Operator: Greetings, and welcome to the Columbus McKinnon Corporation Fourth 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.

It is now my pleasure to introduce your host, Shawn Southard of Investor Relations. Thank you. Please go ahead.

Shawn Southard: Thank you, Donna. 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 2022 financial results, which we released this morning before 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 open the line for Q&A.

If you'll turn to Slide 2 in the deck, I'll 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 this 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.

With that, please advance to Slide 3, and I'll turn the call over to David to begin. David?

David Wilson: Thank you, Shawn, and good morning, everyone.

We outperformed expectations with record sales, both in the quarter and for Fiscal 2022, even while we were challenged with the inefficiencies created by supply chain constraints and inflation.

Sales in the quarter were up 36% over last year’s fourth quarter to a record level of $253 million dollars. Organic growth was a very strong 17%.

We are steadily advancing our transformation to be the global leader in intelligent motion solutions for material handling and Columbus McKinnon is uniquely positioned to help solve many of the critical challenges the world is facing today. We are central to the investments being made in infrastructure, global efforts to localize and rebalance supply chains, the need for automation in the midst of shortages in labor availability, and the need for safe, ergonomic, material handling in a world of factory automation and direct-to-consumer delivery.

As we executed to meet customer needs and growing demand for our products, gross margin was impacted in the quarter given rapid increases in freight and expediting costs associated with high inflation and the effect that the war in Ukraine and the shutdowns in China are having

on the global supply chain. We also completed a large project where we did not recover the full impact of recent material cost increases given the rate at which cost inputs escalated and the strategic nature of that customer relationship.

Our operating income was $24 million dollars and our adjusted operating income established a new record level in the quarter at nearly $29 million dollars. EBITDA margin in the quarter was 15.4%.

We are taking further actions to address the risks associated with this unusual operating environment and remain committed to realizing our longer-term financial targets.

Fiscal 2022 was a year of significant progress and represents a step change in Columbus McKinnon's business model and mix as we execute on our strategic transformation. We began the year with the addition of our precision conveyance platform through the acquisition of Dorner. This platform expanded our offerings, provided increased access to attractive markets with strong secular tailwinds and diversified our revenue stream with higher margin business. We later added the market leading capabilities, high growth and accretive margin profile of Garvey to this important strategic platform.

We also accelerated organic growth through initiatives leveraging our core growth framework, looking outward to our customers and markets to clarify opportunities while innovating with automation and rethinking our commercial strategy.

We also benefited from further core market recovery and increasing demand across targeted secular-growth markets. The food and beverage, life sciences and e-commerce markets remained robust and the entertainment market began to pick up nicely in the latter half of the year.

We ended Fiscal 22 with record quarterly orders of nearly $270 million dollars and entered Fiscal 23 with a backlog of over $309 million dollars, also a new record.

If you will please turn to Slide 4 I'd like to highlight the significant progress we made over the past year as we reimagined our portfolio and improved our approach to the markets we serve to unlock Columbus McKinnon's potential. Given this transformative work, approximately 40% of our business is now tied to higher growth, higher margin markets.

If you will advance to slide 5, I will now turn the call over to Greg to review our financial performance in the quarter. Greg?

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

On slide 5, net sales in the fourth quarter were $253.4 million dollars, up 36% from the prior-year period, and significantly ahead of the guidance we provided last quarter. While supply chain challenges continued, we had significant backlog that allowed us to prioritize shipments and exceed our guidance. As David mentioned, it has been a constant struggle to match up material availability, with the timing of supplier shipments and customer requirements. This challenge resulted in an estimated $15 million dollars of delayed shipments in the fourth quarter. Sequentially, sales were up 17% as we benefitted from strong order rates, incremental pricing and a full quarter of the Garvey acquisition. Overall, our Precision Conveyance Platform added $40.5 million of revenue in the 4th quarter which was up 11.3% from 3rd quarter levels.

Looking at our sales bridge, sales volume was a major driver of growth with volume up $23 million, or 12.5%. We also saw pricing accelerate, with year-over-year pricing improvement of 4.5% which was higher than last quarter's 3.4%. Our pricing actions resulted in $8.4 million of year-over-year price, up from the $5.6 million of year-over-year price we reported last quarter. Foreign currency was a headwind and reduced sales by $5 million, or 2.7% of sales.

