Operator: Greetings, and welcome to the Columbus McKinnon Corporation Second Quarter Fiscal Year 2019 Financial Results Conference Call. At this time, all participants are in a listen-only mode. A question-and-answer session will follow the formal presentation. [Operator Instructions] As a reminder, this conference is being recorded.

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

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

If you'll turn to slide 2 in the deck, I will first 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 compared 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. We delivered another quarter of strong results and we are even more optimistic about our future. We're gaining traction in the early innings of Phase II of our Blueprint strategy and our strong execution has driven results ahead of schedule.

For the quarter, we had solid organic sales growth of 3%, excluding the impact of FX, as our approach is driving market share gains. And this growth was in spite of our simplification efforts that reduced sales about 1% as we eliminate unprofitable revenue. Gross margin of 35% held around record levels and operating margin expanded 240 basis points to 11.4%.

These results are driving double-digit bottom line growth. GAAP diluted earnings per share increased 24% over last year's second quarter to $0.67 and was up 37% on an adjusted basis. Further, adjusted EBITDA margins exceeded 15% for a second consecutive quarter and stands at 15.6% year-to-date.

I want to also point out that our adjusted ROIC reached double-digits at 10%, an improvement of approximately 200 basis points year-over-year and another milestone in line with our strategy.

I attribute our success to our business operating system, E-PAS, which stands for Earnings Power Acceleration System. We are deepening the relevance of our standard work with the development and deployment of our 80/20 process. With E-PAS, we're driving deeper into Phase II of our Blueprint strategy and extending its scope and reach. Importantly, the pace at which we're making progress gives us the confidence to raise our longer-term expectations. We've been able to identify even more runway for improvements that support our excitement.

Please turn to slide 4. Phase II of our Blueprint strategy will further expand margin and ROIC and has three focal points. The first is on further simplifying the business.

Through this lens, we've reorganized the company as well as identified the three divestitures that are on track for completion this fiscal year. Furthermore, we started an 80/20 process, which I'll describe in more detail on the following slide. We're demonstrating results from 80/20 and have the confidence we can deliver more. We've identified approximately $7 million of savings in fiscal 2019, of which $1.6 million has already dropped to the bottom line.

One area of simplification we've discussed is our wire rope hoist platform consolidation. This reduces our SKUs and upgrades our offerings to customers. In fact, our legacy wire rope hoist line will be 75% converted to the new platform by the end of the calendar year. The new model has received very positive customer acceptance. The new hoists are clearly better as they are more compact, they offer more features and their superior engineering is evident when you operate them, as they run smooth and quiet.

Another focal point is on improving productivity, which is clearly evident in our gross margin expansion. In fact, in the first half of the year, nearly half of the $6.1 million in productivity improvement is directly attributable to the operational excellence initiatives that have been implemented. This is a stark comparison to our negative productivity in the first half of the prior fiscal year and a tribute to the operations team now led by our Vice President of Manufacturing, Bert Brant. We also have a runway of opportunities to further improve our productivity per square foot of operations. As a result of our product line simplification, we are now able to consolidate our footprint in Ohio. We plan to reduce from two factories comprising 86,000 square feet to one location, eliminating 49,000 square feet. We expect to have this completed by early fiscal 2020 and anticipate about $2 million in savings with a payback of less than a year. This is an excellent example of how we are simplifying our processes and it helps us improve our operations, and we can further increase our productivity.

We're also getting more productivity through our supply chain. Our new supply chain director has instituted tighter discipline surrounding price measures with suppliers. He's also looking at how to improve efficiencies in transportation costs. Value engineering also has the opportunity for driving material productivity. As an example, we reduced by half the costs associated with the trolley for a wire rope hoist model, as we are streamlining that product category.

We also remain focused on further ramping our growth engine, a third tenant of our strategy. Our opportunity is to further enhance our professional grade position in the markets by solving high-value customer problems by providing greater productivity and safety. We're also doing very well with our focus on our core value to be easy to do business with. We know from our work on the “strengthen the core” tiger team, that having quick responsiveness and improved deliveries will enable our customers to be more productive in a tight labor and supply chain market.

One key enabler for improving our customers' productivity is our cloud-based configuration tool, Compass™, that I've mentioned to you before. It is one of our enhanced tools on our digital platform. Compass clearly makes it easier for our customers to do business with us. We're increasing the number of products on the platform, which is generating higher quoting activity. Revenue flowing through our expanding digital platform continues to grow significantly as this is a productivity tool for our customers to get their work done more efficiently.

