We also recorded

$1.7 million in higher incentive and stock-based compensation compared with the prior year period. In addition, we incurred $400,000 in acquisition deal costs, which we have included as a pro forma item in our adjusted operating income, adjusted EBITDA and adjusted EPS calculations.

For the fiscal fourth quarter, we expect RSG&A expense to be similar to fiscal Q3. This includes a full quarter impact from the Garvey acquisition as well as additional investments in strategic growth initiatives.

Turning to Slide 9, adjusted operating income was $20.5 million. Adjusted operating margin was 9.5% of sales, up 280 basis points from the prior year. This margin expansion was largely driven by the accretive acquisitions completed this fiscal year, which contributed 180 basis points. We also benefited from operating leverage on improved volume and strategic pricing.

As you can see on Slide 10, we recorded GAAP earnings per diluted share for the quarter of $0.34. Adjusted earnings per diluted share of $0.60 was up substantially from $0.36 in the prior year period. As a reminder, we are adding back amortization expense on a tax-affected basis to our adjusted earnings per diluted share calculation. We feel that this is a better indicator of the true cash generation capabilities of the Company. In Q3, this added $0.17 to adjusted earnings per diluted share. All periods on this chart have been restated for this change.

With the acquisition financing that we completed last May and, more recently, this past December, interest expense is running at approximately $4.9 million per quarter. Weighted average diluted shares outstanding are anticipated to be about 29 million in the fourth quarter. Our tax rate on a GAAP basis is expected to be in a range of 15% to 17% for the full year, and we continue to use 22% for our pro forma non-GAAP tax rate when calculating non-GAAP adjusted earnings per share.

On Slide 11, our adjusted EBITDA margin continues to expand and was 15.4% on a year-to-date basis. For the quarter, adjusted EBITDA margin improved to 14.2%, up 330 basis points. Our recent acquisitions were accretive to our adjusted EBITDA margin by 300 basis points in the quarter. Our return on invested capital also continues to improve and was 7.7% on a trailing 12-month basis. We continue to target a 19% EBITDA margin and expect our ROIC to be double digits in fiscal '23, excluding the impact of future acquisitions.

Moving to Slide 12, we generated $3 million of cash in the third quarter. Year-to-date, we have generated $14.2 million. On a year-to-date basis, we incurred $14 million of cash outflows related to acquisition deal costs. We also have added approximately $42 million of inventory to meet rising demand and lessen supply chain impacts. Our working capital as a percent of sales was 15.2%, which was in line with what we were expecting. Capital expenditures were $2.8 million in the quarter. We expect capital expenditures of $12 million to $16 million for the full year.

Turning to Slide 13. We refinanced the capital structure post Dorner acquisition, which included an equity offering and a new term loan B. Our low-cost flexible capital structure is comprised of a $450 million term loan B, which carries an interest rate of LIBOR plus 2.75% with a 50-basis point LIBOR floor. To finance the Garvey acquisition, we utilized the accordion feature of our term loan B and borrowed an additional $75 million.

As of December 31st, on a pro forma basis which includes both Dorner's and Garvey's December LTM adjusted EBITDA but excludes expected cost synergies, our net leverage ratio was 2.9x. We expect to achieve our targeted leverage ratio of 2x within fiscal '23, barring any additional acquisitions. Finally, our liquidity, which includes our cash on hand and revolver availability, remained strong and was approximately $190 million at the end of December.

Please advance to Slide 14, and I will turn it back over to David.

David Wilson: Thanks, Greg. As I'd mentioned earlier, demand has been increasing across all markets, with strong tailwinds from life sciences, food and beverage, e-commerce, warehousing and parcel management.

Total orders were up 37% year-over-year in the quarter. Organic orders increased a very solid 14% year-over-year. It's worth noting that, sequentially, the average daily order rate remained essentially unchanged from the second quarter, defining our typical seasonality for the third quarter. Average daily orders in January through last Friday were up 7% when compared with the third quarter.

Our record backlog includes $24 million of Garvey orders, which are expected to ship over the next 12 months. Garvey's lead times are typically 4 months to 6 months with projects that can run up to a year. In total, our conveying solutions backlog is developing quite nicely.

Please advance to Slide 15, where I will review our expectations for the fourth quarter. As we advance into the last quarter of our fiscal year, we are expecting net sales to be approximately $235 million. This reflects the assumption that supply chain challenges and labor shortages will continue at current levels. We expect order rates to remain robust as our pipeline of opportunities is in excellent shape. In particular, the food and beverage, e-commerce and life sciences markets are very promising.

