Operator: Greetings, and welcome to the Columbus McKinnon Corporation First Quarter Fiscal Year 2019 Financial Results. At this time, all participants are in listen-only mode. A brief 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, Deborah Pawlowski, Investor Relations for Columbus McKinnon Corporation. Thank you, Ms. Pawlowski. You may begin.

Deborah Pawlowski: Thanks again, good morning, everyone. We appreciate your time today and your interest in Columbus McKinnon. On the call with me are Mark Morelli, President and CEO; and Greg Rustowicz, our Chief Financial Officer. You should have a copy of the first quarter fiscal 2019 financial results, which were released earlier this morning. And if not, you can access those and the slides that will accompany our conversation today at our website, cmworks.com.

So, if you'll turn to slide 2 of the slide deck, I will review the Safe Harbor statement. As you are aware, 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 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 reconciliations of non-GAAP measures to comparable GAAP measures in the tables that accompany today's release and the slides for your information.

So, with that, please turn to slide 3 and I will turn it over to Mark to begin. Mark?

Mark Morelli: Thanks, Deb, and good morning, everyone.

Our strong financial results for the first quarter of fiscal 2019 demonstrate the progress we're making with the initial efforts of Phase II of our Blueprint 2021 strategy. The results also demonstrate the depth of opportunity available to us as well as the capability of our team to outperform last year's strong results.

The operating improvements in the quarter are encouraging as our diluted earnings per share was $0.74, an increase of 35% over last year's first quarter. This is on an adjusted basis, which excludes the $11 million impairment for assets held for sale and $1.9 million of the STAHL integration costs. Prior to these adjustments, the diluted earnings per share was $0.33. Also encouragingly, we achieved a record adjusted EBITDA margin of nearly 16%, which was driven by record gross margin.

We're capitalizing on the deployment of our E-PAS™ operating system, which as a reminder, E-PAS™ stands for Earnings Power Acceleration System. This is our tool kit of processes that drive the elements of our strategy. We had very good success last year and we are building upon that momentum by incorporating additional tools this year to advance Phase II of Blueprint 2021.

Before I walk you through our Phase II progress in greater detail, let me highlight a few examples of how we're taking advantage of opportunities in a wide range of end markets.

In automotive, key OEM customers are making capital investments for the conversion of traditional car production to truck and SUV assembly. This shift has been driving demand for our preferred lifting and positioning solutions.

For the upstream oil and gas markets, offshore activity has been picking up requiring replacements and upgrades of our hoists. In the midstream space, there are major Middle East pipeline development projects in which we are involved. In fact, we have a strong pipeline for projects in which our explosion-protected products are both well-suited and preferred.

As you are aware the metals processing and steel industries as well as the aerospace industry are quite strong. Process facilities and production lines are being refurbished and upgraded to more efficient systems as manufacturers bring on new capacity. This has provided solid demand for our drives and controls products.

The entertainment industry has been very busy as well. The market has remained active despite the typical seasonal slowdown as artists are looking for more automation to create dramatic performances and entertaining displays. Our preferred solutions are addressing these needs.

The utility industry has been an active market. Contractors are working on infrastructure projects including the continued rebuild in Puerto Rico and Houston, as well as expansion of power lines to meet new home build rates. We expect the summer heat will drive substation work as well.

Encouragingly, our mining focus in South Africa is having success with cross-selling STAHL products in an improved environment and there's solid demand in general construction, pulp and paper, elevators, government and rail. In fact this month, we just landed a $5.3 million rail project in Israel, our largest project ever.

It's important to recognize that our results are demonstrating that there is greater earnings power potential for the business. Yet, we have more work to do as there is a lot more runway inherent in our business.

So let me address, what we are focused on this fiscal year to further advance Phase II of Blueprint 2021. Please turn to slide 4.

We are now in Phase II of Blueprint 2021 strategy and we're reaping the benefits of simplification, focus on availability, introduction of new products that solve high value problems and better productivity. Our first area of focus is on simplifying the business. We are streamlining products and focusing on profitable revenue. There are two dimensions to our efforts.

One is the identification of bleeders or areas of our business where we're not making money and the products are significantly dilutive to our margins. We take actions here to remedy the situations. The other is in the identification of areas that should be of relative strength. We take action here to more fully exploit their potential.

As an example of the latter, our wire rope hoist platform simplification is making great progress. We're leveraging the STAHL product portfolio to create a new platform that enables rationalization of product lines.