Our new products are doing well. Our variable speed ShopStar is an excellent example of solving high-value productivity problems for our customers. Customers have confirmed that it's the right size and price point, and its enhanced speed provides greater productivity. This smart hoist is expanding the selling channel, and we've recently had a couple of major wins by dislocating a competitive stronghold.

Another example is that we're getting a quick payback on our unique manual chain hoist with a Sidewinder handle that is proving to be well appreciated by construction companies and oil field workers. In fact, we're displacing a couple of competitors in Canada now with this professional grade product that is both easier to use and offers a more ergonomic and productive design.

And finally, I should mention that our management team is doing an excellent job. The team is rising to the challenge, embracing the second phase of our self-help strategy, and further transforming into a performance culture. Our new mission, vision and core values resonate with our employees and help us identify with our new collective work culture.

On slide 5, we describe our business operating system and the 80/20 process. As we continue to transform the culture here at Columbus McKinnon, we spread best practices and processes with our business operating system. As I've mentioned, we call our operating system E-PAS which helps us raise the bar and synchronize as we implement a significant amount of change. 80/20 is a simplification process we're deploying and a centerpiece to our operating system. It helps us eliminate “bleeders” and sharpens our focus on growth.

We work from two dimensions. One dimension is the identification of areas of our business where we're not making money and the products are significantly dilutive to our margins. We call these “bleeders” and we focus here accordingly to take appropriate actions that result in margin and ROIC improvement. The other is the identification of areas that should be of relative strength. We take action here to more fully exploit their potential.

With that, let me turn the call over to Greg to cover the financials. Greg?

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

On slide 6, consolidated sales in the second quarter of $217 million, were up 2% from the prior year. Excluding FX, we had organic sales growth of $6.5 million or 3%. This was in line with our outlook provided last quarter of 2 to 3% organic growth. We saw solid growth in the U.S. and Canada. This was partially offset by slightly lower sales in EMEA. Sales volume was up $4.4 million, or 2% and pricing was higher than the previous year by $2.1 million or 100 basis points. Pricing improvement of 1% is consistent with the fiscal first quarter. Foreign currency translation became a headwind in the quarter of 1% and we expect the headwind to get worse by about another 1 to 2% based on where foreign exchange rates are today.

For the quarter, U.S. sales were up $4.8 million or 4.3%. Sales outside of the U.S. were essentially flat, down $500,000, or 0.5%, driven by the unfavorable impact of foreign currency translation of $2.2 million. Excluding the effects of foreign currency translation, we saw organic growth of 1.7% outside the U.S.

It is important to note that our 3% organic growth as a Company in the quarter is on top of 8.5% organic growth in the prior year. Despite all of the market volatility recently, our markets are growing, and our leading position serves us well.

On slide 7, we recorded a strong gross margin of 35% in the quarter. This is the second quarter in a row of 35% gross margins. The changes we are making in our business have the potential to drive gross margins even further.

Let's now review the quarter's gross profit bridge. Second quarter gross profit of $75.9 million increased by $4.6 million or 6.4% compared to the prior year. The two largest contributors to gross profit expansion were higher sales volume and mix and productivity, net or other cost changes. Sales volume and mix contribute $2.9 million of gross profit while productivity contributed $2.4 million. Year to date, we have achieved a record level of productivity of $6.1 million, and we see further improvement opportunities ahead with our focus on Phase II of our Blueprint strategy. The impact of higher pricing more than offset raw material inflation which positively impacted gross profit by $1.3 million. This is particularly important given the pressure on raw material costs and the expected effect of tariffs. We expect tariffs to have about a $2 million dollar negative impact this fiscal year which we are actively managing to mitigate this headwind. Foreign currency translation reduced gross profit by $600,000. Finally, last year we had about $1.6 million of pro-forma adjustments largely related to an insurance recovery that did not repeat this year.

As shown on slide 8, RSG&A costs were $47.3 million in the quarter or 21.8% of sales. This is an improvement of 80 basis points from the previous year. R&D costs were lower than the previous year as we work to improve our processes and increase the efficiency of our existing spend before we add additional resources in line with our stated objective to increase R&D costs by about $2 million per year. We are also driving efficiencies in Selling, General and Administrative costs. Selling costs were lower 2.1% due to these efficiencies and G&A was higher due to higher annual incentive bonus accruals for this fiscal year.