Let me provide a little color on sales by region. For the fourth quarter, we saw continued strength in the U.S. with sales volume up 15.9%. We also improved pricing 4.7%, up 110 basis points from third quarter levels. Outside of the U.S., sales volume was up approximately 9% as volume increased approximately 40% in Latin America, 15% in Canada and 12% in APAC. Volume also increased 5% in Europe. We saw improved pricing outside the U.S. of 4.3% which was a 120-basis point improvement over third quarter levels. With the current economic backdrop of significant material inflation and higher freight costs, we took more aggressive pricing actions in the fiscal fourth quarter, which is also our timeframe for implementing annual price increases. We will do what is necessary to protect and grow margins in this environment while balancing customer requirements and maintaining our leadership position.

On slide 6, gross margin was 33.7% which included a $3.2 million negative impact from the recent Garvey acquisition for amortization of backlog acquired and inventory step-up expense. This completes the amortization of backlog acquired and inventory step-up expense which was recognized over one inventory turn. Normalizing for these items, our adjusted gross margin was 34.8%. This was up 20 basis points from the prior year. Gross margin was lower than what we were expecting as sequential gross margins declined 190 basis points. This was due to rapidly rising costs in the quarter, primarily freight costs related to inbound shipments from Asia and additional raw material inflation associated with ETO projects. In addition, we also were impacted by inefficiencies associated with juggling production schedules due to supply chain constraints. Overall, our precision conveyance acquisitions were 130 basis points accretive to our adjusted gross margin this quarter.

Let me point out a few highlights on our gross profit bridge. Fourth quarter gross profit increased $21.4 million compared with the prior year and was driven by several factors. Our acquisitions provided $17.3 million of gross profit. Sales volume and mix added $7.6 million and pricing net of material inflation added $3.0 million. Offsetting these items were acquisition related amortization expense and inventory step-up expense of $3.2 million and lower productivity net of other cost changes of $1.3 million which included the higher freight costs that I just discussed.

As shown on slide 7, RSG&A costs were well controlled coming in at $54.8 million in the quarter or 21.6% of sales. With record sales in the quarter, we leveraged our RSG&A costs as a percent of sales and demonstrated the power of scale. RSG&A costs were sequentially higher by 2.4% which included $1.1 million of business realignment expense and a full quarter of Garvey RSG&A of $1.5 million, which was sequentially higher by $1 million.

Compared with the prior year, RSG&A costs were higher by $8.1 million. This was largely due to additional costs from acquisitions of $7.7 million and business realignment costs of $1.1 million partially offset by Dorner acquisition deal costs of $4 million incurred in the fourth quarter of FY21. In addition, with the U.S. dollar strengthening, foreign currency translation lowered our

RSG&A costs by $1.0 million dollars. For the fiscal first quarter, we expect RSG&A expense to range between $53 and 54 million.

Turning to slide 8, adjusted operating income was $28.6 million. Adjusted operating margin was 11.2% of sales, up 110 basis points from the prior year. This margin expansion included the impact from the accretive acquisitions completed this fiscal year which contributed 60 basis points. We also benefited from operating leverage on improved volume and strategic pricing.

As you can see on slide 9, we recorded GAAP earnings per diluted share for the quarter of $0.41 cents. Adjusted earnings per diluted share of $0.79 cents was up substantially from $0.60 cents in the prior year period. As a reminder, we are adding back amortization expense on a tax-effected basis to our adjusted earnings per diluted share calculation.

With the recent and significant increase in interest rates since January, interest expense is expected to be approximately $6.2 million in the first quarter. Weighted average diluted shares outstanding are anticipated to be about 29 million and we will continue to use 22% as our pro-forma tax rate when calculating non-GAAP adjusted earnings per share.

On slide 10, our Adjusted EBITDA margin for the full year was 15.4%. This was improved over the prior year by 350 basis points. Our recent acquisitions were accretive to our Adjusted EBITDA margin by 190 basis points. Our Return on Invested Capital also continues to improve and was 7.5%. We are executing plans that will drive margin expansion and are still targeting 19% EBITDA margins and double digit ROIC, but the timing of achieving these goals is becoming less clear in the current macroeconomic environment. Nonetheless, the team is focused on executing our strategy and driving long-term shareholder value.