In fact, customer acceptance has been very positive. The new hoists are smaller, quieter and provide better features. While we were still in the early stages of this project, the upgrade of this product will provide approximately $1.5 million in savings towards our STAHL synergies target this fiscal year. We will be advancing the rollout of this platform, any new market offerings with greater lifting capacities up to 50 tons.

We're also addressing what is obvious low-hanging fruit in our business simplification efforts. We've decided to sell three businesses that clearly don't fit well with our current business or strategy. These businesses are better served with other owners. So, let me talk to them briefly.

For some of you, you may be surprised to learn that we have a Tire Shredder business. It was a diversification strategy long ago, and has since operated completely independently. Since we're not in the reclamation or waste management business, this is not a good fit with our growth strategy.

The crane equipment and service business is a small crane building business in the Midwest U.S. This business does the same work that our channel partners do, so it's better suited for one of our customers to own and operate. Its sale will eliminate some channel conflict.

As for Stahlhammer Bommern, this is a fabricator of very large hooks and shackles based in Europe, and we acquired this business in 2014. It doesn't have synergies with our other businesses, as its products do not integrate well into our existing channel, and we have very little manufacturing synergies.

These three businesses had $38 million in revenue and $1 million in operating income in fiscal 2018. Excluding these businesses, our fiscal 2018 operating margin would have been 30 basis points higher.

Our second focus area is on improving productivity. We're already seeing progress as improved productivity significantly contributed to our margin expansion in the quarter. Bert Brant, our new VP of Global Manufacturing Operations and our operations teams are digging in and getting traction with material and labor productivity improvements. We had a good quarter offsetting rising supply chain costs through actions with suppliers and material productivity initiatives. They're also deploying specific productivity metrics to our factories and we're making progress through lean initiatives. We are just getting started and we still have a lot of runway remaining, as we drive towards operating excellence.

The third area of focus is further ramping our growth engine. We've launched new products that offer better productivity and improved safety. These fit well with our definition of solving high-value problems. Ultimately, they help us progress towards our vision of becoming more of an industrial technology company.

For example, we've launched a new wire rope hoist platform, increased our offering of variable speed controls and electric chain hoists and developed and launched new ergonomic work platforms to improve safety.

We're expanding our digital platform by adding more products to our online tool. This has been driving higher quoting activity and we have more revenue flowing through our digital system, making it easier for customers to do business with us. And importantly, we've added Mario Ramos to the team as Vice President of new product development to help us better identify opportunities and focus resources efficiently.

Our other area of focus is on the continued transformation of our culture. We're building on the momentum from the launch last year of our mission, vision and values. The culture theme is about raising expectations of every individual by living our values to win as a team and create a performance culture.

Our new business unit structure is taking hold with global leadership focus on product lines. I'm especially encouraged with this, because we believe we're getting traction and this is contributing to our solid performance. This is a testament to the capability of our teams and their ability to rise to the challenge and successfully execute Phase II of our strategy.

Let me turn the call over to Greg to cover the financials. Greg?

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

On slide 5 consolidated sales in the first quarter of $225 million were up 10.4% from the prior year. Excluding FX, we had organic sales growth of $16 million, or 7.8%. Overall our markets remain strong with solid growth in virtually all of our businesses. Sales volume was up $14 million, or 6.8%, and pricing was higher than the previous year by $2 million or 100 basis points and was ahead of raw material inflation. In the prior year, we implemented 40 basis points of pricing. So this year's price increase is more than double the prior year.

Foreign currency translation continued to be a tailwind and increased sales in the quarter by 2.6% - largely the result of a stronger euro and weaker U.S. dollar.

For the quarter, U.S. sales were up $9.1 million, or 8.2%. Sales outside of the U.S. were up $12.2 million, or 13.1%, with $5.3 million of the change due to FX. Excluding the effects of foreign currency translation, we saw organic growth of 7.5% outside the U.S.

Inside the U.S., the markets remain strong and our leading position in this region continues to serve us well. Our business in EMEA was quite strong as well with organic growth of 10.3%.

On slide 6, we achieved a new record for adjusted gross margin of 35.4% in the quarter. Our strong gross margin this quarter benefited from favorable project mix. First quarter gross profit of $79.6 million increased by $10.6 million, or 15.4%.

Let's now review the quarter's gross profit bridge. The two largest contributors to gross profit expansion were higher sales volume and productivity net of other cost changes. Volume and mix contributed $4 million of gross profit while productivity contributed $3.7 million. This was a record level of productivity and we see further improvement opportunities ahead as Mark referenced.

