Operator: Greetings, and welcome to the Columbus McKinnon Corp. First Quarter Fiscal Year 2023 Financial Results Conference Call. [Operator Instructions] As a reminder, this conference is being recorded.

I'd now like to turn the conference over to your host, Deborah Pawlowski. Please proceed.

Deborah Pawlowski: Thank you, Claudia, and good morning, everyone. We certainly appreciate your time today and your interest in Columbus McKinnon. Joining me here are David Wilson, our President and CEO, and Greg Rustowicz, our Chief Financial Officer. You should have a copy of the first quarter fiscal '23 financial results, which we released this morning, and, if not, you can access the release, as well as the slides that will accompany our conversation today, on our website at 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. You can find those documents 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; however, 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 comparable GAAP measures in the tables that accompany today's release and slides.

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

David Wilson: Thank you, Deb, and good morning, everyone. We continue to execute our strategy to drive growth and stronger earnings power and have started fiscal '23 delivering on each of these objectives. The team is executing well and driving improvements in the business despite the challenges presented in this hyperinflationary environment that also continues to be plagued by ongoing supply chain constraints.

Sales grew 6.5% to $220 million on a constant currency basis, and we achieved record gross margin in the quarter of 37.5%, both on a GAAP and a non-GAAP basis.

At our Investor Day in June, we discussed that we recently realigned our business under two leaders that have geographic oversight. Terry Schadeberg now leads the Americas and Appal Chintapalli now leads EMEA and APAC. This realignment has created go-to-market and cost synergies for CMCO and is strengthening collaboration within our businesses and with our customers while delivering productivity benefits. This approach, while only launched in May, contributed to this quarter's adjusted EBITDA of 15.9%.

Demand remains strong in the Americas and across EMEA, driving orders to $267 million in the quarter. Notably, this was an increase over Q4's record level on a constant currency basis as orders are running at over $1 billion annualized rate. This is another indication of the early successes that are resulting from our business realignment.

Strong demand and continued vendor capacity constraints led to a book-to-bill ratio of greater than 1.2 in the quarter and we ended Q1 with a very robust $352 million in backlog, another record. We continue to control what we can control and are making good progress with our transformation. At this stage, we

are delivering results that are in line with the trajectory we'd expect to be on given the broader macro environment. Our confidence in our strategy and ability to achieve our long-term financial targets remains high.

Please turn to Slide 4. I want to remind you that we are executing a strategic plan that unlocks CMCO's potential through a structured, disciplined business system and a core growth framework that drives market leadership. We expect this combination to produce a transformed enterprise that delivers growth with top-tier financial performance, which we believe will result in outsized shareholder value creation.

Turning to Slide 5. I'll highlight our efforts to bridge to our targeted adjusted gross margin of approximately 40%. As I pointed out, gross margin this quarter reached 37.5%, a new record for Columbus McKinnon and we achieved that while implementing a new ERP system in our largest manufacturing facility, while also continuing to address significant supply chain constraints.

We're executing on plans that will reduce overhead through factory simplification and provide both material and labor productivity enhancements. These include sizable gains from 80/20 simplification, both at the factory footprint and product line levels, as well as from value-added engineering.

We're also delivering growth through the strategic initiatives we have defined within our core growth framework. This growth enables CMCO to scale and better leverage fixed factory costs. In addition, we're increasing our competency within our pricing disciplines and our pricing for the value we deliver to customers. This can be seen in our recent results. Finally, our acquisition strategy is expected to be accretive to margins.

If you'll please advance to Slide 5, I'll turn the call over to Greg to review our financial performance in the quarter. Greg?

Greg Rustowicz: Thank you, David. Good morning, everyone.

On Slide 6, net sales in the first quarter were $220.3 million, up 6.5% from the prior year period on a constant currency basis and within the guidance we provided last quarter. As we have discussed for the past year, ongoing supply chain challenges continue to impact our ability to meet customer demand. This challenge resulted in an estimated $25 million of delayed shipments in the first quarter, about $10 million higher than we have been experiencing, but, on a relative basis, about the same percentage of total backlog. The shortages are primarily in drives and controls and motors with drives and controls directly impacted by the chip shortages.