Moving to slide 11, we generated approximately $22 million of free cash flow in the fourth quarter. For the full year, we generated $35.8 million. This includes cash outflows of $14 million related to acquisition deal costs. We also added approximately $40 million of inventory to meet rising demand and lessen supply chain impacts. Our working capital as a percent of sales was 15.5% which was in line with what we were expecting. Capital expenditures were $13 million for the year. We expect capital expenditures of $25 to $30 million in fiscal 2023 as we invest in our factories to enable the next leg of our margin expansion initiatives.

Turning to slide 12, we refinanced the capital structure last April and May as a result of the Dorner acquisition which included an equity offering and a new $450 million term loan B. We financed the Garvey acquisition, utilizing the accordion feature of our Term Loan B and borrowed an additional $75 million. The current term loan B principal outstanding is $502.6 million which carries an interest rate of Libor plus 2.75% with a 50-basis point Libor floor. The term loan B is 60% hedged with interest rate swaps that blend to a swap rate of approximately 2.08%

As of March 31st, on a pro-forma basis which includes Garvey's March LTM adjusted EBITDA but excludes expected cost synergies, our net leverage ratio improved to 2.7 times. We expect to achieve our targeted leverage ratio of 2.0 times towards the end of fiscal 23, barring any additional acquisitions. Finally, our liquidity, which includes our cash on hand and Revolver availability, remains strong, and was approximately $198 million at the end of March.

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, we had exceptionally strong orders in Q4 with an average daily order rate that was up 13% compared with the trailing third quarter. As I shared earlier, our Q4 orders were nearly $270 million, a new record, and accelerated throughout the quarter. As you may recall, we previously reported that order rates were up approximately 7% through the first 3 weeks of January. So, February and especially March were quite strong.

Even with record sales of $253 million in the quarter, order growth outpaced sales and our backlog grew to a new record level of $309 million. Long-term backlog, which is expected to ship beyond the first quarter, was about 44% of total backlog and our short-term backlog was $174 million.

If you would please turn to slide 14, you will see that we expect sales in the first quarter to be in the range of $220 million to $230 million dollars. This range includes a $4 million dollar sequential FX headwind vs. Q4 and an $8 to $9 million dollar year-over-year FX headwind. While our backlog and market demand remain robust, the cascading effects of the war in Ukraine and the pandemic related shutdowns in China are expected to have further impacts on our supply chain and the availability of materials. We are also implementing our new ERP platform at STAHL in Germany. This is the last major building block of our European system harmonization initiative which will enable us to realize further cost and productivity synergies through integration and shared services. This is, however, expected to have an impact on first quarter shipments as we complete training, go-live and execute through the transition. Even with these headwinds, our guidance range of $220 million to $230 million dollars represents a mid-single digit, year-over-year organic growth rate at the mid-point.

We continue to see significant demand in all markets and are encouraged by the traction we are gaining with our organic growth initiatives. In fact, through mid-May, sequential order rates in our first quarter have been effectively “in-line” with the record levels we saw in Q4.

During this period of supply disruption, high inflation and macroeconomic uncertainty, we remain laser focused on execution. We are taking further actions to deliver operational, cost and price improvements while executing to address increasing customer demand. We are also very encouraged by our longer-term prospects and look forward to sharing details associated with our strategy and updated targets during our investor day on June 23rd. We are truly creating a better, more scalable, and more profitable business model for Columbus McKinnon as we evolve into the global leader in intelligent motion solutions for material handling.

With that, Donna, we can open the call for questions.

Operator: Thank you. At this time, we will be conducting a question-and-answer session. [Operator instructions] The first question is coming from Matt Summerville of D.A. Davidson. Please go ahead.

Matt Summerville: A couple of questions. Obviously, I would assume that you're going to have lower absorption in Europe in Q1. Volume obviously going to be perhaps down all things considered on a sequential basis given your revenue guidance. So how should we be thinking about the go-forward margin cadence, and I guess, earnings seasonality, if you will, as we move throughout the year? in particular, how should we be thinking about incremental operating margins as we move beyond Q1?

David Wilson: Matt, fair questions and important ones for us to address in the call. We are expecting that we'll pick up some of the margin erosion that we had in Q4 and make advancements from there as we head through Q1 based on pricing and other actions that we've taken within the business. We do acknowledge that there are the challenges you mentioned relating to absorption, particularly associated with lost time and training hours we're putting into our STAHL ERP implementation. We anticipate a step forward from what we saw in Q4, but acknowledge that they probably won't be at the rates that we would have normally been trending too, but for that implementation.