Foreign currency translation added $1.6 million of gross profit. The impact of higher pricing more than offset raw material inflation, which positively impacted gross profit by $1.5 million. This is particularly important given the pressure on raw material costs and the expected impact of tariffs. We see inflation pressures increasing, but the team is doing a great job of managing this.

As shown on slide 7, RSG&A costs were $51.1 million in the quarter. This includes $1.6 million of pro-forma costs related to the STAHL integration. Excluding these items, RSG&A was $49.5 million, or 22% of sales. We expect R&D costs as a percent of sales to increase as we invest in new product development. We are also driving efficiencies in selling, general and administrative costs, which should help offset some of the increase in R&D spend.

Compared with the prior year quarter, R&D costs were up $800,000 as we begin to increase our investments in this important area of growth generation. Selling expenses increased $1.8 million on higher volume, FX, and STAHL integration costs. G&A costs increased $2.9 million. FX and STAHL integration costs accounted for $400,000 of the increase, higher benefit costs of $1 million included higher bonus accruals given the strong Q1 performance. The remainder is largely due to environmental and bad debt accruals, which likely won't repeat in Q2.

Our quarterly forecasted RSG&A run rate is expected to be in the range of $48 million to $49 million in the second quarter versus our previous guidance of $47.5 million. While we will still recognize the additional STAHL integration savings of $500,000 beginning in the second quarter, we will have higher R&D costs and higher incentive compensation costs than the previous guidance.

Turning to slide 8, adjusted income from operations grew 26% to $26.5 million, or 11.8% of sales. This is on top of 87% growth in the prior year and represents a step change in performance. This compares with adjusted operating income of $21 million, or 10.3% of sales in the prior year. Adjusted operating margin improved to 150 basis points over the prior year. This is the highest adjusted operating income and margin that we have seen in 10 years. So far, we have achieved about $8 million of STAHL synergies compared with our target of $14 million for fiscal 2019. The reconciliation for adjusted operating income can be found in page 16 of this presentation.

As you can see on slide 9, GAAP earnings per diluted share were $0.33 versus $0.51 per diluted share in the prior-year period. Adjusted earnings per diluted share for the first quarter of fiscal 2019 were $0.74 compared with $0.55 in the previous year, an increase of $0.19 per share, or 35%. This was excellent performance and demonstrates the true earnings power potential of the company. The reconciliation of GAAP earnings per share to adjusted earnings per share can be found in page 17 of this presentation. All adjustments are tax affected at our normalized tax rate of 22%. On a GAAP basis, our effective tax rate in the current quarter was 19%. As Mark pointed out earlier, we achieved a 15.7% adjusted EBITDA margin in the quarter, which demonstrates the progress we are making with our Blueprint 2021 strategy.

Turning to slide 10, our working capital as a percent of sales was 19.4% this quarter. This compares with 19% at June 30, 2017, and 17.9% at March 31, 2018. Working capital as a percent of sales increased 40 basis points from the prior year quarter reflecting the impact of higher DSOs from the STAHL acquisition, which is typical for European companies. Inventory turns were 3.7 turns - lower than a year ago and the same as March 31 levels. We are carrying higher inventory levels currently to improve our on time delivery as the markets are strong and our backlog is healthy. We are also anticipating that our supply chain will get extended as the year progresses. We are seeing some signs of raw material tightness and are managing this risk appropriately.

On slide 11, net cash from operating activities for the quarter were $8.1 million, which was lower than the prior year amount of $14.4 million. This represents the low point for quarterly operating free cash flow as it reflects an incremental $9 million of cash bonuses paid as a result of our strong performance in fiscal 2018. We expect strong cash flow generation over the remainder of the fiscal year. Our guidance for capital expenditures for fiscal 2019 remains unchanged at $15 million to $20 million.

Turning to slide 12, our total debt was approximately $354 million, and our net debt was approximately $297 million as of June 30, 2018. Our net debt to net total capitalization was 42%. We repaid $10 million of debt in the first quarter. We made excellent progress de-levering and have achieved a net debt to adjusted EBITDA ratio of 2.4 times.

Our long-term target for net leverage is approximately 2 times, so we are almost there. We do expect debt repayment to total $60 million in fiscal 2019. Once we have de-levered the balance sheet, our capital allocation priorities remain unchanged.

Please turn to slide 13 and I will hand it back over to Mark.