Our quarterly forecasted RSG&A run rate is unchanged and is expected to be in a range of $48 to $49 million in the third quarter.

Turning to slide 9, Adjusted Income from operations grew 28% to $25.5 million or 11.7% of sales. This compares to adjusted operating income of $19.9 million or 9.3% of sales in the prior year. Adjusted operating margin expanded significantly by 240 basis points over the prior year to 11.7%. Our operating leverage in the quarter was 130%, which is a very strong leverage ratio. Our strategy is driving earnings power and the Company has performed very well through the first half of the fiscal year. So far, we have achieved about $5 million of STAHL synergies year to date and $1.6 million of savings related to our 80/20 process. The reconciliation for adjusted operating income can be found on page 17 of this presentation.

As you can see on slide 10, GAAP earnings per diluted share were $0.67 versus $0.54 per diluted share in the prior year period. Adjusted earnings per diluted share for the Second Quarter of fiscal 19 were $0.70 compared to $0.51 in the previous year, an increase of $0.19 per share or 37%. This is excellent performance and demonstrates the true earning power potential of the Company. The reconciliation of GAAP earnings per share to adjusted earnings per share can be found on page 18 of this presentation. All adjustments are tax effected at our normalized tax rate of 22%. On a GAAP basis, our effective tax rate in the current quarter was also 22%.

Turning to slide 11, our working capital as a percent of sales was 19.7% this quarter. This compares to 18.5% one year ago and 17.9% at March 31st, 2018. Working capital as a percent of sales increased 120 basis points from the prior year quarter reflecting the impact of higher DSOs from the STAHL acquisition, which is typical for European companies and a successful promotion being run in the U.S. that offers extended terms. Inventory turns were 3.6 turns, lower than a year ago and slightly below March 31st levels. We are carrying higher inventory levels currently to improve our availability and on time delivery, as the markets are strong and our backlog is increasing. We are also seeing supply chains getting extended and have selectively acquired inventory to mitigate the impact of tariffs. We do expect inventory turns to improve by fiscal year end.

On slide 12, net cash from operating activities for the quarter was $19.5 million, which was slightly lower than the prior year amount of $20.3 million. This is due to carrying more inventory as I just mentioned. We expect strong cash flow generation over the remainder of the fiscal year and our free cash flow conversion rate will continue to increase as the year progresses. Our guidance for capital expenditures for fiscal 2019 has been lowered to approximately $15 million for the year.

Turning to slide 13, our total debt was approximately $339 million and our net debt was approximately $282 million as of September 30th 2018. Our net debt to net total capitalization is now below 40%. We repaid $15 million of debt in the second quarter. We made excellent progress de-levering and have achieved a net debt to Adjusted EBITDA ratio of 2.25x. Our long term target for net leverage is approximately 2.0 times, which we will achieve by fiscal year end. We are driving earnings power at the company and have now achieved a 15% EBITDA for the quarter and year to date, and our return on invested capital has improved to 10%. We expect debt repayment to total $60 million in fiscal 2019.

Please turn to slide 14 and I will turn it back over to Mark.

Mark Morelli: Thank you, Greg.

As we have discussed, we are making excellent progress here at Columbus McKinnon with our self-help strategy.

In addition to strong financial performance, we had 11% order growth across all of our markets in the second quarter. We believe our responsiveness and product availability are driving market share gains. We are successfully reducing our lead times to get products to our customers ahead of the competition.

Product innovation is also working to our advantage in market segments that continue to grow. Our lifting solution for the Entertainment industry that combines our new ProStar Smart Hoist with Black Load Chain is another example on how we are beginning to ramp our growth engine. It has enabled a leading entertainment distributor to win a fairly large project for the Encore in Las Vegas. The entertainment market continues to remain strong because performers are looking to provide for more entertaining shows which incorporate automation enabled by our products.

Other markets remain strong as well, such as Aerospace, where build rates are improving and new models are ramping up production.

Utility, construction, oil & gas and mining all remain solid. Severe weather, such as Hurricane Florence and Michael, has created demand in the utility sector. With Hurricane Michael especially. As you know, it was a very heavy wind storm that did quite a bit of damage to electric supply lines, so we expect it will likely increase demand for our utility tool kits.