We're also seeing an uptick in aerospace as the industry gears up for its recovery. Automotive, while hampered by chip shortages, continues to add production lines for electronic vehicles. The metals industry is making significant investments in expansion and upgrades. The paper and package board industry is also investing in capacity increases and productivity improvements driven by the growth in e-commerce. These investments are supporting all of those boxes that are showing up on our doorsteps. Both industries are expanding within their available footprints and building out new capacity.

Regarding the supply chain, electrical components, castings and motors remain difficult to source predictably. As you would imagine, we're working very closely with our existing suppliers and are proactively assessing and developing relevant alternatives to add new sources of supply, where appropriate. We're also remaining agile and flexible within our operations to advance projects and expedite deliveries despite these difficulties. The highly contagious and rapidly spreading COVID Omicron variant has, as you might imagine, increased near-term staffing challenges as well.

Nonetheless, we remain very encouraged by market developments and the transformation we are driving through the implementation of our Blueprint for Growth 2.0 strategy. We believe Columbus McKinnon is uniquely matched to this moment in the global economy. The solutions we bring to market are addressing some of the most pressing issues the world is facing as the pandemic enters its third year. We provide productivity and automation solutions that solve issues related to an unprecedented shortage of workers, while also making workplaces safer.

We play in infrastructure investments and assist the world's manufacturers, as they re-shore and re-balance their global production capacity. Our solutions also support the explosive growth in e-commerce, the energy transition and resulting shift to electric vehicles, as well as the pharmaceutical and food and beverage industries move to a more "direct-to-consumer" model. Through these unprecedented times, we are successfully transforming Columbus McKinnon into a higher-growth, higher-margin enterprise, and we're truly excited about what the future holds.

With that, Peter, we can open up the line for questions.

Operator: Thank you. At this time, we will be conducting a question-and-answer session. [Operator instructions] The first question is from the line of Michael McGinn with Wells Fargo. Please go ahead.

Michael McGinn: Good morning, everybody. So, you mentioned with Garvey that COVID was a potential tailwind in the pharma business. Are you able to frame if there was any revenue or margin pull forward into the trailing 12 numbers and if you feel comfortable to grow past those given the strength in food and beverage?

David Wilson: Yes. We do provide support to the COVID environment and provide vaccine-related accumulation technology, not only for the accumulation through the production process, but also for the drying process as you take those products out of cold storage. And so, we did support that initial build, but we believe that there is growing demand for vaccines and other related pharmaceutical requirements that position us well for growth, as we head into this coming fiscal year.

Greg Rustowicz: Just to add some color, Garvey is headquartered in New Jersey, which, as you know, is headquarters for a lot of the pharma companies, and they have really strong relationships with companies like Pfizer, Merck, Abbott Labs, J&J.

David Wilson: Yes. Their customer list is a virtual who's who of pharmaceuticals and food and beverage companies.

Michael McGinn: Got it. And then, regarding the deleveraging down to 2x, can you frame for us what the right number of targets per year is and how the pipeline kind of looks as it stands today? Are there similar types of Dorner or Garvey targets out there or something smaller in size? Any help there would be great.

David Wilson: Yes. Sure, Mike. As we've discussed, we intend to be programmatic in our approach to developing the Company and executing on our strategy through M&A, and we have an active and developing pipeline of opportunities in very attractive spaces. Our initial moves into precision and specialty conveying solutions have provided us with great access into that fragmented landscape there, in addition to our efforts to continue to develop the Company in the linear motion and automation areas. And so, we have a nice pipeline of opportunities, and we're in active discussions, but those discussions and resulting possibilities develop at their own paces. I would say that we have opportunities that range in size from Garvey-like opportunities up to opportunities that could be even larger than Dorner-sized opportunities.

Greg Rustowicz: And I think, Mike, one of the really impressive results in December was the fact that, together with Dorner, Garvey and Dorner won a very significant order that David talked about on the call of over $700,000, and that's just in the first month. That truly is a revenue synergy that would not have occurred without Garvey.

David Wilson: Right. Yes. There are others that are right behind that in terms of areas where they have the leading accumulation technology and we have leading conveying technology. Independently, we may not have been successful in either case in the past, but combined, we're a much more attractive opportunity for customers in multiple attractive end markets.