Mark Morelli: Thank you, Greg. We are committed to creating a higher performing business and we are demonstrating a strong start to fiscal 2019. We believe we have real evidence our strategy is taking hold, our leadership team is rising to the challenge and we're delivering better earnings. We are confident in our outlook for fiscal 2019. Order activity remains strong and we have a full pipeline of projects. We expect project order activity to pick up over the next several months as quoting activity is strong and customers are better able to manage engineer staffing.

In fact, as I mentioned, we just received that record rail program in July. As we look to the second quarter, our plan is to grow with quality revenue. In fact, with the elimination of bleeders in the quarter, we expect we'll likely shed about 1% of revenue while providing better margins. Absent simplification and project timing, organic growth in the quarter would be 5% to 6%.

We are addressing inflation with material productivity and pricing. Our labor is also tight, we're using our productivity efforts to increase people capacity as well. Allow me to reiterate that our strategy is to improve the earnings power of Columbus McKinnon with a better business model focused on industrial technology. Our strategy is working, our team is getting traction and we're very encouraged that the changes we are making are sustainable.

Doug, we're now ready to open the call for questions.

Operator: Thank you. We will now be conducting a question-and-answer session. [Operator Instructions] Our first question comes from the line of Greg Palm with Craig-Hallum. Please proceed with your question.

Greg Palm: Hey, good morning, congrats on the really nice results there.

Mark Morelli: Thanks, Greg.

Greg Palm: Wanted to first start off on what you're seeing in the macro environment. You talked about the bidding pipeline and recent trends. I just wanted to get a little more detail on that. It sounds like there are some orders that are being pushed out, but how confident are you that some of that's due to more of these staffing challenges and scheduling versus some of the trade, tariff, geopolitical issues that seem to be impacting some other companies?

Mark Morelli: Well, these things are always difficult to tell. But, we've dug pretty deep with our teams and we're pretty confident that the projects we have are being pushed because of engineering staffing. I think it's also a function of the macro environment. Labor is tight and they've had to address some of the engineering staffing issues. But, our projects are solid and our products are really preferred in these type of offerings. A lot of it is related to Middle East, oil and gas, explosion protection, where we've got a really good bead on their needs and our products are really preferred. So, we feel pretty encouraged by this in that we should have a very good outlook for the year.

Greg Palm: Got it. Okay. In terms of the backlog levels at the end of June, was there any impact from the divested businesses? Did you take any of that out of backlog from March to June?

Greg Rustowicz: Hi, Greg. It's Greg. No, we have not, so that represents the total company backlog. And just to comment on the potential divestitures, we do see these businesses staying with us potentially through the end of the fiscal year, there might be one or two transactions that get done in the December timeframe, but at least in the next quarter for sure those businesses will still be with Columbus McKinnon.

Greg Palm: Very well. Okay. And any detail on, I think you gave the operating income and revenue of the three. Any commentary on the gross margins of those three businesses in aggregate?

Greg Rustowicz: I don't have the gross margins handy, but they would be on the lower end and dilutive to our overall gross margins, and certainly from an operating margin perspective. Besides in our prepared remarks, we commented on the impact in fiscal 2018, I did want to give the folks on the phone the impact on the first quarter. So, in the first quarter, those potential divestitures had about $11 million of revenue and about $700,000 of operating income.

Greg Palm: Got it. Okay. And then, last one for me. I know you've hinted at this profitable growth initiative and potential for divestment. Should we assume that you're done with the three here or is this still a work in progress and you continue to look at other lines of potentially divesting or something else going forward?

Mark Morelli: Well, Greg, I think this is what pops out to us as we're going through our simplification efforts. Obviously, as you know we've deployed our operating system to a pretty granular level. So, we have very good visibility as to how these businesses are operating. They really don't fit well. So, we're taking them out as part of Phase II of our simplification initiative of the Blueprint 2021. We're not yet into Phase III where we're doing more portfolio analysis so, other things may come to the surface then, but for right now this looks like this will be the end of what we would do in terms of divestitures as part of Phase II.

Greg Palm: Great. Well, thanks for taking the questions and good luck.

Mark Morelli: Thanks, Greg.

Operator: Our next question comes from the line of Michael Shlisky with Seaport Global. Please proceed with your question.

Ryan Amberger: Hi. Good morning. This is Ryan Amberger on for Mike.

Greg Rustowicz: Hello, Ryan.

Mark Morelli: Good morning, Ryan.

Ryan Amberger: Guys, how are you? Just two quick ones. Can you give us a little more color on which end markets were the strongest in the quarter and which were the most challenged, and what're your expectations if there's any change going forward?

