Operator

Good morning, and welcome to Columbus McKinnon's First Quarter Fiscal 2025 Earnings Conference Call. My name is Renju, and I will be your conference operator today. As a reminder, this call is being recorded. I would now like to turn the conference over to Kristy Moser, Vice President of Investor Relations.

Kristy Moser

Vice President, Investor Relations and Treasurer, Columbus McKinnon Corporation

Thank you. Good morning everyone, and welcome to Columbus McKinnon's First Quarter Fiscal 2025 Earnings Conference Call. The earnings release and presentation are available for download on our investor relations website at investors.cmco.com

On the call with me today are David Wilson, our President and Chief Executive Officer; and Greg Rustowicz, our Chief Financial Officer. In a moment, David and Greg will walk you through our financial and operating performance for the quarter.

Before we begin our remarks, please let me remind you that we have our safe harbor statement on slide 2. During the course of this call, management may forward-looking statements in regard to our current plans, beliefs and expectations. These statements are not guarantees for future performance and are subject to a number of risks and uncertainties and other factors that can cause actual results and events to differ materially from the results and the events contemplated by these forward-looking statements.

I'd also like to remind you that management will refer to certain non-GAAP financial measures. You can find reconciliations of the most directly comparable GAAP financial measures on the company's Investor Relations website and in its filings with the Securities and Exchange Commission

Please see our earnings release and our filings with the Securities and Exchange Commission for more information.

Today's prepared remarks will be followed by a question-and-answer session.

With that, I will turn the call over to David.

David J. Wilson

President and Chief Executive Officer at Columbus McKinnon Corporation

Thank you, Kristy, and good morning, everyone.

Columbus McKinnon delivered a solid quarter to start the fiscal year achieving 2% sales growth, which was at the midpoint of our guidance range, and Adjusted EPS of $0.62 which was at the top-end of our guidance range.

Areas of strength included precision conveyance and lifting, which were up 10% and 3%, respectively. Short-cycle sales remained healthy, and the project business was up mid-single digits.

Adjusted Gross Margin expanded by 110 basis points year-over-year to 38.0%, a record first quarter and the second highest quarterly result in company history, as we remained focused on performance improvement and 80/20.

And we delivered Adjusted EBITDA Margin of 15.6% even as we absorbed $1.2 million of unique costs related to launching regional strategic partner conferences in Europe and the Americas that are aligned with our commercial and customer experience initiatives.

These results are underpinned by the hard work and continued execution by our 3,600 Columbus McKinnon team members as we navigate a dynamic macroeconomic environment and leverage commercial initiatives to advance in vertical markets that are experiencing secular growth and benefitting from megatrends.

We are growing, generating cash with normal seasonality, and accelerating debt repayment. These actions are adding capacity to reinvest into our growth framework. We have multiple levers to drive more scale and further enhance our position as a leader in intelligent motion solutions for material handling with a carefully curated offering for our customers. We believe that increasing scale will become a compounding advantage as we execute our strategy over time.

Advancing to **slide 4**, we delivered mid-single digit order growth across most areas of our business with the exception of our Crane Automation business, where we saw softness and are lapping a strong prior year comparable period.

Precision Conveyance orders were up 5% driven by new customer wins in the Electrification space.

For the remainder of our business, our order funnel remains healthy across both the short-cycle categories and our project business. Short-cycle orders were up 3% in the quarter driven by share gains resulting from our customer experience initiatives. In the project business, orders were down 5% in the quarter driven by order timing and the softness in Crane Automation that I just referenced.

Overall, our project funnel remains healthy reflecting our customer centric focus, targeted end-market growth initiatives, channel diversification efforts and recent new customer engagements.

On a quarter to date basis through last week, orders were up double-digits year-over-year driven by strength in Precision Conveyance, particularly at montratec®.

While we are not immune to impacts related to current macroeconomic conditions, including higher for longer interest rates, or indecision related to the rapidly evolving political landscape and the upcoming U.S. election, we continue to remain focused on what we can control – executing on our commercial, operational and financial initiatives. With this as our focus, we continue to be cautiously optimistic about our near-term prospects and our full-year outlook.

Backlog in the quarter increased 4%, driven by the phasing of our long-term backlog and the addition of new project wins. While not in a straight line, we continue to expect backlog to further normalize from current levels over time as we improve lead times and customers adjust their ordering behaviors.

On **slide 5**, you can see that our priorities remain consistent as we execute on the most important initiatives that will enable us to achieve our growth and financial performance objectives.

Specifically, we remain focused on:

1. Enhancing customer experience and further differentiating our value proposition;

2. Driving operational excellence throughout the business; and

3. Executing on footprint simplification plans that facilitate meaningful gross margin expansion.

   In fact, earlier this week we announced that we are consolidating our North American linear motion facility into our manufacturing center of excellence in Monterrey, Mexico. This 146 thousand square foot facility is expected to cease operations at the end of the second quarter and completely wind-down by the end of the third quarter. Through lean manufacturing techniques and the use of improved manufacturing technologies we expect to have utilized just 50-60% of our Monterrey facility's 165 thousand square feet, following this action, as we ramp production. This is an important next step along our 80/20 footprint simplification path to deliver 200 basis points of gross margin improvement by fiscal year 2027.

These strategic initiatives, in combination with our commercial priorities, enable us to deliver profitable growth focused on strategically advantaged end-markets.

In addition to positioning ourselves to benefit from megatrends such as: near-shoring, increasing defense spending and growth in e-commerce, we are investing to become a leader in targeted vertical markets.