Michael McGinn: Great. I appreciate the time.

Operator: Thank you. The next question is from Greg Palm with Craig-Hallum Capital Group. Please go ahead.

Greg Palm: Good morning, everyone. Just starting off on the supply chain impact related commentary, how does that $20 million of unshipped orders compare with your initial

expectations? And did I hear it right that you're expecting sort of a similar level of impact here in the current quarter?

David Wilson: Yes. This is David. I would say that it's a little bit worse than we anticipated coming into the quarter. We had pegged a $15 million number in our models and this had a bigger impact in the period than we expected. That being said, there's a lot of bright spots and continued challenges as it relates to the supply chain. As I mentioned in my prepared remarks earlier, the Omicron variant's impact with rising infection rates had an impact on our near-term labor supply, but the overall impact of $20 million was a little bit higher than we'd anticipated coming into the quarter.

Greg Palm: Okay. Fair enough. And the demand commentary for January, I think you said that daily orders were up 7% in January or at least to-date. What is that normally during this time and maybe just remind us, in terms of the March quarter, how does the cadence of that usually play out?

David Wilson: Yes. I would say that, seasonally, our lowest quarter is our third quarter, and that's why it was noteworthy that our order rates remained essentially unchanged through the third quarter. That was a very positive development as we advance through the third quarter; and then, sequentially, we're thinking this is a nice run up in the early days of January, up 7%. That 7% is split about 5% on the short cycle side and about 10% on the projects side.

Greg Rustowicz: Yes. It's Greg. I would say that it's kind of hard to compare to a year ago, where we were in a significant ramp-up from the low points of the pandemic. We certainly have that data and I'm sure we talked about it on the call a year ago. It was probably higher than 7%, but I would say it's largely because we had such a significant decline, as most companies did with the pandemic starting in 2020.

Greg Palm: Okay. Good. All right. I'll hop back in the queue. Thanks.

David Wilson: Okay. Thanks, Greg.

Operator: Thank you. The next question is from Chris Howe with Barrington Research.

Chris Howe: Good morning. As I think about Conveying Solutions, you mentioned the backlog remains robust here. The combination of conveying, automation and linear is now 41%. Can you talk more about this slide? How do you see the evolution of this 41%, perhaps getting closer to that 50-50 split with your legacy Lifting Solutions business over time? Can you achieve that with the existing set of businesses in play or does an inorganic opportunity need to come to fruition to get to 50% or higher of the mix?

Greg Rustowicz: I would say that we would be planning to move in that direction through the growth that would be both organic and through acquisition and believe that the 50% is achievable and even more over time. That is not to say that the Lifting Solutions portion of the business doesn't grow at a very attractive rate compared with historical levels, because we have a lot of very interesting organic developments in play there that we're pretty excited about and we think will allow for some nice growth. Over the course of our strategic planning horizon, which is a 5-year period, we believe that we strategically transformed the business to a business that has a higher mix of high-growth, high-margin, secularly oriented product offerings that are very attractive in the Intelligent Motion Solutions space.

David Wilson: So, Chris, it's really just a matter of time. It can get there. It's just a question of how quickly. Clearly, with the right sorts of inorganic acquisitions, we can accelerate that transition and move the mix beyond that as we get bigger in the attractive segments that we're talking about here.

But, just de facto, the precision conveyance is typically an 8% kind of growth business. We've been outpacing that at Dorner at double-digits and we would expect that, with revenue synergies, we can move Garvey into that sort of growth trajectory. So, that business continues to grow; and then, clearly, linear motion and automation are the other 2 key components that are today growing in the mid-single digits and outpacing the organic growth of the legacy lifting portion.

Chris Howe: Okay. And then, following up on the previous question surrounding M&A, we're entering this rising rate environment and depending on what Fed Chair Powell wants to say, we'll see what happens. How would you place this in the context with where your net leverage is today? It's going to be closer to 2x here, so how do we place this environment into context with your balance sheet and what's your opinion on how this all shakes out in regard to pricing some of these opportunities in the market? Do you think multiples come down as companies would leverage exit these potential opportunities? Do you have any thoughts on that?