Mark Morelli: Well, we saw a lot of strength out of the North American market, general manufacturing was great, steel was great. We even saw strength in the aerospace market. You know automotive has slowed as you see the number of vehicles have dropped in the United States, but the model changeover continues to be pretty good for us. As I said in my prepared remarks, folks are transferring the lines over to SUVs and now trucks. So, we're selling a decent amount there. So, there's some real strength there.

Entertainment which would normally be quite light, the entertainment industry itself has continued to be strong as I said with automation – so we're seeing a pretty wide swath of strength across markets, and utilities also were strong. So, it's been a really good market for us overall and we've taken advantage of that strength by what we're doing, how we position ourselves in the markets as well. We're very happy with what's going on and I think we're getting outsized growth from what we can see from our competition as well.

In Europe, let me just comment there, the general industry also appears pretty strong for us. People are still spending on CapEx and the markets are fairly robust. So, we're pretty encouraged by what we're seeing.

Ryan Amberger: Great. And one other quick one, just on pricing. How long do you think you can maintain the positive pricing? Do you have a positive outlook for a few quarters out?

Mark Morelli: So, we monitor the pricing and our material cost inflation pretty regularly, and we'll take actions accordingly. As you know, we got some traction in pricing and we're going to be looking at this, vis-à-vis tariffs, vis-à-vis material inflation, that might be creeping in. We'll take action accordingly, and I think the market is favorable for some price increases. We'll continue to pursue that as needed.

Greg Rustowicz: Just to add on Ryan, at least in my seven years with the company, we've always had price exceeding raw material inflation.

Ryan Amberger: Okay, great. I really appreciate the information. Thanks guys.

Operator: Our next question comes from the line of Matt Koranda with ROTH Capital Partners. Please proceed with your question.

Matt Koranda: Hey guys, good morning.

Mark Morelli: Good morning, Matt.

Matt Koranda: Just wanted to start out with a clarifying question. So, the outlook for Q2 in terms of growth, I think you said ex some of the bleeders that you were exiting would be 2% to 3% growth, but Mark, you've mentioned toward the end of your prepared remarks, and I think I missed it, what it would have been if you had kept those in the guidance, what would it have been?

Mark Morelli: So, if we'd kept in the guidance the bleeders and also some of the project timing, we would have been 5% to 6% organic growth in the quarter.

Matt Koranda: Okay. Got it. Could you shed a little light on or give a little bit more color on, which specific product lines or brands you may be exiting here. Any help there, is it around the Tire Shredder and all that stuff or is it stuff that's more core hoist related?

Mark Morelli: No, there's a couple areas where last year, we had some pretty strong revenue with business that was quite dilutive on margins. We took some business through our Unified operations, which was automotive, where we were chasing some volume with very little margin associated with it. We also chased some crane business through CES, which is a business that we're divesting, where we had some large projects that were selling to automotive customers at very low margins that are not repeating. Also in Brazil, we had quite a significant amount of revenue that was going at not very good margins and not really sustainable business for us where we're not getting growth. So, those were the major areas that we saw that we were shedding some revenue due to these bleeders.

Greg Rustowicz: Matt just to clarify, we would be 3% to 4% organic growth excluding the bleeders if we weren't taking action there and 5% to 6% with the projects as well. Also, I would mention that we see FX as being a slight headwind in the quarter as the euro is getting a little weaker compared with a year ago.

Matt Koranda: Got it. That's helpful. And then, I guess it seems like given the end markets that you operate in and most of them coming off troughs that 2% to 3% guide if you embed a bit of a tailwind from pricing, is still little below the volume expectations I would have had. So, is there any destocking happening at the distribution level, I mean are you seeing any of that happen or embedding that into your outlook for the next quarter?

Greg Rustowicz: Matt, one of the things I would point out as well, we saw really strong growth last year as we came out of this industrial recession, I believe we had 8.5% organic growth in the second quarter a year ago. So, it is reverting back a little bit to the mean, but nonetheless we still see significant growth opportunities for the company in the fiscal year.

Mark Morelli: Matt, can you explain your question about destocking of the channel, can you explain that question a little bit more?

Matt Koranda: Yes, if you just look at the industrial macro indicators and the historical organic growth that Columbus McKinnon has experienced in this type of macro environment, I just would have expected a low- to mid-single-digit guide organically. It's probably, I'm guessing it's just choppiness and the tough comp here, but that was the gist of the question, I was expecting a little higher and was thinking you guys were embedding some destocking assumptions there?