Looking at our sales bridge, pricing was a major driver of our growth, up $9.6 million, or 4.5%. The Garvey acquisition added $8.5 million of growth. We did see volumes decline 2%, or $4.3 million. While the demand is there, as I noted, we are still constrained by material shortages, preventing us from getting more volume out the door. The decline in volume can also be attributed to the ERP implementation at our largest operation in Germany that we discussed on the last call. This impacted volume in the quarter about $11 million, or 5%, as the team worked through the learning curve of a new ERP system. The environment is now stable, and this should not be a headwind going forward. Foreign currency was a headwind that reduced sales by $7 million, or 3.3% of sales.

Let me provide a little color on sales by region. For the first quarter, the U.S. improved pricing by 5.1%. Sales volumes were flat for the reasons I noted earlier. Outside of the U.S., pricing improved by 3.6%. Sales volume was down approximately 5% as volume decreased approximately 8% in Europe, primarily due to the ERP implementation, and 15% in APAC, due to the impact that the pandemic is having in that

region of the world. Offsetting these declines were volume increases of 21% in Latin America and 5% in Canada.

As David stated earlier, our order rates remain robust and annualize to over $1 billion level. We have record backlog and expect that, when supply chains improve, we will see even stronger top line growth.

On Slide 7, we achieved record gross margin of 37.5%. This was up 280 basis points from the prior year. On an adjusted basis, gross margin was higher by 120 basis points as we benefited from incremental pricing, a favorable mix and favorable one-time inventory adjustments, which more than offset the negative impact on absorption from the ERP system implementation in Germany.

Overall, our precision conveyance businesses were 100 basis points accretive to our adjusted gross margin this quarter. Let me point out a few highlights on our gross profit bridge. First quarter gross profit increased $8.5 million compared with the prior year and was driven by several factors. The Garvey acquisition provided $3.1 million of gross profit. Pricing net of material inflation added $3.1 million of gross profit, as we have successfully passed through material inflation increases. Favorable mix added $1 million. In the prior year quarter, we also had $3.5 million of acquisition inventory step-up expense and integration costs associated with the Dorner acquisition, which did not repeat. Foreign currency translation reduced gross profit by $2.5 million.

As shown on Slide 8, RSG&A costs were $53.2 million in the quarter, or 24.1% of sales. RSG&A expense included $1.7 million of business realignment costs and were $51.4 million excluding these costs. This was lower than the guidance given last quarter, principally due to lower stock compensation expense as equity prices declined throughout the quarter, and we adjusted our FY '21 LTIP grant to its expected performance payout.

Compared with the prior year, RSG&A costs were lower by $4 million. This was due to $8.7 million of acquisition and deal and integration costs incurred in the prior year related to the Dorner acquisition. While foreign currency translation lowered our RSG&A cost by $1.6 million, $1.4 million of incremental RSG&A costs were incurred related to the Garvey acquisition.

For the fiscal second quarter, we expect RSG&A expense to range between $54 million and $55 million, which reflects the timing of our July 1 merit increases, offset by measures we are taking to control costs.

Turning to Slide 9. Operating income in the quarter was $22.8 million and adjusted operating income was $24.6 million. Adjusted operating margin was 11.1% of sales, equivalent to the prior year and down slightly from the trailing quarter as we had less scale for RSG&A costs as a percent of sales due to the lower sequential sales volumes.

As you can see on Slide 10, we recorded GAAP earnings per diluted share for the quarter of $0.29. Our tax rate on a GAAP basis was 52% in the quarter. This reflects two discrete items that increased the tax rate by 27 points. The rate was unfavorably impacted 15 points due to a settlement for income tax assessments related to tax periods prior to our acquisition of STAHL. In accordance with the tax indemnification clause of the share purchase agreement, we received full reimbursement from STAHL's prior owner, which was recorded as a gain in other income during the quarter. The tax rate was also unfavorably impacted by 12 points due to the recording of a U.S. state tax valuation allowance. For the full year, the tax rate is expected to be between 29% and 30% with these discrete items.

Adjusted earnings per diluted share of $0.69 was equivalent to the prior year period. As a reminder, we add back amortization expense on a tax-affected basis to our adjusted earnings per diluted share calculation.