David Wilson: I think we're in a good position. We have a healthy balance sheet and a strong cash generation through really all business cycles within our portfolio. What we've added to it complements that same performance and we're trending in the right direction, with everything remaining on track. The businesses that we've acquired are performing well and the opportunity landscape is attractive. We're going to be disciplined and thoughtful, but we have the ability through both leverage and equity to advance with opportunities in this market. I would anticipate that what you said is logical, that, as rates go up and highly leveraged companies are maybe taking themselves out of the mix, pricing would potentially come down a little bit.

Greg Rustowicz: Chris, just to add on, from a net leverage perspective, we were at 2.9x and that's not including cost synergies. On a financial covenant basis, we were below 2.8x in the quarter which is what we'll report, so in line with what we talked about when we bought Garvey, where we said we would be at 2.8x on a pro forma basis. We're comfortable at up to 3.5x.

Clearly, in the case of Dorner, leverage out of the gates was higher than that, but we also had plans and were very transparent that we were going to be raising equity to help finance the acquisition. So, equity is always a part of the equation that will be looked at. There's a lot that has to happen for an acquisition to get consummated. It has to make sense, both strategically as well as from a cost perspective. That's why it's just such an unpredictable part that you just don't know. It's not over till it's over with a deal.

Chris Howe: Right. That makes sense. If I kind of summarize that, it seems like the opportunities are still there. Columbus McKinnon remains in good position, but at the same time, you're going to remain prudent and disciplined as the timing of such deals may be unpredictable, but where you are on the finish line for these deals doesn't necessarily change.

David Wilson: That's right, Chris, and we're really excited about the M&A strategy, the overall strategy we have for the business.

Operator: Thank you. The next question is from Jon Tanwanteng with CJS Securities.

Jon Tanwanteng: Good morning. Congrats on a nice quarter and thanks for taking my questions. Also, congrats on getting Garvey at a nice price, especially compared with Arrowhead and other things that might be going on in the market right now. My first question is, could you talk a little bit more about the Garvey synergies, maybe broken down between what you identified as cost synergies and perhaps the broader revenue potential, whether it's from insourcing or cross-selling? And then, second, how much do you think Garvey contributed within your fiscal Q4 guidance?

David Wilson: Let me start, Jon, and then ask Greg to add on. As we look at the synergistic value of the acquisition, as I mentioned in my earlier comments, bringing Dorner's leading conveyor technology together with Garvey's leading accumulation technology, and they're both robust patented differentiated offerings and leading brand recognition around their spaces, we think there's a lot of synergy that we can garner on the selling side, on the growth side. As I mentioned, we secured a $700,000 order in the December month, and we have more that are following. We have opportunities to really develop the Garvey business outside of its historical position in food and beverage and pharmaceuticals, which is about 80% of their business today, into more industrial technology and other automation spaces.

And likewise, they have an opportunity to pull more of the Dorner product into their pharmaceutical and life science and food and beverage application spaces. And so, we have this really nice complement and a great opportunity to leverage the two businesses together. We also have a great opportunity globally to take both businesses further abroad, leveraging the broader Columbus McKinnon footprint. The whole premise behind the deal was really geared towards growth synergy versus cost synergy, although we do have cost synergy opportunities, and we've realized some of those already. I'll let Greg talk a little bit about that.

Greg Rustowicz: So, on the cost synergy side, Jon, what we targeted when we put out the deck on the acquisition was about $600,000 of cost synergies in the next fiscal year, and that's really approximately 2% of sales. The reason why it's such a small number compared with what we expected with Dorner, is because, as a small family run company, there are certain investments we need to make to bring the company up to public company standards.

But, on the positive side, one synergy that we've already realized is, by pulling Garvey into the Columbus McKinnon insurance program, we saved $200,000 on our overall insurance costs, so in essence, I have a third of the $600,000 of synergies already accomplished. There are going to be other administrative savings. There are going to be some sourcing savings, as we get our sourcing teams involved. We think that achieving the $600,000 won't be that difficult, but there are going to be investments made into the business that will somewhat offset the overall cost synergies such that we expect to achieve a net number of 2%.

Jon Tanwanteng: Okay. Great. Thanks for that color. Greg, I just wanted to dive deeper a little bit into the margin headwind you might be seeing due to Omicron in the supply chain. Could you maybe talk about how much uplift you'd normally see on a sequential basis going into a seasonally strong quarter and how much headwind is there against that? And maybe secondly, do you think that environment gets worse before it gets better at this point?