Mark Morelli: No, no, not at all. It's the project timing and the simplification effort. So, it's nothing beyond that.

Matt Koranda: Okay, all right, perfect. And then, just on raw materials you did mention in the prepared remarks there was some tightness. So, just wanted to see if we could specifically drill down on what is getting tight and what are you stocking more of currently that's driving inventory higher?

Greg Rustowicz: One area that we see some tightness is in the motor area. So, we're working through that with our supply chain and looking to expand the breadth of our suppliers to have a more competitive process in terms of our motors. That would be one in particular.

Mark Morelli: And then, the other area is obvious, it's related to steel. We don't buy a ton of steel like some of our channel partners do, because our channel partners make the large girder cranes, we don't do that as a course of our business, so we're not as impacted heavily there, but we have seen steel prices going up. So, we've been managing that accordingly as well.

Matt Koranda: Got it. Okay. And then just in terms of the freight headwind I don't know if I saw that called out explicitly, but is that embedded, I guess is that netted out of a certain line item in slide 6, Greg. Could you help us out there in terms of the headwind you saw from freight?

Greg Rustowicz: We've not seen a big headwind from freight. So, if we had seen it, it would have shown in the productivity number, net of other cost changes and it's not been a significant factor this year, nor do we anticipate it to be going forward.

Matt Koranda: Okay, great. And then this quarter, great incremental EBITDA margins. It's north of 50% by my calculation, but is there anything extraordinary about the mix or anything that isn't repeatable for the remainder of this fiscal year, in terms of the incremental margins that you guys achieved?

Greg Rustowicz: We expect, Matt, to continue to grow EBITDA margins. We've got a lot of initiatives going on to drive productivity in our plants and we saw record productivity this quarter. So, we see huge opportunities there. We also think that with Mario Ramos now on board, we're going to continue to see a jumpstart in our new products, which should drive additional EBITDA as well.

Matt Koranda: Okay. Thanks, guys. I'll jump back in queue. Nice job.

Operator: Our next question comes from the line of Jon Tanwanteng from CJS Securities. Please proceed with your question.

Jon Tanwanteng: Good morning, guys. Thank you for taking my questions and very nice quarter.

Mark Morelli: Thanks, Jon.

Greg Rustowicz: Thanks, Jon.

Jon Tanwanteng: Can you talk about some of the productivity gains you're unlocking? They were pretty impressive. What specifically is going on in supply chain and your manufacturing to fill those gains?

Mark Morelli: So, there's a pretty big initiative that Bert and the team are all working on, together along with the heads of our product lines at our factories. Our average, when you think about how do they perform, if you would ever visit one of our factories, I think you would probably come away with the impression, we're on a lean journey, but we're not particularly far down that path. So, there are a number of initiatives. The first one is we put in place a new head of purchasing for our organization that comes from Danaher companies, and he instituted a price increase mitigation process, by which we really go out there and manage some of this material inflation and get a hold of how we manage our suppliers, and I understand that's a short-term thing, but it's really digging in deeper with how we can also expand and try to make sure that our supply chain is well-balanced and that we're able to get better leverage off our supply chain.

So, that's one initiative around material productivity. We're also filling the pipeline of material productivity projects so that we're able to drive greater material productivity, perhaps greater than what we've seen in the past from Columbus McKinnon. Then the other area is how do we go after our labor productivity. Specifically there, we've deployed a set of key performance indicators, or KPIs, by which we challenge the factories to get better. The areas that we're thinking here is indirect versus direct labor, what are your overhead rates that are running, including activities around logistics cost. So, these things are really driving a simplified way, by which we get our productivity and accountability and we start driving the results.

Jon Tanwanteng: Okay, great. That's pretty helpful. Can you talk a little bit about the shortage of staffing and engineering at your customers? You said, you pushed down some of the projects. Do you have any idea how much revenue that left on the table, number one? And, when this bottleneck or logjam may actually break up and lead projects out to you guys?

Greg Rustowicz: Jon, we think it was in the neighborhood of close to $3 million of projects. A good bit of that is actually in the Middle East, and its explosion-proof hoists from STAHL. We have a pretty good view of those projects and we expect those to materialize later in the year.

Jon Tanwanteng: Okay. And is this a more widespread phenomenon happening across the industry or just in that specific instance?

Mark Morelli: Well I think we're seeing labor constraints everywhere, and we run into labor constraints, even in our factories for example when we want to do wiring for some of our control boxes. So, I think generally speaking, folks are running into some tight labor constraints, but demand has been strong, and the oil and gas midstream markets and downstream markets have now been ramping, in some of these projects I think we're a little more optimistic. We just digested a huge slug of that last quarter.