With rising interest rates, interest expense is expected to increase to $6.8 million in the second quarter. Weighted average diluted shares outstanding were approximately 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 11, our adjusted EBITDA margin for the quarter was 15.9% and our trailing 12-month EBITDA margin was 15.4%. The Garvey acquisition was accretive to our adjusted EBITDA margin in the quarter by 20 basis points.

Our trailing 12-month return on invested capital was 6.8%. We are targeting $1.5 billion in revenue with a 21% EBITDA margin as covered at our recent Investor Day. We have a detailed plan to achieve these objectives over the next 5 years and have been executing our strategy to drive long-term shareholder value.

Moving to Slide 12. We had negative free cash flow of approximately $14 million in the first quarter. This includes cash outflows from operating activities of $11 million and CapEx of $3 million. The negative free cash flow was anticipated and reflects the timing of our annual bonus payments for fiscal year 2022 as well as incremental investments in inventory to meet future demand and lessen supply chain impacts. We expect capital expenditures of $25 million 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 13. We have a strong and flexible capital structure comprised of a term loan B, which requires $5.2 million of required principal payments annually and has an excess cash flow sweep depending on total leverage. We paid down $10 million of debt in the quarter and expect to pay $40 million for the entire fiscal year. The term loan B is 60% hedged with interest rate swaps that blend to a swap rate of approximately 2.08%.

As of June 30, on a pro forma basis, which includes Garvey's LTM adjusted EBITDA but excludes expected cost synergies, our net leverage ratio was 2.9x. We have a strong history of de-levering after acquisitions and plan to prioritize debt repayment as part of our capital allocation, along with bolt-on acquisitions at a reasonable price. Finally, our liquidity, which includes our cash on hand and revolver availability, remained strong and was approximately $168 million at the end of June.

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

David Wilson: Thanks, Greg. As you can see on Slide 14, we had another quarter of strong order performance, with orders up 11% on a constant currency basis. Notably, our average daily order rate, which typically declines in the first quarter, held steady with the trailing fourth quarter. We do believe we benefited from advanced stocking orders ahead of the most recent price increases that we implemented.

This quarter's order growth once again outpaced sales and our backlog grew to a new record level of $352 million. Long-term backlog, which is expected to ship beyond the second quarter, was up 20% sequentially to $163 million. Short-term backlog was up 9% sequentially and represents approximately 54% of total backlog.

If you'd please turn to Slide 15, you'll see that we expect sales in the second quarter to be in the range of $230 million to $240 million. This range is inclusive of an estimated $12 million year-over-year FX headwind. While our backlog and market demand remain robust, vendor capacity continues to affect material availability.

Even with these headwinds, our sales guidance range reflects a mid-single-digit year-over-year organic growth rate at the midpoint. We continue to see significant demand in all markets and are encouraged by the traction we're gaining with our organic growth initiatives. We're also encouraged by early signs of

commercial and operational improvements resulting from our recently implemented business realignment.

Finally, if you'd please turn to Slide 16, I wanted to remind everyone that we're moving “beyond the blueprint” and targeting top-tier financial performance over our 5-year strategic planning period. We're executing on our strategy to transform Columbus McKinnon into a global intelligent motion solutions enterprise.

As we enter Q2, we continue to control what we can control and are working to positively impact the things that we can't directly control. We're making very good progress with our transformation and are delivering results that are in line with the trajectory we would expect to be on at this point given the broader macro environment. And as I said earlier, our confidence both in our strategy and our ability to achieve our long-term financial targets remains high.

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

Operator: [Operator Instructions] The first question comes from Matt Summerville from D.A. Davidson.

Will Jellison: This is Will Jellison on for Matt Summerville today. I have a couple of questions here. The first one is about orders. I'm wondering what kind of dollar contribution from orders you saw from Dorner and Garvey this quarter; and then, on the bigger picture, I'd love an update on what synergies you're seeing from those two businesses together. I’m thinking about that first synergy you saw in fiscal third quarter, that $700,000 order on ready-to-eat packaged foods and am just wondering if there was anything like that happening.