Greg Rustowicz: In a normal year, let's put the COVID years out of the picture, we would expect probably at least 100 basis point uplift, maybe even more, because, with the seasonal decline we see in the third quarter, we definitely would have stronger margins in Q4, because there are more shipping days, more fixed cost absorption and price increases that are historically implemented in the quarter, our annual price increases, so we would normally expect to see a nice jump sequentially in gross margins.

Regarding the impact of Omicron, we've been dealing with this now, probably since sometime in November in one form or fashion, and it has had an impact on staffing, not only in our own facility, but also in our suppliers. It's a constant challenge to get all of the components necessary to ship a product in, so that is certainly having an impact. It has become a somewhat inefficient process.

As you start producing something, you're expecting, say, a motor to come in, but the motor's delayed, so you have to stop, put that aside, and start working on another product. Our operations team is doing a fantastic job of managing all this complexity that's coming. As I

talked about, we've added a lot of inventory in the system, but all it takes is one component not being there and that prevents a product from being shipped. That rings true for both legacy Columbus McKinnon as well as Dorner and Garvey.

We would expect, though, that, from a margin perspective, it would be comparable with this quarter with probably a positive bias. We're making headway on adding more staff to our plants, which is important. We continue to work hard with the supply chain looking for alternative suppliers. I know a number of our sourcing team are in Eastern Europe as we speak, looking at alternative sources in certain components. It's a challenge, but I think we've demonstrated that we have been able to manage this challenge over really the last year.

David Wilson: I would just add that, given all the puts and takes, we have a number of dynamic actions and circumstances that are evolving in the quarter, but overall, would be in line to positively bias with how we finished the third quarter.

Jon Tanwanteng: Got it. Thanks, Dave and Greg. I appreciate it.

Operator: Thank you. The next question is from Steve Ferazani with Sidoti & Company

Steve Ferazani: Good morning, everyone. Thanks for all the information this morning. I do want to ask a couple of questions about Garvey. First one is, you noted the longer lead times and I'm trying to think about how you price those projects to reduce risks. Clearly, if we went back a year and you were sitting on a year of backlog, it would be a challenging point given the higher costs. We wouldn't expect that 12-month period to exist again necessarily, but how do you avoid those issues when you're pricing 12-months ahead and if that becomes a larger portion of your revenue?

Greg Rustowicz: With our long-term contracts, what we try to do, Steve, is make sure that we have a tie to relevant indices or metrics that allow for adjustment to the extent there are material cost swings. That is something that we consider as it relates to longer-term large projects. Garvey has done a nice job of preserving and expanding margins. They certainly performed well for us in the third quarter and, as we advance into the fourth quarter, we're confident about what we have in the forecast.

It's a really attractive area that we're participating in and where their differentiated offerings allow us to have a level of price influence in the environment. That coupled with the partnership with Dorner and the ability for Dorner to provide a more attractive offering from a conveyor solutions perspective, where Garvey had historically produced some of those systems in their own factories, there's a margin opportunity as you think about the scale and benefit of substituting Dorner offerings for those legacy Garvey conveyor offerings. Not only would that result in a better solution for the customer, but a more attractive position for our Company. We take all of that into consideration and feel like we're in a good spot.

Steve Ferazani: That's helpful. In terms of Garvey being 100% North America, how early on are you thinking about international opportunities to Garvey and how much can Dorner help with that?

Greg Rustowicz: What I would say is that they are very highly biased towards North America. I think it's fair to think of them as 100% North America, though they do sell to large global companies that specify their product and then pull them into other geographies. And so, we'd sell to an American entity and then it might move to another

location to help their consistency of application and production around the world.

But Dorner certainly can help them. With their reach, they would help to take that offering beyond where they are today in the U.S., and certainly, with the Columbus McKinnon reach,

where we're partnering with Dorner and engaging more globally to support their development, the collective Columbus McKinnon entity can really help to drive that support for global expansion.

Steve Ferazani: Great. Thanks for the time.

David Wilson: Thank you, Steve.

Operator: Thank you. The next question is from Matt Summerville with D.A. Davidson.

Will Jellison: This is Will Jellison on for Matt Summerville today. I wanted to start with a question on adjusted operating income. If you look at the sequential move from fiscal second quarter to fiscal third quarter, the decremental margin on the lower revenue came in relatively high. I was just wondering if you could provide more color on that if it was driven entirely by the $20 million pushout and the supply chain challenges or if there are other things to consider there.