As you may know, they can't always run hotter and hotter, sometimes you have to take a bit of a breather and I think that's what we're seeing here, is that they've just got to digest some of the projects they've released and they've got to regroup. We're told these will be coming out of the market later this year. So, we don't see a real slowdown. We did see some constraints indicative of a pretty hot market.

Jon Tanwanteng: Got you. Thank you very much.

Operator: Our next question comes from the line of Joe Mondillo with Sidoti & Company. Please proceed with your question.

Joe Mondillo: Hi, good morning, guys.

Mark Morelli: Good morning.

Joe Mondillo: I was wondering if you could just update us on the timeline, on Phase II of this restructuring effort and also with your new heads of ops on board and product development, just wondering have you discovered any new opportunities of productivity improvement or anywhere where we can save further costs.

Mark Morelli: We're in pretty early innings on Phase II. As you know, our Phase I neatly fit into a year. This Phase II is about simplification. So, we've got tools around the simplification. It's around operating excellence and it's around ramping the growth engine. Of course, culture change always goes on. So, being early into this program, I think it's got a lot of legs left to it. In terms of where it fits, I don't necessarily think it fits neatly into a year. In fact, these activities can have quite long legs to them. You're never really done with your operating excellence. You're always on that path. We think we're going to start seeing some benefits in Q2. We're going to certainly see some benefits next year as well as we continue to get traction here.

So, the second part of what you asked was where else do you see opportunities, by which we can get productivity. There is a lot that you can envision as you're going through this product line rationalization where things might move around. As things move around, that may give you some additional degree of freedom that you didn't see prior. So, when things move inside factories, you can take out costs associated with your factories, which were not currently in this near-term quarter outlook, but could certainly benefit into next year.

Joe Mondillo: Okay. Just follow-up on that the last part that you're talking about, have you added any plans to the plan or is it a case in point where we have a step-by-step process and I can see us doing this in the future, doing this in the future, not necessarily on the list of to-do's immediately. Just wondering how many new ventures or initiatives have we started tackling beyond what you thought six months ago?

Mark Morelli: In terms of the productivity and simplification is that what you're on?

Joe Mondillo: Yeah.

Mark Morelli: Well, I think there's a lot. We're uncovering quite a bit. These tools we're using have analytics around them. When you do that, you have greater visibility and sometimes you have folks that have been running businesses for a long period of time and they have certain opinions about it. Then we run some analytics around it and we didn't know we're losing that much money in this product line or this business segment. So, I think we're still in a discovery phase. We're picking up some low-hanging fruit. But we're still learning quite a bit and there's a tremendous runway by which we think we're going to get much better.

Joe Mondillo: So, also to follow-up on this topic, you've seen around $3 million to $4 million or so of quarterly productivity improvement as you referenced, but it sounds like Phase II is still early innings, so sounds like you haven't seen tremendous amount of benefits from that. So, even though by the back half of this year, you have a tough comparison because you did see some really good productivity improvements in the back half of last year. It sounds like it's fair to say that even though it's considered a tough comp because of all the benefits that you've seen from Phase II, productivity improvements are going to continue to be a pretty big tailwind even through this entire year, is that fair to say?

Mark Morelli: I think the bottom line is going to grow faster than top line. I think you're right. We're very early innings on this and we'll get some traction. It may not necessarily be linear every quarter-to-quarter, but the overall trend will continue and we're very optimistic that we're on the right path with this strategy. We're demonstrating that we're getting some excellent traction early on and we're very encouraged by the results and the team is excited about our path and what the future holds for Columbus McKinnon.

Joe Mondillo: Okay. Great. I didn't hear the full detail, if you provided it. I think you mentioned a record rail program that you won. Could you tell us in on any more color regarding that?

Mark Morelli: So, this doesn't show up in our order backlog that was reported as this occurred in July. This was a $5.3 million rail project for Israel as they're upgrading their rail system to an electrified system and we do depot maintenance centers for rail. So, this is where you literally lift up the entire train, it could be as long as a couple football fields in length and you can do maintenance. You can do a lot of work on those railcars. This is an excellent project. The largest project of its kind that we've been awarded. It'll take some time for us to work and digest it. It won't drop to the revenue immediately, but we're very encouraged that also rail markets while lumpy continue to be quite strong.