David Wilson: We do not disclose individual line of business activity and want to continue to maintain that position, but, as I think about order activity in general, our orders were up 11% year-over-year on a constant currency basis. Just to provide a little more color on splits, we had EMEA orders up 12%. I know EMEA is an area of concern for several of us; and so, it was a bright spot as we think about that. We are really, really pleased with order activity across the board. We're seeing demand across all of our end markets, and we are encouraged by trends around quotation activity in general. That's true for all our lines of business.

And then, to your second question, I think I caught it, but you broke up a little bit there. You were asking about the project that we had last quarter where there was a level of concern around the execution of the project and some cost impact associated with that. No, we did not see anything like that continue in this quarter. Our actions to continue to execute on CMBS to drive project management execution in our business is leading to, I think, the right kind of performance when we deliver on projects.

Will Jellison: My follow-up, though, is, I want to pivot to talking about freight and logistics, because I know that was a little bit of a challenge last quarter. I was wondering how pricing stood relative to some of those headwinds you saw in freight and logistics during the period.

David Wilson: Right. I'll start and if Greg wants to add on, please do, Greg. The freight costs period-over-period from Q4 to Q1 were down $3.2 million and we're really pleased with the work we've done around pricing. As I mentioned, we're becoming more disciplined as it relates to pricing for the value we delivered. We did have a price increase that went into effect in March; and then, a second price increase that just went into effect at the end of June. We think that we are well positioned with the increases we put in place.

The quarter execution of backlog is always a bit lumpy. We have projects that are in the backlog, or even short cycle business that's in the backlog, that sits at pre-price increase levels. As that phases through this coming quarter, there'll be some timing differences between when those orders are received, when

price increases went into effect and when they ship, but we believe our price-cost ratio is going to continue to expand as we advance throughout the year.

Operator: The next question comes from Chris Howe from Barrington Research.

Chris Howe: I just wanted to dive further into the record gross margin in the quarter of 37.5% on an adjusted basis. If we think about that percentage in the different buckets that you mentioned, the favorable mix and the other factors that contributed to that performance, have these remained relatively consistent through the first month of the second quarter? In other words, do you expect to maintain this level into the second quarter given that it is a record?

Greg Rustowicz: As David just mentioned, we did see lower freight costs in the quarter by about $3.2 million sequentially compared with Q4's level and that's really broken into 2 pieces. You have inbound and you have outbound freight. On the outbound freight, we did take action to recover more of our outbound freight, so, as a percent of sales, we saw our outbound freight costs declined by about 1%. On the inbound side, that's a function of the materials that are coming in as well as the cost of materials coming in, and we did bring in a little bit less materials from Asia, which did lower it somewhat, but, nonetheless, we were down $3 million. We also experienced some favorable inventory adjustments with the conversion to our new ERP platform, which gets amortized out over one inventory turn. Offsetting that was the fact that we did see fairly low fixed cost absorption in the quarter in the German facility, which is our largest facility.

So, net-net, when you put it all together, Chris, we think we would expect similar gross margins to this in Q2, but albeit a little bit lower just because of some of the one-time favorable benefits that we did experience.

Chris Howe: Can you talk more about the delayed shipments, $25 million, $10 million higher? I think you had an extra million of ERP impact $10 million versus $11 million. So, as we think about Q2 and some of the delayed shipments from Q1, how should we think about that? You got some of these shipments back here in the second quarter already. Are you anticipating kind of that $25 million again just to be conservative?

David Wilson: Yes. We're hoping to narrow that, Chris. We obviously are working every day to ship to customer demand and work within the supply chain to get things flowing the way that we would expect them to. There are some capacity constraints that we're dealing with, primarily driven by chip sets or ICs that are coming from the Far East that go into the products that we produce, as well as into the motor sub-assemblies that we ultimately ship with our products.

That's really the crux of our supply chain challenge. It's really driven by motor delivery and electronic components and drives and controls. That's the lion's share of the impact. As we flow through the balance of this quarter, we're seeing indications that things are starting to loosen, but we've seen other challenges pop up as well. We're anticipating that things are going to be similar, but on an improving trend as we advance through the quarter.

Operator: The next question comes from Jon Tanwanteng from CJS Securities.

Jon Tanwanteng: Greg, I think you made the comment that you expect growth to improve as supply improves. What are your customers telling you just in terms of their outlook and the potential for any kind of recession, which in some places we're struggling to see?