Greg Rustowicz: Let me think about that for a second, Will. I'd have to see our sequential P&L, but clearly, gross margins were comparable on an adjusted basis, so sequentially, they were the same. I think you saw more amortization expense with Garvey. That isn't an adjusted item. I'm not talking about the backlog amortization and the inventory step-up. I would say it has to be RSG&A costs, higher stock comp and incentive accruals would be the bigger drivers there.

Will Jellison: Okay. And then, as a follow-up, I'm curious about Garvey having been a family-owned and operating business for 90-plus years prior to your acquisition. I was just wondering why you thought it was the right time for that business to transition its ownership moving forward and of those Garvey executives staying on board, if they are going to be owners of Columbus stock moving forward.

David Wilson: Great question. We're thrilled with the acquisition and the addition of the management team from Garvey to our organization. They've been having a big impact already. We have them engaged in the Company and they are engaged through incentive programs that link them to the performance of Columbus McKinnon, both in stock and incentives.

I think right now is a great time to bring the companies together, as I said, because we have a terrific offering with Dorner, and the combination with Garvey really brings the benefit of their accumulation technologies that are leading with our conveying solutions that are leading and packs a powerful punch as it relates to serving not only the legacy food and beverage and pharmaceutical customers that Garvey's been serving, but also our ability to bridge them into other really important areas, where they can have an impact. I think it's a terrific transaction. It was a great multiple, and it's going to create a lot of synergistic value for us. And the team that joined us is really a terrific team.

Will Jellison: Understood. Thank you for taking my questions.

Operator: Thank you. The next question is from Walter Liptak with Seaport Research.

Walter Liptak: Good morning and thanks for the nice quarter. I wanted to ask one about gross margin. It's nice to see the gross margin where it is and the conversion that's happening there. Can you walk us through just a little bit more detail about the pricing and the supply chain and why we're not seeing more headwind on the gross margin line?

David Wilson: While we've had a pretty quick response to the inflationary pressures that we saw coming in Q1 through Q2 and into Q3, as Greg has communicated throughout with our bridges as well as in his comments through these calls, he's highlighted that we've outpaced the inflationary pressure with the price increases that we've put in place. In this past quarter, we had

$5.6 million of price, which was an increase sequentially over what we had in Q2, and that more than offset the inflationary pressure, so we've been successful in moving in that direction, speaking to the pricing power that we have within the organization.

As we head into Q4, we're very mindful of where we are. We're paying close attention to continued movement in the supply base and the impact that might have, and we're preparing to implement additional changes to make sure that we're in line with where we think we should be from a pricing standpoint. That's how I would comment, and I'd ask Greg to add to that.

Greg Rustowicz: In addition to that, we also saw some really good productivity in our plants, despite the supply chain challenges, and our factories are busy. We have record backlog. We're trying to meet customer demand. There was a high level of activity in the quarter, which helped generate the $3.6 million of productivity that we saw; and then, probably the other factor, Walt, is that Garvey as well as Dorner are stronger gross margin businesses than legacy Columbus McKinnon and typically in the 40%-plus range. That was a little bit of a tailwind to our gross margins in the third quarter.

Walter Liptak: Okay. With the comments you made on the fourth quarter, David, should we expect about the same gross margin level? It sounds like you're still a little bit cautious.

David Wilson: We're obviously in a very dynamic environment and, all things being equal, we would certainly assume to get volume benefits as we head into this quarter and through this quarter. If we neutralize all the potential headwinds with offsetting actions we would be taking, we're biased to be at or slightly positive to where we were in Q3 in this quarter. We're working hard to try to see if we can do better than that, but we're also cautious about things we don't know. We've been navigating those challenges successfully to-date, but we don't know what we don't know.

Greg Rustowicz: Maybe just the cautionary part of all this is really the raw material inflation. In the fiscal second quarter, the net inflation was about a $12 million annualized rate and, in this quarter, it's a $16 million annualized rate, so inflation has definitely accelerated. We've talked about steel pricing in the past. We were locked in for the most part through 12/31. We've renegotiated those contracts, and we will see higher steel costs going forward and energy prices. We have the opportunity to raise price and respond, but at the same time, there's a lag and the backlog isn't always repriced.

Walter Liptak: Okay. And then, along those lines, the inventory stepped up quarter-over-quarter. Was that just, again, getting in front of it or do you only buy inventory to meet the existing order book?