Joe Mondillo: So, will any hit this year, do you think or is it more so next year?

Mark Morelli: The way the project accounting will work is that it will have some progress payments associated with it. It's not all going to be in one quarter, but there'll be a little bit coming in at the tail end of this year.

Greg Rustowicz: It has several different deliverables, Joe. There'll be a little bit of revenue this year, but the vast majority of it will be next year, fiscal 2020.

Joe Mondillo: Okay. And then I wanted to ask also you're getting close to your target leverage, ideal leverage rate. Just wondering as, since we're getting closer to that, how do you think about timing of thinking about Phase III and M&A, while we're still in the early innings of Phase II?

Mark Morelli: I think there may be some blending. I think the time constant on this is not really that determined. For this Blueprint 2021 strategy, we have a date around it although I think the time constants might change a little bit. I think you'll probably see more legs in Phase II and we're making excellent progress on our net debt to EBITDA. So, we're really in a good spot here also paying down our debt. The time constant is a little bit variable, but all of this is pretty good news for us and we're seeing lots of legs in Phase II, and we have lots of work to do in Phase II before we get to Phase III, but we're going to take advantage of this as it comes.

Joe Mondillo: Okay. Great. And one last question. I was wondering, Greg, what're your expectations for CapEx and how to think about working capital this year?

Greg Rustowicz: So, our CapEx guidance is unchanged at $15 million to $20 million. We're running a little lower than that and depending on when we divest the businesses, that number might come down a little bit. I would say, in terms of working capital, because of the timing of incentive comp payments from fiscal 2018, which was a really strong year for Columbus McKinnon, our working capital as a percent of sales was a little higher than it was a year ago at this time. I would also say that once these divestitures are completed, we should see working capital improve because one of the three businesses carries a significant amount of inventory with less than two turns a year. So, that will help the overall metrics going forward.

Joe Mondillo: Do you think working capital aggregate for the last three quarters of the year, will that be, do you think that will be a use of cash or...

Greg Rustowicz: It probably will, just based on where the markets are today, we would expect to continue to see very good growth going forward. I think we're going to try and manage the working capital percentage basis, but we will see higher revenue this year than we did last year.

Joe Mondillo: Okay. All right. Perfect. Thanks.

Operator: Our next question comes from the line of Chris Hilary with Roubaix Capital. Please proceed with your question.

Chris Hillary: Hi, good morning.

Mark Morelli: Good morning, Chris.

Greg Rustowicz: Good morning, Chris.

Chris Hillary: I just wanted to ask as you're going through evaluating the portfolio and the likes in terms of your Phase II. Are you also seeing more opportunities in terms of products like you talked about the one divestiture earlier. Is that by and large complete, or are there other areas where you think you're making things that aren't helping you achieve your longer term productivity goals?

Mark Morelli: I think in our phase right now Chris, we're really focused on this simplification effort and we've deployed this operating system down to a pretty granular level. I'm sitting in monthly on our reviews of our businesses. These were obviously not great fits. We couldn't get a lot of synergy, as I spoke about in the prepared remarks. So, Phase III is more about portfolio assessment. There might be opportunities in Phase III. It's hard for us to pre-judge because we haven't really run that analysis yet.

Chris Hillary: Okay. And then I guess the second question I had today was while you have strong end markets, but some bottlenecks. Do you think it's an opportunity or do you think it gives you a better opportunity to stay firm with your pricing, because it seems like your products are in demand everyone agrees that it's a bit difficult with the input cost timing, et cetera. Do you feel better than you might have felt 12 months ago on pricing?

Mark Morelli: I think we're encouraged on what we're seeing with pricing in the market and our ability to get traction. I think also our products are needed and folks look to us having really good availability. I think they're such strong markets and such good demand, folks are mostly concerned are they going to get their products. So, I think we need to be responsible there. We need to offer the right value at the right price, so we're not out there to gouge. But at the same time we need to make our offerings available at a price that we think is commensurate with the value that we're delivering. There's probably more headroom there and if we run into more headwinds on the material inflation side, then we'll take action accordingly.

Chris Hillary: Okay, great. Thank you.

Mark Morelli: Thanks, Chris.

Operator: There are no further questions in the queue. I'd like to turn the call back to management for closing comments.

Mark Morelli: Thanks, Doug. Thank you all for joining us on today's call. I thank you for your interest in Columbus McKinnon. Have a good day.

Operator: Ladies and gentlemen, this concludes today's teleconference. Thank you for your participation. You may disconnect your lines at this time, and have a wonderful day.