Greg Rustowicz: Jon, I'm not sure I got your question. Could you repeat, please?

Jon Tanwanteng: Yes. You said you expect growth to improve as supply improves. That would imply that you expect demand to continue being strong for the next foreseeable future. I'm just wondering if your customers are telling you the same thing, that they expect that their own demand to be strong for that same time period.

David Wilson: Jon, this is David. I would say we're really seeing a strong indication that orders are going to continue to be robust. We have a leading indicator with quotation activity that's trending up across the business. We have input from our customers, and we have input from our sales channel, our own sales leaders, that would suggest the same.

And so, we're encouraged that demand remains robust. We're watching all the leading indicators that everyone is looking at as it relates to recession. In fact, we've updated our recession playbook and made sure that it's well understood across the enterprise, so, as we watch those leading indicators, we're ready to take actions swiftly and decisively should we need to. But, at this point, we don't see indications that that's necessary, certainly not at this point.

Jon Tanwanteng: And then, second, what is your appetite for acquisitions today? I know you used cash in the quarter. Do you expect that to reverse as you go forward? Is that a priority for cash flow or is it more paying down debt at this point? How does that sort against the pipeline that you're seeing?

David Wilson: We have really a great pipeline of opportunities that we continue to have discussions with the other parties on. We are very disciplined about the way that we're thinking about deploying our capital in this environment and, candidly, as I've said numerous times on these calls, we're laser-focused on execution. We're applying our resources in a way that is focused on executing to meet our organic commitments within the business, but with a mindset that we are going to be programmatic with M&A over time.

You don't start and stop discussions and pipeline and so forth, and we have some really interesting, nice, right-sized opportunities that could be interesting opportunities for Columbus McKinnon and for our investors as we go forward and think about that pipeline.

Greg Rustowicz: Just to addon to David's comments, clearly, with rising interest rates and where our stock price is today, we're truly looking at bolt-on opportunities, which are going to be much smaller, and purchase price matters. We're going to continue to be very disciplined in how we evaluate opportunities and how quickly we can de-lever if we were to buy a bolt-on opportunity.

Jon Tanwanteng: One final one, if I could. Your gross margins are about 2 or 3 quarters ahead of where I thought you would be. Does that imply you might get to that old EBITDA margin target of 19% maybe a little bit faster than expected sometime in this fiscal year?

Greg Rustowicz: I would say, Jon, that we've talked in the past about getting to that 19%, and it requires a gross margin of 39% to 40%. At 37.5%, we did have the one-time good guys I mentioned, but we should start to see similar, albeit smaller or a little bit lower, gross margins in the upcoming quarter. Nonetheless, that's another, call it 200 to 300 basis points from where we are, so, with 2 quarters to go, that's a significant increase.

I would say that we're going to continue to make progress. There's still a lot of uncertainty, especially with what's going on in Europe with energy supply, the Ukraine situation, so it’s hard to say today where we're going to finish the year with gross margins.

David Wilson: Jon, let me just add quickly to that, that as you think about the path to getting to that outcome, as we said at our Investor Day, we have a backlog of $352 million. As we start to see that flow through and get better fixed cost leverage in our factories and you think about the price increases we've

already put in place, and then, you think about the SG&A that we're taking out and as we gain scale through the shipment of that backlog, that is the key to getting to that 19%.

And so, we're controlling what we can control. We're executing our management plan to get to those levels and, as the supply chain supports the execution of that backlog at rates that enable that scale, we'll deliver those margins.

Operator: [**Operator:** Instructions] The next question comes from Steve Ferazani from Sidoti & Company.

Stephen Ferazani: I wanted to ask a little bit about cash flow. You touched on it a little bit in your expectation that we start seeing positive cash flow. I'm trying to think of how quickly that working capital comes down even as your volume goes up. Obviously, you're carrying much higher inventory levels right now. How can we think about that?

Greg Rustowicz: So, the easiest way to think about it, Steve, is, our overall working capital as a percent of sales. We were elevated at 19.9% this quarter, largely driven by the incremental $22 million of inventory that we added to the system. As supply chains start to improve, we will start working that balance down and we would expect revenue to increase as well.