Another boost to our order strength and backlog growth in the quarter was the major rail project in Israel that I mentioned last quarter. That order is the largest in the Company's history at about $5 million. Rail customers are upgrading infrastructure and electrifying rail systems as they expand new routes and replace diesel trains.

Given the strength of our order growth during the second quarter and the solid outlook from our customers, we expect organic growth in the third quarter of fiscal 2019 to be approximately 4 to 5%. This outlook reflects approximately 1 to 2% of unprofitable revenue that is eliminated due to our simplification efforts. We estimate that foreign currency exchange could be a headwind to that of about a point or two.

We are raising our longer-term outlook. We believe we have real evidence our strategy is taking hold. We are committed to creating a higher performing business and we are encouraged by the pace of our achievements to date. As we execute our Blueprint strategic plan, we expect to drive additional earnings growth through simplification and operational excellence and to improve sales and margins by ramping the growth engine.

Our leadership team is rising to the challenge and we're delivering better earnings.

Our goals over the next three years are to deliver double-digit earnings growth and achieve 19% adjusted EBITDA margins, a four point expansion over our previous goal.

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.

Stacy, 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 **Matt Koranda:** with ROTH Capital. Please go ahead.

Matt Koranda: Hey guys, good morning. Thanks. So let me start off with the revenue growth in the quarter, so how much did the shedding of bleeders weigh on revenue this quarter and did it have an outsized impact in EMEA or were there just delayed projects there that drove the decline.

Mark Morelli: So the revenue growth was impacted about 1% possibly even a little bit more. The lens that we're using on our simplification clearly identifies revenue that is not the revenue that we really want to serve and as a consequence, we take that out. I can't say specifically that was coming out of EMEA. However, we did have some rail projects that move around on us a little bit and they tend to be more global in nature. We have those both in Europe and in Asia. But overall, we've been pretty pleased that we achieved the outlook we gave you last quarter on the revenue side.

Matt Koranda: Got it. And then just in terms of the 4% to 5% growth outlook just wanted to double check that is excluding FX, if we included, it would bring down the blended growth a touch, heading into Q3?

Greg Rustowicz: That is correct, Matt, and it also already incorporates any further rationalization of unprofitable revenue, so to speak, so that's netted out of the 4% to 5%.

Matt Koranda: Got it. So that's probably netting out another about 100 basis points at least...

Greg Rustowicz: ...Yes at least. We think it's going to be between 1% and 2%.

Matt Koranda: 1% to 2%. Okay, got it. And then just in terms of the $7 million in savings that you talked about from 80/20, it looks like the footprint initiative that you highlighted is probably more of a savings item in fiscal 2020, I think you mentioned $2 million, what's the balance of this year's 80/20 savings coming from, could you dig a little bit more into the productivity initiatives give a little more detail there.

Greg Rustowicz: Sure Matt, so we've identified $7 million of savings for the fiscal year, about $1.6 million year-to-date has already occurred. It's all going to be in the gross profit area, that's coming from strategic pricing changes as well as indirect cost reductions out of our manufacturing facilities.

Matt Koranda: Okay. Got it. And when you say strategic pricing, you're talking about a later year price increase for certain components...

Greg Rustowicz: Yes.

Matt Koranda: Just a little more detail on that would be helpful.

Greg Rustowicz: So, we should see incrementally a little more pricing coming through over the next couple of quarters, as we look to improve profitability of certain product lines and harmonize discounts with customers.

Matt Koranda: Okay. And then the long-term target in terms of the EBITDA margin target that you guys shared of 19%. Is that fair to assume that's over a three-year timeframe. And then, could you help me understand is there any change to the sales growth target to achieve that or we're still in that 2% to 4% band?

Mark Morelli: So, that is over our approximate three-year horizon that we've discussed. The revenue, I think you should probably keep the same, I think what we're demonstrating here is that through our tools we're getting greater earnings power and that's exactly what we would expect with this strategy.

Matt Koranda: Okay. Got it. And then just last one or two from me. On working capital, are we at the tail end of the inventory build to support book-to-bill rates. And then, how much of the inventory build that you guys mentioned both supply chain being stretched and also availability in terms of the inventory build, so how much should we attribute the inventory build to each of those items. And then is the U.S. promo for extended terms done at this point?

Mark Morelli: It's no secret that supply chains are tight right now. Logistics are difficult to arrange in the markets that we're in. So, we've tried to take advantage of some of our opportunities to build some inventory. I think it's a very good thing to do given what we see with some pressures and also some strengths of our end markets. So, I think we're probably reaching the tail end of that. We don't want to continue to extend that, but we think we've made some good decisions with our new supply chain director so far.