Greg Rustowicz: It was deliberate. We worked hard to make sure we had inventory to support the growing demand and, obviously, we're trying to be mindful of taking advantage of opportunities to buy inventory where we can get it at a discount price as well. So, those are a couple of good reasons to be increasing inventory with a near $300 million backlog and a great demand profile.

David Wilson: And also buying in advance of vendor price increases.

Walter Liptak: Okay. And then, just switching gears, with that synergistic Garvey-Dorner order of $700,000, was that a pull through from Dorner to Garvey or Garvey to Dorner, so, basically, was it pharma or industrial?

David Wilson: It was Garvey to Dorner and it was in the food and beverage space.

Walter Liptak: Okay. Got it. Thanks.

David Wilson: Thanks, Walt.

Operator: Thank you. The next question is from **Steve Tusa:** with JPMorgan.

Steve Tusa: Good morning. When you look at, I'll call it, the medium-term outlook for some of the warehouse activity that you're seeing out there, understanding that it's still pretty strong today, how do you think about that over the next either '22 calendar or fiscal year basis? Can that business grow pretty solidly over that time period given where we are in that? I don't think it's really a cycle, it's more of a growth market, but there sometimes are ebbs and flows. Can you provide a little more solid commentary on what you would expect for calendar '22 or next fiscal year?

David Wilson: We're encouraged by what we're seeing there. We've seen demand increase throughout this fiscal year and really positively biased towards what's possible there as we head out into the next fiscal year. We do see that growing solidly as we advance through fiscal '23 or calendar '22.

Steve Tusa: Okay. And then, how do you see free cash flow now, working capital in line with sales, where it's been historically. How do you think about the proper free cash conversion?

David Wilson: So, I'll just comment that, on a working capital as a percent of sales basis, we're in the mid-teens. We're right around 15%, and that's kind of where we expected to be as a business at this point in our cycle. We ended last year at 9%, which was abnormally low and not really a sustainable level for the growth we're trying to achieve. I feel like we're in a good spot, and we're going to try to continue to navigate with the business performing at that level of working capital. I'll ask Greg to talk about the free cash flow cycle.

Greg Rustowicz: So, Steve, when you look at our free cash flow conversion, I think that was the other part of your question, we're typically over 100% free cash flow conversion. We're not a CapEx intensive Company at all. If you look last year, our free cash flow conversion was 229%, which reflects our reduction in inventory in light of the pandemic. This year, on a trailing 12-month basis year-to-date, it's 48%. Both of those together are going to average about 100% or a little over, so, on an ongoing basis, that's the way to think about it. It's about 100%.

David Wilson: We tend to be better now.

Steve Tusa: And then, just one more, on the supply chain impact on revenues. I think it was a little bit worse in 3Q versus 2Q. You said it, I think, back then that you would have expected a similar impact. Was it a bit bigger than expected? What gives you the confidence that it's not going to get worse here in the near term?

David Wilson: It was slightly larger than we expected, but really in the same ZIP code more or less. As we look at the balance of this quarter, we've had another quarter under our belt, we're working very closely with our vendors, moving to find alternative sources, as Greg indicated earlier, and working to position ourselves to have a level of success. We've learned things as we advance through the past 3 quarters and we feel like we're applying those well as we head through this quarter.

What you're hearing from us a little bit is maybe the cautionary sense of just being mindful that there are things that haven't happened yet, that we'll have to see how they unfold, but I feel like we're pretty well positioned to execute on the quarter we have in front of us, and we've got a great backlog to do it from. We're working to do everything within our power to position ourselves to be in control of what those outcomes are.

Operator: Thank you. Ladies and gentlemen, we have reached the end of the question-and-answer session. I would like to turn the call back to Mr. David Wilson for closing remarks.

David Wilson: Thank you, Peter. We're executing on our strategy and building out the Columbus McKinnon Business System, or CMBS as we call it, to drive excellence and scalability in our core competencies. As a result, we're creating a higher-growth, higher-margin, more valuable Columbus McKinnon business.

In closing, I want to emphasize how resilient and agile our team has been over the last 2 years, while navigating what has been a very dynamic landscape. It's hard to believe that we're still in the midst of a global pandemic, but we are. I'm proud to say that Columbus McKinnon has not only persevered, it is emerging as a stronger and better Company. We appreciate your time today and your interest in Columbus McKinnon. Thank you, and make it a great day.

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