Greg Rustowicz: Matt, this is Greg. In addition to that, we have record backlog at $309 million that to a large extent, is priced at old pricing as we're not able to reprice the backlog given we've taken purchase orders already for the business. So that's another factor in this.

David Wilson: We're really encouraged by the longer-term prospects for the business and the targets, however, and we remain on a similar trajectory, but for a bit of a seasonal impact or project-related impact in this first Q1.

Matt Summerville: then as a follow-up, how should we be thinking about incremental realized price in fiscal '23 relative to fiscal '22. to the extent you're willing to talk about it, how much of a list price increase did you guys put through during the March time frame for your normal annual increase?

David Wilson: I think what we're anticipating is that we'll probably see, given what Greg just highlighted relative to the backlog we're carrying at a record level, the pricing actions we recently took and the phasing of that cost price mix as we work through that backlog and get new backlog at the incremental price level is that we'll probably see a second half that has a better price/cost ratio.

I think that's probably the best way to be thinking about this year and price realization for the company. We remain, as we were last year, very focused on making sure that we're taking actions to offset those cost inputs. As you saw throughout last year, we were successful at outpacing cost inputs through Q2 and Q3. Then in Q4, we outpaced material cost increases, but were impacted by freight charges that came in very quickly and rapid increases in some particular material costs that came through. That's a timing element that we'll get out from under.

Greg Rustowicz: To add on to David's comments; in general, Matt, we've raised prices anywhere between 5% and 10%, on average towards the higher end of that range, which differs by region. We will clearly remain steadfast in looking at our inflationary pressures, and we'll look at other ways to realize our margins by additional price increases and/or surcharges.

Operator: The next question is coming from Chris Howe of Barrington Research.

Chris Howe: I wanted to follow up on the last call that we had -- you talked about the Garvey and Dorner synergies, revenue synergies, you picked up that order in the prior quarter. Can you talk about how they performed together in the quarter and the different dynamics you're seeing, whether it's pulling some of Dorner's customers into Garvey or the vice versa, what's your anticipation for their performance this fiscal year?

David Wilson: The businesses are doing very well. We're really pleased with the acquisitions, continue to remain very bullish about our strategic intent and the direction that we're taking the

business in. For the fourth quarter, sales and the acquisitions were about $40.5 million. We continue to emphasize the synergistic opportunities across the business. We completed training, brought the teams together, really focused on making sure that the ability to cross-sell across the businesses was not only as it was when we got through the acquisition and realized a couple of quick wins, but it was enhanced. Both businesses continue to make good progress as it relates to representing the broader portfolio. So I think that we're just starting to chip away at the tip of the iceberg there.

Greg Rustowicz: So a little more color as well. We did recognize revenue synergies of $850,000 so far, including the $700,000 that we talked about last quarter. we have almost $2 million of current active quotes out there for Dorner and Garvey products. We've cross-trained the sales forces. We expect that this is just going to continue to ramp up exponentially.

Performance-wise, both businesses in the quarter delivered what we were anticipating. David talked about the revenue. Low 40% gross margins, 25% EBITDA margins. So far we are on track for what we were expecting. The other point I would like to make is that the one project where we recognized below average margins was actually in that segment. So, we've taken actions to address that going forward.

Chris Howe: Then a follow-up question. The 19% adjusted EBITDA target, the double-digit ROIC. It's still a goal, but the timing is a little bit less clear. Can you put “less clear” into further context? We have what happened in Q4. We still have a challenged environment here going into Q1. How does the duration of this challenged environment impact some of your comments about it being less clear? Just a quarter-by-quarter basis, we'll get a better picture on how the second half looks or any more color there would be helpful.

David Wilson: Chris, I would say we're going to get better visibility as we progress quarter-by-quarter. We have a management plan that achieves that goal by the end of this year. We are executing in an environment that's not enabling us to execute to that plan given macro factors, supply chain disruptions, higher inflation and the impacts of the port shutdowns in China and so forth. We're seeing those effects playing out. We're confident and really committed to making sure that we execute the plan that we have, self-help where we need to control what we can control, and this is a business that if we don't achieve that outcome in the time frame that we outlined previously, we'll achieve it as things stabilize and the business gets back to a bit more normal footing.

So nothing's really changed, but for the economic environment relative to our pursuit of that goal. We'll talk more about our goals beyond reaching that point when we get together during our Investor Day in June.

Chris Howe: Okay. I apologize if you mentioned it already, but the ERP implementation in Europe that's affecting Q1 with a more limited production schedule to facilitate the implementation. That is expected to be completed in Q1? Or...