We still are targeting roughly the mid-teens, 15% or 16%, as working cap as a percent of sales and that is going to be a big driver of free cash flow. We did have the one-time items which we have every first quarter. Last year in the first quarter, we had negative free cash flow as well, so it wasn't unexpected. We budgeted for that to happen, and we do think we're going to end with a nice level of free cash flow by the end of the year.

Stephen Ferazani: Is there a certain level of cash you need on the balance sheet for operations? I'm just thinking about timing, the $10 million in debt repayments, how comfortable are you right now?

Greg Rustowicz: We need about $40 million to $50 million and, ideally, a good bulk of it in the U.S., because the interest and the principal is paid out of the U.S. Today, we're carrying $86 million of cash, which was the reported balance at the end of the quarter. Sometimes a big slug of cash, multiple millions of dollars, comes in on the last day of the quarter, so there's not much you can do. We have to make our decision on how much debt we're going to repay a couple of days prior to the end of the quarter. But we're confident and comfortable that we can get to the $40 million number of principal repayments this year.

Stephen Ferazani: And I just have one last one. You've previewed that R&D would be going up. I just wanted to ask a little bit about where the R&D focus is, how product development efforts are going and how much that sort of contributes to the margin improvement beyond just, obviously, having Dorner and Garvey?

David Wilson: We're very focused on our core growth framework and the strategic growth initiatives we're driving within that framework. Product development is a key area of focus, so we've invested in building that team, building our competencies around product development, doing the market outreach and Voice of the Customer work in advance of that and making sure that we're driving next-generation platform products that enable PLS, which is an 80-20 principle focused on product line simplification.

As we drive product line simplification across the portfolio, we're able to offer better fit-for-purpose, more modern designed product that actually enables access to a broader set of markets, because we can modularize the design and offer a product that's fit for use in Asia as well as Latin America in addition to our European and American markets.

We're really focusing attention in those areas, and I'm really pleased with the work that we're doing. We've been able to outpace growth expectations as we wrapped up the fiscal 2022 period with those new product investments and we're investing to ensure that continues in fiscal 2023.

Operator: The next question comes from Patrick Baumann from JPMorgan Chase.

Patrick Baumann: My first one is on the orders number. What do you think was the impact of buying ahead of price increases? And then also, in the 11% that you booked this quarter, should I just assume that the price reflected in that was similar to the price you booked in the revenue line, which is about 5%?

Greg Rustowicz: When we look at orders by month, April-May-June, we saw about a $10 million increase in the month of June from May levels that was really related to, I'd say, people buying in advance of the June price increase.

David Wilson: That's a good way to summarize it, Greg. I think you do see, for standard products that are stockable items, demand that increased as we went into the latter part of the quarter in advance of that price increase. I think that's a reasonable way to summarize.

Patrick Baumann: And then, on the price, I was just trying to understand the price increase in the orders. Is that about 5%, which is kind of like what you're seeing in the revenue line from price?

David Wilson: We implemented our price increase in March, and we had price that was in the backlog that carried over from prior year price increases that had longer cycle shipments. It's difficult, as you think of the phasing of shipments, to directly attribute the price that was in each one of those in an aggregated sense. I'm going to let Greg comment a little further, because I know he has better analysis around that.

Greg Rustowicz: So, Pat, we saw in the quarter 4.5% of pricing and, because of the way we calculate pricing, it's on a like SKU-for-SKU basis. Also, because about half of our business is project-related, it's really double that percent. We went out with essentially 10% price increases, and we'll realize that on half of the business, because, with the other half, the pricing is embedded in the configurators. We can update those real-time for cost changes and margin expectations. That's also quoted, too, so it tends to be more of a competitive situation. But, for a standard product, it's up 10% essentially.

Patrick Baumann: So, the pricing that you're, in reality, realizing in your revenue is probably greater than the amount that's reported through the revenue line as you reported only on a part of your business?

Greg Rustowicz: Yes, because in order to measure price, it's on an exact SKU-by-SKU basis. I sold this SKU last year at this price. I sold it this year at this price. What's that delta times the number of SKUs?

David Wilson: It's about 50% of the business that fits that profile.