Greg, do you want to add some color?

Greg Rustowicz: Sure. A couple of other effects we talked about. We bought inventory in advance of tariffs and moved some product around with the idea that inventory will get sold by the end of the fiscal year. Typically, our fiscal fourth quarter is our strongest quarter. So, we'll be monitoring orders going into that and making sure we have enough product in the pipeline. We typically see pretty good performance from a working capital perspective in the fiscal fourth quarter and we would expect that to continue when you look at working capital as a percent of sales. Then the other aspect too, Matt, is as we further implement our 80/20 simplification, we would expect further reductions in our inventory as we rationalize products. That will help as well.

Matt Koranda: Got it. I'll jump back in queue, guys. Thank you.

Operator: Our next question comes from Greg Palm with Craig-Hallum. Please go ahead.

Greg Palm: Thanks and good morning. I guess to start I'd like to dig into the macro a little bit more. Just wanted to get a sense from what you're hearing and seeing from your customer base based on the results and order patterns. It doesn't seem like much of any softness or weakness, but any additional color would be helpful.

Mark Morelli: Sure, Greg, happy to do that. We're seeing pretty robust markets right now. Obviously, we have some ebb and flow from quarter to quarter. So it's not completely even, but our markets continue to be pretty robust, and we think we're doing the right things to take advantage of the markets that are really ready for growth. We think we're getting outsized opportunities afforded to us based on better availability and responsiveness, but you cannot point to any specific areas that have a weakness right now.

Greg Palm: And in terms of cadence either from a sales or maybe an order standpoint, can you give us what that looked like in the quarter, any comments on what it looks like in October today?

Mark Morelli: We have some ebbing and flowing of some of our project business which you know is not a predominant part of our business, but it does affect our revenue from quarter-to-quarter. So we're seeing some pretty strong up-tick in rail orders that will impact the longer-term. But we have a good flow through of orders so far this quarter, and we're seeing some pretty good demand. Part of our business has a cyclical downturn in this calendar Q4 as folks try to manage their inventory levels through the end of their fiscal years and their budgets might tighten up. We also have more holidays in this quarter. So seasonally it's down. But I think your question is more towards what's going on with orders, and we're seeing some pretty robust orders. So, it's hard to say how the rest of the quarter will shape up, but we don't have any indications that things are slowing.

Greg Rustowicz: Greg, to add on to that, we saw a really strong year-over-year order growth in the quarter, in double-digits. Certainly it was impacted by the large rail project that we talked about previously, but without that it was still roughly in the 9% level. In terms of how orders have progressed through the fiscal year, August is typically a slower month with holidays in Europe, but total orders for the company in July, August and September each individual month was higher than the order levels in April, May and June.

Greg Palm: Okay. That's helpful color. And remind us, I don't think you have a lot of exposure to APAC but what's revenue generated from that region, again?

Greg Rustowicz: So it's roughly 6% of the total and it increased substantially with the STAHL acquisition. They sell a lot to the region. They saw a really, really good growth in the quarter, double-digit increases, but once again coming off of relatively small basis.

Greg Palm: Understood.

Mark Morelli: Our exposure to Asia-Pacific, as Greg said, is not significant. It's not a significant part of our business from a supply chain perspective either.

Greg Palm: Okay. Great. And obviously, congrats on a really solid profitability and the margin improvements, I mean, I think it's pretty impressive that you're already raising those targets after a few quarters since the beginning of the year, but I guess the question is where do you think if you look back since you introduced those first ones where do you think the company has seen the most progress since or versus initial expectations?

Mark Morelli: Well, thanks Greg. I think this is a company that has tremendous runway to improve and I think what you're seeing is that we're really digging deep on this 80/20 process and the team is fully embracing that. I think it's resonating with them, they're really embracing this tool and it's being deployed into some of our larger businesses, with more of our businesses to come in the next calendar year. I think that is a centerpiece to our strategy right now. We're focused on more than just revenue growth for the sake of revenue. You can imagine over a long period of time the significant opportunities this can generate for us. So we're going to mine that fully as Phase II of our strategy.