David Wilson: It is. In fact, we're going live now, we're working through all of the transition elements. The system is performing as expected. The impact on our operational areas is, as we would expect, we've done 12 implementations of this type across the enterprise. This is the last, as I said in my prepared remarks, the last major building block that really enables us to get more synergies across Europe and drive better performance as we go forward. So we expect this to be a Q1 impact and for us to be able to drive better performance as we go forward.

Greg Rustowicz: Chris, this is clearly our largest factory in the system, our most complex factory in the system. We went live May 1. The system is working. We're probably at about 80% efficiency this week from a shipping perspective, and it's really just the learning curve. So it's not like we haven't done this before. We've had 12 of them, but none of them have been of this size. so it's just part of the process, I guess, the pain of what you have to do to get the system implemented, but then you reap the benefits down the road.

David Wilson: Yes, all very positive, all very focused on what we're trying to achieve as an enterprise.

Operator: The next question is coming from Greg Palm of Craig-Hallum.

Gregory Palm: I just want to go back to the revenue guidance. Even if you sort of add back or sort of normalize the cadence given FX, given ERP, it still suggests that revenue is going to be down quite a bit sequentially, which I don't think is normal seasonality. So just help us understand exactly, I mean are you expecting that supply chain gets worse because it sounds like overall demand is still pretty strong.

David Wilson: Yes, that's right. Demand is very strong, Greg, and as you can see that in the backlog, you can see that in the bookings rates. Obviously, very encouraging dynamics. But as we execute on our backlog and look at this quarter, we're facing sequential FX headwinds of about $4 million, and then we're facing the impact of that implementation that we mentioned in Europe. so the combination of those elements and adjusted organically when you think about acquisition volume period-over-period and so forth, we're in a position where this represents a 6% increase or mid-single-digit increase over prior year first quarter.

Typically, we do have a seasonality impact as we head into our Q1 from Q4. We didn't see that last year because we were recovering from the pandemic. If you look back a year, you'll see that, that was not the case. If you look back beyond that, you'll see that there is a historic pattern of Q1 that's lower than Q4. That's more of a seasonal effect for the business.

Greg Rustowicz: Yes, in 2019, it was about a $4 million to $5 million impact. Also with the SAP implementation, we pushed really hard to get production out of Künzelsau so we would not be disrupting our customers. The fourth quarter had that impact. Having said that, I talked about the fact that we had about $15 million of revenue that was hung up with supply chain. I think the team is very nimble. We have such a large backlog and the fact that we made the right decision to order $40 million more inventory allowed us to pivot and work on other orders and ship those orders. The Q4 number did have that positive impact of working hard to push production and revenue out of the STAHL facility.

Gregory Palm: Got it. Okay. I mean, just -- since we're on that subject, how should we think about normal seasonality this year, just given the last couple of years have been anything but that?

Greg Rustowicz: If you go back in history and with what we believe today, the first half of the year versus the second half of the year is more or less a 50-50, 51-49 kind of a split. So historically, the fourth quarter, the quarter we just finished is the seasonally strongest quarter as people buy in advance of price increases. They buy in advance of the summer entertainment season, construction, et cetera. Calendar year-end companies now have their new CapEx budgets approved and they're moving forward. Our weakest quarter is always the December

quarter. There are fewer shipping days and, on the industrial side, the business does see reductions in inventory as our channel partners manage their inventory for their year-end reporting. First half, second half look is going to be within a point of 50-50 one way or another. Q2 up over Q1, Q3 down and then Q4 our strongest.

Operator: The next question is coming from Jon Tanwanteng of CJS Securities.

Jonathan Tanwanteng: I just wanted to get back to the 19% EBITDA target question. I assume you will talk about this more in your Investor Day, but I was wondering if you're expecting to get to the same profit dollars, if not the percentage at this point within the same time frame.

David Wilson: From a dollar perspective, we talked about the way we have to get there is roughly 39% gross margins, RSG&A as a percent of sales of around 21%, and then we picked up 1.5 to 2 points by adding back depreciation. We saw the benefit of scale this quarter on RSG&A costs, where at $253 million or a $1 billion run rate, RSG&A is at that level. We have to get to that $1 billion plus to get the RSG&A where we want it. With supply chain, we have to get out in front of all of the inflationary pressures that we're seeing and we're working very hard to do so.