Patrick Baumann: Did you say at the beginning which end markets you're seeing improving demand still? Are there any that you're seeing demand fall off a little bit? Have you commented specifically on end markets? I guess e-commerce is one that is, obviously, under the microscope a little bit, but I'm sure you're seeing increases in other end markets, like oil and gas, et cetera. I'm just curious if you could give any color on the vertical markets.

David Wilson: We have seen the vertical markets more generally doing well, so, as you think about our broader end markets, I'd say a general statement would be that we see demand being robust across all. As I think about notable markets with increases, I think about utilities … I think about entertainment, energy. As I think about your comment around e-commerce, we've made good inroads with new e-

commerce customers. We're continuing to invest in the future of that landscape, but, notably, there's a large customer that has shifted priorities and that's resulting in a re-phasing of their demand in the current environment.

Patrick Baumann: If I could squeeze one more in, did you say what drove positive mix in the first quarter, what exactly that was? I might have missed that at the beginning, and I apologize if you're repeating yourself.

Greg Rustowicz: No, we didn't discuss it, but it's going to be more of our high value-added hoist products, I would say, as opposed to our forged products.

David Wilson: I would add that it's products that are typically shorter cycle, standard products that have attractive margin profiles where we saw an increase in mix in the first quarter.

Greg Rustowicz: The other part too is our rail business, which has lower gross margins but a lot lower SG&A. We had less volume there as we did have some projects that got delayed because of COVID.

Operator: The next question is a follow-up question from Chris Howe from Barrington.

Chris Howe: I'd like to follow-up on just a brief comment that was made in some of the prepared remarks and Q&A about the backlog. You mentioned the different phases of pricing, some backlog having more recent pricing, some having relatively older pricing. Can you talk about the maturation of this backlog as we think about Jon's question about gross margin, that 39%, 40% level? As this matures over time, what type of opportunity does this open up for gross margin? In other words, there's likely a higher gross margin underneath the numbers once we move forward in this environment.

David Wilson: We believe that is the case, based on the moves we've made as we've advanced over the last 12 months. As you can see, we have a backlog that is, from a short-term perspective, pretty healthy at $189 million of the $351 million total. That represents 54% of the total backlog and that's expected to ship really over the next quarter; and so, that's the short-term backlog, which should have the benefit of the March price increase, but only partially would have the benefit of any increases thereafter.

And then, as we think about that longer-term backlog at $163 million, that would have a phasing of pricing based on the way that we increased price both in the fourth quarter of last year and then through this first half of the calendar year.

Our belief is exactly what you said, that, as you move forward, the pricing impact improves and that starts to give us an opportunity to expand price to cost ratios and expand gross margins.

Operator: The next question is another follow-up call from Jon Tanwanteng from CJS Securities.

Jon Tanwanteng: I apologize if you said this before, but can you just clarify, did you mention where gross margins will be directionally in Q2?

Greg Rustowicz: Yes, we did. We said that they will be similar to Q1, but likely a little bit lower.

Operator: The next question is also a follow-up from Matt Summerville from D. A. Davidson.

Will Jellison: This is Will Jellison again. I was wondering, with the $3 million CapEx spend in the fiscal first quarter trending below what you would need to spend to reach that 25% to 30% target to make those plant improvements, if that was a reflection of a normal business cadence you would expect, given your plans, or if you're also seeing supply chain challenges in capital equipment as well?

David Wilson: It's a fair question, Will. I would say that it's more of the former at this stage. We are planning to execute on some meaningful investments to increase productivity and to drive the next leg

of margin expansion, as Greg indicated. Those investments are a bit lumpy, and they phase later in the fiscal year.

I'm not worried about the $3 million trend versus the overall annual target, but, I think, following up on the second part of your question or your point, we are planning for longer lead times associated with capital spending and the delivery of that equipment.

Greg Rustowicz: And there will be deposits on a number of these large capital projects that we will have to make.

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

David Wilson: Thank you, Claudia. The first quarter was a strong start to fiscal 2023 as we advance our strategic transformation. We delivered terrific results, including record gross margin, robust order intake and 112% growth in operating income. We remain laser-focused on execution and improving our customers' experience. We're 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 as we evolve into the global leader in intelligent motion solutions for material handling.

Thank you for your time today. We appreciate your interest in Columbus McKinnon. Have a great day, everyone.

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