Then, as a consequence, it frees up other dimensions the company previously didn't really know how to go after, such as the footprint example. As you begin to simplify things, then you know that leads to the next thing. So if we close a product line, then maybe we can consolidate more of our footprint. We also think we have a lot of opportunity on our productivity measures, and also taking out indirect costs. So you can see how that begins to have this domino effect where you start taking advantage of these opportunities.

So, we're really excited about the Phase II of the strategy we're in and we think there's three aspects to it. The first two I described as early innings, but then also the third aspect which is about growth. We have Mario Ramos on board who comes from Schneider Electric and we're beginning to plant those seeds for growth. So, we're excited about that as well.

Greg Palm: That's great. Last one from me. I guess given some of the share declines here in the recent past, I'm just curious if your capital allocation priorities have changed at all and can you remind us do you have a buyback authorization in place or not?

Greg Rustowicz: So, on the second one, we currently do not have a share repurchase authorization and our capital priorities haven't really changed. As you know, we've been focused on paying down debt to get down to our 2 times net debt-to-EBITDA level and we're just about there. We'll get there certainly before the end of the fiscal year. We do have a dividend that we pay currently and our board typically will look at that in the March timeframe. So, I wouldn't anticipate any changes between now and March.

Greg Palm: Okay. Good luck going forward. Thanks for the color.

Mark Morelli: Thanks Greg.

Operator: Our next question comes from **Jon Tanwanteng:** with CJS Securities Please go ahead.

Jon Tanwanteng: Good morning. Nice quarter and the guidance is really nice too. Well, one of the biggest items is the margin upside to 19%, where is it coming from, how does it ramp over the next two to three years, and what are the biggest things that have to happen from your product portfolio rationalization and your footprint rationalization to get you there?

Mark Morelli: Thanks Jon. We see a progression of double-digit earnings growth, and I'll let Greg give a little more color on that. But the progression of what has to happen is exactly what we see taking hold right now. We have this toolkit where we define a process and we deploy that process, and we're now doing that very well in our 80/20 process with some of our major businesses. Our folks are really embracing it. We're training them, they're deploying it, we're executing, and we're beginning to see additional benefit for the future. We're pretty encouraged by the results that we can achieve.

These tools work in tandem together and we're beginning to see that work really well. So, we project out how we're going to deploy this to some of our other businesses and what the impact might be, and that's how we come up with our projection and the confidence that we have. There are a lot of productivity improvements that we see through 80/20, but as we said, there's also our perspective of relative strength – we can raise prices, we can gain further growth, we can focus on customers that we think we can get more revenue from in a profitable way, and then we absolutely go after that.

We see these signals. We see the progress we're making, and we are able to lay out what's going to happen next as a result of what we see happening now. Greg, do you want to give any color to it?

Greg Rustowicz: I would point you back to our strategy chart in the Phase II section. It's really all around the simplification efforts, the operational excellence which we're driving in our manufacturing facilities, as well as profitable growth as we ramp new products that are going to have higher margins. We see this largely as a gross margin expansion, although we'll continue to monitor our costs in the SG&A area clearly. We want to invest more in R&D and we will as we continue to ramp up our efforts in that area.

Jon Tanwanteng: Okay. Great. And then since you addressed the R&D, looks like you pulled back in the quarter. Are you pushing anything out from a product development perspective or are you just getting more efficient? Any more color there would be appreciated.

Mark Morelli: No, that's more of a look on efficiency. I'm very happy to spend more on R&D and we will, but we have to make sure that we're also ready. I've seen a lot of mistakes made where you add to your R&D, but your processes and capability can't fully absorb it. It’s essentially turning on the spigot for more water and unfortunately you lose some down the drain. I want to make sure that we capture all of that increased flow. As we get better capture of that flow, then we will absolutely spend more. But to me, it's not your spending level, it's your capture level that's most important.

Jon Tanwanteng: Got it. And then Mark, can you update us on the ongoing divestitures and then the timelines for those and if you then identify any more of these bleeder-type businesses as you've gone through the rest of the organization?

Mark Morelli: Sure. Our 80/20 process so far is about identifying areas that are not really a good fit for us and could be managed better by other firms. I would say it's a relative weakness and you probably know that from looking at the financials.

It's actually progressing well because these are not core businesses, and fit better in other companies. Those are the dialogues we're having now and I think we're progressing fine down that path. Greg can also update you, just a little bit more on the timeline there, but we feel very good about where we are. Then I think more of your question is, where does this lead to? Well, we have Phase III of our strategy. Phase III is looking at our portfolio further, it's more outside-in approach.