This fiscal year, I think we did $908 million of revenue, and we need $100 million plus more.

Jonathan Tanwanteng: Got it. Could you also talk about the order trends in Q1 so far? Has the end demand been stronger or worse and that's accounted for seasonality? have the input prices supply chain pressure has actually gotten worse or moderate as you've seen them so far?

David Wilson: The order rates have been more or less in line with the record levels we saw in Q4. As I mentioned, Q4 progressed throughout February and March at faster rates of input. On a quarter-to-date basis, we're running with short-cycle orders up about 7.5%. Project orders are down slightly north of 20%. Then our precision conveyance orders are up near 30%. On a net basis, we're more or less in line with order rates relating to the fourth quarter. We feel really good about demand. We're seeing strong demand across all of our end markets. That has continued into the first quarter, and we're obviously watching that closely, but very focused on execution. As a team in this period, we're laser focused, as I said in my prepared remarks, on our execution, and meeting the commitments that we have, improving our customer experience and driving the results that we're committed to getting to.

Greg Rustowicz: Jon, on the inflation question. In the quarter, if you look at our sales bridge and our gross margin bridge, you can see that price was up $8.4 million, but price net of material cost was $3 million. So the $5.4 million difference was raw material inflation. You annualize that, and I think you're at $21.6 million. We think that's going to get worse before it gets better, and we could be seeing inflation in the $24 million to $26 million range on raw materials. On top of that, we've clearly seen gas prices go up, driving trucking costs up, and marine costs are up as well. There are issues in ports and with congestion. There are issues in China with COVID shutdowns that are affecting things and so logistics costs are actually double per container compared to where they were at the start of our previous fiscal year. That's another factor in the equation.

Jonathan Tanwanteng: Okay. Great. It does and then just to clarify, I think you said before that you still expected with all that to see a sequential pickup in gross margin? Or did I do hear that incorrectly?

David Wilson: We think we're going to improve on where we are right now. This was not where we wanted gross margins to be, and we will make improvements as we have more pricing that we've announced in the quarter in a roughly high single-digit range that I mentioned on the call. It's just a matter of what other shocks are we going to see to the system. Nobody in January, when we had this last call, would have predicted where we are today.

Operator: The next question is coming from Steve Ferazani of Sidoti.

Stephen Ferazani: You mentioned a couple of times that one larger project and the impact it had given the higher material costs. obviously, your revenue came in much higher than guidance. Can you offer any kind of way to quantify the impact, either on revenue or margins on that one project?

Greg Rustowicz: Yes, it was just under a $1 million impact from a margin perspective. So 30 basis points.

Stephen Ferazani: Okay. We've talked about this on the call before and the idea that Dorner and Garvey are perhaps more project-oriented and how you would manage the costs related to those projects. Clearly, things are a lot more challenging right now than in normal times. But you said you were addressing it. How are you thinking about that? How are you addressing it?

David Wilson: What we've done is reduced the shelf life on our quotations so they're shorter cycle quotations and they're tied to latest pricing. Then where we can negotiate, we're getting price escalators tied to indices, so we're able to drive change orders more clearly in the conversations with customers. We've also made changes in our project execution team, and so we're advancing our Columbus McKinnon Business System, focusing on our office of program management, project management, and we've made some resource adjustments there as well. I think as it relates to the dynamic nature of that business and particularly in this kind of an environment we feel like we have, in a post-mortem assessment, this particular project very well understood, specifically outlined where some of the issues were that resulted in that outcome and we've taken corrective action not only in our systems and the way that we approach the processes that manage projects, but also in the team and in the communications we've had with our customers.

Greg Rustowicz: The fortunate piece of news is that there are really two main cost inputs for precision conveyance. It's either going to be aluminum or stainless steel that has created the issue.

Stephen Ferazani: That's helpful. Just wanted to ask a question on capital structure, how are you thinking right now, given $200 million in liquidity. We know interest rates are rising. It sounded like you are using some interest rate swaps. Can you talk about what you're doing with debt and how you're thinking about repayments given the expected increasing interest rate environment?

Greg Rustowicz: I think the one thing we're going to do is manage our capital structure conservatively and appropriately. That's why we entered into another interest rate swap this quarter.