We'll take a closer look at M&A and areas of industrial technology we want to grow further. We're not into our Phase III yet, so I can't say we really anticipate anything there. That's not really reflected in our thinking at the moment.

Greg Rustowicz: Jon, the sales processes are progressing. Our Tire Shredder business divestiture is farthest along and that one could be closing by the end of this calendar year. We have preliminary non-binding bids that we're trying to get buttoned up. We are in the process of determining who the perspective buyers would be for the other two businesses. I think the key is, we expect to still have all of the businesses through the remainder of this quarter, and we expect all of the divestitures to be completed by the end of the fiscal year.

Jon Tanwanteng: Okay. Great. And does your leverage outlook include the divestiture of those businesses? By the end of the year, you expect to be at two times?

Greg Rustowicz: Yes. That's without applying any of the proceeds to debt repayment.

Jon Tanwanteng: Right. Got it. That's what I was getting at. Okay. Perfect. Thank you. Thank you very much.

Operator: Next question comes from Joe Mondillo with Sidoti & Company. Please go ahead.

Joe Mondillo: Hi guys. Good morning.

Mark Morelli: Hi Joe.

Joe Mondillo: I wanted to ask about E-PAS and the overall savings relative to the $7 million of savings that you're now expecting in fiscal 2019, just wondering how you're thinking about fiscal 2020 in terms of magnitude, are there more opportunities in fiscal 2020?

I know you already stated about the Ohio plants there that's going to amount to about maybe $2 million of savings but just wondering given list of things that you're attacking right now, what the opportunities are and what the magnitude could look like in fiscal 2020?

Mark Morelli: It's hard for us to guide in fiscal year 2020 right now in terms of an outlook, but I can certainly give you a little color on how to think about that.

So our Phase II, which we're in right now, and E-PAS is our operating system that's our toolkit to really help us get at these opportunities. We just embarked on Phase II at the beginning of this fiscal year, so we're six months in. My experience is that as we embrace this, and as we further deploy through the organization, we'll continue to build some headwind.

So, I think Phase II is pretty deep. I don't think that Phase II ends after a year. I think that we'll continue to mine those opportunities and be successful. So, it's hard for us to know exactly what to expect for fiscal year 2020, but we're early innings of our strategy and we'll continue to get some real good uplift from this.

Joe Mondillo: Okay. Closing and consolidating of facilities or rationalization of your footprint. I assume, I mean it seems like earlier this year at the Investor Day and maybe thereafter, it seems like there's probably more opportunity than just that, I don't know if there's anything else that you can comment on that, if you could just talk about your footprint and the rationalization there?

Mark Morelli: Well, at a high level, we're about 2.5 million square feet. We have 19 factories. It's pretty complex for an organization of our size. I can't make comments about any further footprint moves we might make ahead of announcing those kinds of things, but I can clearly say that we look for greater productivity in terms of dollar per square foot. Our new operations leader is clearly embracing this and pushing this down. We're looking for that and we think there's a good opportunity for us to continue to look at that metric and improve upon it.

Joe Mondillo: Okay. And then I wanted to ask about the incremental gross margins in the second quarter. They look like they amount to almost 70%. So, it looks like on the small amount of revenue growth that you saw on the quarter, you got some really good leverage. Just wondering if you could talk about your incremental margins on the gross profit line and how you think about that going forward.

Mark Morelli: Well, I think it's very indicative of what we are talking about. These are aspects of Phase II of our strategy. That's why we're optimistic as we're seeing a drop to the bottom line. This is a kind of thing we should expect based on the strategy that we've articulated. We are positing these kind of results, so having a good drop-through is something that we're very happy to achieve and that also encourages us to provide some better guidance.

Joe Mondillo: I just wanted to clarify what I'm actually looking at with slide 7 on the deck. I think a lot of the E-PAS and a lot of the productivity stuff is in the productivity and the pricing, correct me if I'm wrong. So what I'm really referring to is that sales volume and mix of $2.9 million with that leverage on the small amount of revenue growth that you saw within the quarter is pretty good. I'm just wondering is that normal, was there a favorable product mix that maybe helped the quarter or just how to think about that normalized?

Mark Morelli: That's really directly related to the whole 80/20 process and not taking bad business or bad revenue.

Joe Mondillo: Okay.

Mark Morelli: So there's nothing unusual in the quarter from a mix perspective.