We've locked up 60% of our interest rate risk at a swap rate of 2.08%. As we think about liquidity, we think we have ample liquidity. We still have a programmatic M&A strategy, but we understand where things are right now with all the macro uncertainty, and we're going to be cautious with how we approach it. In terms of debt repayment, our 10-K is going to be filed this evening. In there, we're estimating roughly $41 million, I think, of principal payments annually, so roughly $10 million to $11 million a quarter.

Stephen Ferazani: Okay. That's helpful. Then just the last one, and you've addressed it, but I do want to ask it again. In terms of everyone waiting to see some signs of a slowdown in demand. It sounds like you're very clear on this, and we saw it in your bookings, in your backlog. Are you seeing any kind of signs that you're seeing slowdown in any of your end markets?

David Wilson: The only comment I would add for a little more color to the conversation so far, Steve, is a reference to project quotation conversion. So project quotation activity is very high. It's up, there's a lot of active dialogue, and it's encouraging. But the cycle at which those orders are converting on the project side is a little slower than it had been a quarter or 2 quarters ago.

Stephen Ferazani: Is there any -- is it directed at any sort of end markets? Or is that a broad kind of an answer?

David Wilson: It's a broad answer. We're seeing some activities phasing just as people are talking about a project that might be a $5 million project that delivers over 6 months, they might be saying, "Hey, look, I want to release the first $3 million of it, and I want it to run over 9 months."

Operator: The next question is coming from Pat Baumann of JPMorgan.

Patrick Baumann: Just a lot being covered already. Maybe if you could help on the freight dynamics a little bit more. I guess I'm just wondering. Just a little bit more detail, what impacted the sequential gross margin related to freight, just like what exactly escalated so much versus your January expectations? I think you called this a timing element in response to the other question, but I'm just not clear what aspect of this is timing or why you refer to it that way?

Greg Rustowicz: What we are really talking about is that freight costs sequentially went up close to $3 million, which is about 110 basis points of gross margin. It was really across the board. Clearly, we've all seen what has happened with gas prices at the pump, $5 to $6 a gallon. That translates into higher trucking costs for moving product domestically. We have also seen significant increases in marine costs. If there are certain parts that we need desperately, and we have to air freight them, air freight costs are up. You see this if you travel commercially, how expensive airline tickets have now gotten, so this has resulted in significant increases. This isn't a year-over-year change. This is basically what happened in the December timeframe versus what we experienced in March and some of it is probably due to the Ukraine situation that's going on over in Europe right now.

David Wilson: Yes, port disruptions in China. I think the timing element to this, Pat, is the realization that this was occurring as fast as it was and our ability to get out from under it with our own actions and make sure that we're making adjustments in our pricing structure to accommodate those changes. That's where the timing element comes into play.

Patrick Baumann: And you mentioned $24 million to $26 million of materials, I guess, inflation expectation. What is...

David Wilson: Yes, that's for the full year.

Patrick Baumann: Yes, but I don't think that includes freight. But in any event, what are you expecting from a pricing perspective for the year based on actions you've taken?

Greg Rustowicz: What we have taken so far is high single digits which is where we should average. Now having said that, once again, we have record backlog that doesn't have current pricing, right? Because our pricing all went into effect either later in the second week in March or April 1st . To the extent we're working down backlog, we're not going to see the benefit of the current pricing. So, there's this lag. We're looking for other ways to help recover this.

Patrick Baumann: Understood. then the slides mentioned something about precision conveying backlog down on project timing. What end market was that in reference to in particular? Just curious if you could give some color on that?

David Wilson: Our project business is really focused on the food and beverage, life science and e-commerce markets. Remember, I made some comments earlier about quotation activity conversion to project activity, a lot of very engaged customers on exciting project opportunities that are just taking longer to get to the closure time frame. I think that's just the nature of the lumpiness of the business.

Operator: The next question is coming from Michael McGinn of Wells Fargo.

Michael McGinn: Just going back to the question regarding that large project and the charge that was associated with that. How many customers do you have that are like that? Or how -- and then maybe also how many projects do you currently have in place that are similar to that?

Greg Rustowicz: That was a top 1% from a size perspective. It was a big number, and that's why it had such a large gross margin impact.

David Wilson: Right. If you think about the split of business, roughly 50-50 in that business, projects versus short-cycle build-to-order type project activity. We probably have $20 million in any given quarter that is active relative to project-related business, and this business would have approximated 15% to 20% of that amount. This would have been a large project. We don't have very many that are of that scope in the backlog. like I said, from a process standpoint, from a timing perspective, complexity associated with some of the rapidly rising input costs and the strategic nature of the opportunity and follow-on opportunities and the aftermarket opportunities thereafter. We weren't able to recover all. We recovered some. We weren't able to recover all of the escalation in price.