Joe Mondillo: Okay. Then, lastly, I just wanted to ask about Europe. I think I might have missed your initial comments on that, but I know you said that Europe was down slightly in the quarter, just wondering what you're seeing there – we have been hearing some small pockets here and there whether it's in auto or that we may be seeing a slowing, I'm just wondering what your thoughts are on Europe declining in the quarter and what you're seeing going forward.

Mark Morelli: Well, Europe is still pretty strong if you've been there recently. We obviously get there and review our operations and visit customers but if there is a little bit of slowing of Europe it's still extremely strong. I mean the number of trucks moving around in Germany is just incredible. The amount of activity is still at a pretty strong, robust level. So, I would not be concerned that Europe is having a major slowing. There might be a little ebbing of some of that growth. But clearly it's a robust market for us.

Greg Rustowicz: Yes and Joe what I said was that we saw a slight decline in Europe but I can tell you from an order perspective in our Industrial Products business within Europe we saw mid-single digit year-over-year order increases in Europe north of 5%.

Joe Mondillo: Okay. Good to know. Thanks for taking my questions. I really appreciate it.

Operator: Our next question comes from Christopher Hillary with Roubaix Capital. Please go ahead.

Christopher Hillary: Hi, good morning.

Mark Morelli: Good morning, Chris.

Christopher Hillary: I know that you've answered a few questions on this topic but I wanted to ask just with your updated long-term margin target. When we look back at your scenario analysis that you presented at the start of the year, the higher margins you suggested would come with the higher revenue growth rate and it appears now that you're comfortable with higher margins with the lower revenue growth rates. Is that correct and do you care to add any more color that you haven't already added?

Mark Morelli: Yes, I think that's right on. I think you followed the messaging well and I think that's exactly what we would expect from the strategy that we're articulating.

Greg Rustowicz: Chris, to add, it's really due to being deep into Phase II of the strategy and seeing all of the opportunity from simplification, from operational excellence, and still to come will be the new product development ramping the growth engine. So, we know a lot more today than we did in January of 2018.

Christopher Hillary: Well, I think it just certainly stands out given a theme of this recent earnings season in the sector has been the challenges of price cost and the pressure on margins, so it's a big contrast for you to provide that outlook versus a lot of your peers. So, thanks very much.

Greg Rustowicz: Thank you, Chris.

Mark Morelli: Thank you.

Operator: [Operator Instructions] Our next question comes from John Sturges with Oppenheimer & Company Please go ahead.

John Sturges: Very nice execution. I was just curious, it sounds like with E-PAS that you've really cut back on the sensitivity to any moves in currency. I'm noting you had a lot of currency issues back in 2015, could you comment on the sensitivity to the U.S. dollar?

Greg Rustowicz: So, about half of our business is overseas and we're going to have translation impacts. Typically from a translation perspective, as we said, this quarter was about a 1% headwind, and we expect there to be a headwind of about 1% to 2% in the next quarter. The operating impact of that is going to be essentially your international operating margins times the exchange rate impact on sales, and that's what's going to impact from a translation perspective.

But from a transaction perspective, which maybe is what you're really getting at, we do have a robust hedging program that's focused on eliminating volatility on cash flow, not necessarily on earnings. But we also try to be smart about where we're sourcing products, so to the extent we can source in-country, we take away the transaction effect.

Then from a treasury perspective, we did a great job hedging our interest rate exposure when we put the debt in place for the STAHL acquisition. We're 60% fixed, so we're not quite as impacted by rising interest rates as perhaps other companies.

John Sturges: I guess where my question really comes from is, your operational efficiencies seem to be offsetting and maintaining what might occur with the U.S. dollar that gets a little stronger, and you're maintaining your competitiveness.

Mark Morelli: Absolutely. I'll weigh in on that one. As you can see from the numbers that we're posting, we're having some very good productivity, and the team is really stepping up there. There's obviously a lot more work to do, but we're encouraged, and that's clearly a part of what we're tackling in this strategy.

John Sturges: Very good. I'm done. Thank you.

Operator: Thank you. There are no further questions. I would like to turn the floor over to Mark for closing comments.

Mark Morelli: Great. Thank you, Stacy. Thanks for joining on the call today and your interest in Columbus McKinnon. Have a nice day.

Operator: This concludes today's teleconference. You may disconnect your lines at this time. And thank you for your participation.