Michael McGinn: Great. then in terms of precision conveyance, I guess, simple question, what end market are you more bullish on for this year, e-commerce or food processing?

David Wilson: Well, we're encouraged by all the markets that we're pursuing, but I would say from a dynamics perspective, given the rate at which e-commerce grew over the last couple of years through the pandemic, I think the growth there is going to be attractive, but it's not going to be as explosive as it was over the last couple of years. We're seeing great traction in food and beverage and life sciences in addition to the already great experiences we're having in e-

commerce. we're also expanding our customer base in e-commerce, which obviously gives us further threads to pursue.

Michael McGinn: Okay. Maybe if I could just sneak one more in. Konecranes consolidating their services and their products business into one, I believe. Are you expecting anything competitively to come out of that dynamic or just business as usual?

David Wilson: I think that they are obviously changing, shifting gears in the wake of the walk away from the Cargotec acquisition or merger. I think there they are going through a lot of adjustments. I don't think they've demonstrated anything historically that's lacked discipline in terms of their approach to the markets. So we're not particularly concerned about that strategic shift.

Greg Rustowicz: Yes. The one thing I would say is they will now be more directly competing with our channel. While their R&M label products are sold into the channel, now that they have combined their Service and Equipment segments, it will be much more visible that they are competing with our channel, which should help us.

Operator: The next question is come from Walt Liptak of Seaport.

Walter Liptak: Good call so far, a lot of detail. So I'll ask one about working capital. I wonder how you're thinking about some of the working capital components in the first quarter? For example, do you need to build some inventory again? Then how do you expect to end the year on some of these working capital accounts?

Greg Rustowicz: As I think about working capital, we ended the year at 15.5%. That 15% range is where we would expect working capital to be at the end of the year. There could be some temporary blips along the way. Clearly, we're going to have lower sales than we had in the first quarter versus the fourth quarter, which will impact our metrics on inventory turns, DSOs and DPOs. But I think the right way to think about it is 15% of sales.

David Wilson: I think we demonstrated last year an ability to flex and the experience of a need to make moves through the pandemic, we went down to below 10%. We were experiencing growth, we ramped back up into the mid-teens with the addition of the $40 million of revenue. We expect this year to be relatively stable at that level. To Greg's point, there could be some period-to-period blips, but that's where we expect to end the year.

Operator: [Operator Instructions]

Next question is a follow-up is coming from Jon Tanwanteng of CJS Securities.

Jonathan Tanwanteng: I was just wondering if you could just give us a little more color on when you're implement this ERP system and you lose a little bit of revenue. Are you planning to recover that in future quarters? Or does that push at the whole stack a bit further back?

David Wilson: No. We do expect to recover it in the year. This is just an impact in the period. as we get more efficient coming out of this quarter, we expect to consume that backlog and ship those dollars in revenue.

Greg Rustowicz: Another way to think about it, Jon, is orders are not being canceled. We did accelerate shipments into the March timeframe, knowing that we had the ERP implementation

upon us. So that benefited and maybe you could say outsized the Q4 revenue a little bit, but orders are not being canceled.

Operator: We're showing no additional questions in queue at this time. I would like to turn the floor back over to Mr. Wilson for closing comments.

David Wilson: Thank you, Donna.

Fiscal 2022 was a year of significant progress and represents a step change for Columbus McKinnon as we advance our strategic transformation.

We completed two transformative acquisitions and executed to deliver terrific results for the year, including 40% growth in revenue, 75% growth in operating income and 81% growth in adjusted EBITDA

As I stated earlier, in this period of uncertainty, we remain laser focused on execution and improving our customers' experience. We are taking further actions to improve the business and our performance while executing to address increasing customer demand.

We are truly creating a better, more scalable, and more profitable business model, and mix, for Columbus McKinnon as we evolve into the global leader in intelligent motion solutions for material handling.

Finally, I want to emphasize how proud I am of our global team of talented Columbus McKinnon associates. They have remained resilient, agile and focused on results and improvement through what has been a very challenging and dynamic period. As a result, Columbus McKinnon has not only persevered, we are emerging as a stronger and better company.

We appreciate your time today and your increasing interest in Columbus McKinnon.

Thank you and make it a great day!