Two particular areas of focus and recent success include:

- Electrification, or battery production, which is a market growing at a CAGR that is north of 30% and is expected to hit $550 billion in 2030. In fact, over 200 battery factories are planned to be constructed in the next six-years to support, mobility, electrical capacity storage and more. We are establishing a leadership position in this space by providing fit for purpose, advantaged solutions for battery producers and, most recently, we won a $9 million dollar order for montratec's asynchronous conveyance solutions from Volkswagen backed PowerCo as they invest in factory automation solutions for their gigafactory production needs. We see a long and attractive runway of solutions that we can deliver for this customer and others over time as our precision conveyance team is quickly building a reputation as a leader in intelligent motion solutions for the electrification and battery production markets.

- Another area of focus is the Life Sciences vertical. Here, we have had great success enabling pharmaceutical manufacturers to quickly ramp production and meet rapidly growing demand. This was done most notably during the pandemic as global pharmaceutical companies launched COVID-19 vaccines. Looking ahead, there are several rapidly growing demand areas including weight loss injectables and related products that are struggling to keep up with rapidly growing demand and we are well positioned to participate in this growth.

Overall, we are encouraged by the progress we are making and the potential of our business as we advance our strategy and execute on our prioritized initiatives.

We are delivering impactful improvements across the business and remain in early-innings in terms of the value these initiatives will deliver over time.

Powered by our strategy and our position as a market leading provider of intelligent motion solutions for material handling, we are delivering attractive outcomes and improving financial performance. We remain confident in our ability to increase scale, compound growth and deliver shareholder value over time.

With that, I will turn it over to Greg to take us through the financial results.

Gregory P. Rustowicz
Executive Vice President and Chief Financial Officer at Columbus McKinnon Corporation

Thank you, David, and good morning, everyone.

Turning to **slide 6**, we delivered first quarter net sales of $239.7 million dollars, up 2% from the prior-year period. This was in line with the guidance we provided last quarter of low single digit growth.

We delivered $2.1 million of organic growth or 0.9% with realized pricing gains more than offsetting a slight volume decline. montratec® revenue in April and May contributed $2.7 million to sales or 1.1% of the increase. As the acquisition date was May 31st, beginning in June, their results are no longer included as acquired revenue.

As a reminder, montratec revenue has variability from period to period given the project nature of the business. Foreign currency translation was unfavorable this quarter by $0.6 million or 0.2%.

Sales growth in the quarter was largely driven by precision conveyance, which was up 10% from the prior year. As David discussed, we are encouraged with our pipeline of opportunities for this platform, as we have significant opportunities on the horizon with both our U.S. precision conveyance business as well as montratec. Our project business also contributed to sales growth in the quarter, as it was up 4%, driven by strength in our STAHL branded product with sales into the oil and gas vertical. Offsetting this growth was our short-cycle business, which was down 2%, all though I would point out that short-cycle orders were up 3% in the quarter as we advance customer experience initiatives and capture market share.

In the U.S., sales were up slightly in the quarter with price offsetting lower volume as we benefitted in the prior year from backlog reduction. Outside of the U.S., sales increased by 5% on a constant currency basis. This was primarily the result of montratec acquired revenue and organic growth, which contributed 3% and 2% of sales growth, respectively.

On **slide 7**, gross profit increased $2.4 million, or 2.7% versus the prior year driven primarily by pricing, favorable sales mix and montratec acquired gross profit even as we absorbed $1.8 million of Monterrey Mexico start-up costs and business realignment costs. We recorded a gross margin of 37.1% in the first quarter, up 30 basis points versus the prior year. On an adjusted basis, gross margin was 38.0% up 110 basis points year-over-year.

Moving to **slide 8**, RSG&A expense in the quarter increased $2.1 million to $60.4 million dollars. This was driven primarily by the acquisition which added $1.7 million of acquired costs in the quarter. RSG&A expense also included $1.9 million of Monterrey Mexico factory start-up costs and $0.5 million of business realignment costs. We also incurred $1.2 million of costs related to our strategic partner conferences in both the U.S and Europe which were not held in the prior year.

Turning to **slide 9**, we generated operating income of $21.1 million in the quarter down 1% to the prior year, impacted by the factory start-up costs, business realignment costs and the strategic partner conference costs that I just mentioned. Adjusted operating income was $25.7 million, roughly flat to the prior year.

On **slide 10**, we recorded GAAP earnings per diluted share for the quarter of $0.30 cents, down $0.02 cents vs. the prior year. Impacting GAAP EPS were the previously mentioned new factory start-up costs in Monterrey, Mexico and business realignment costs. Together, these items impacted GAAP EPS by $0.11 per share. Adjusted earnings per diluted share of $0.62 cents was flat to the prior year with a higher amortization expense addback and lower interest expense offsetting other “below the line” items.

On **slide 11**, our Adjusted EBITDA increased 2% year-over-year in the first quarter and Adjusted EBITDA Margin of 15.6% was in-line with the prior year. This included the impact of the Strategic Partner conferences which impacted our EBITDA margin by 50 basis points.

Moving to **slide 12**, Free Cash Flow improved $7.1 million from the prior year. Negative Free Cash Flow of $15.4 million in the first quarter reflected normal working capital seasonality in our business. CapEx in the quarter was approximately $5 million, comparable with the prior year. Free Cash Flow Conversion for the quarter on a trailing twelve month basis was a strong 108%.

Turning to **slide 13**, our total debt was down 4% from March 31st levels. We paid down $20 million of debt in the quarter and are increasing our expected debt repayment in fiscal 2025 from $50 million to $60 million. Our Net Leverage Ratio was 2.6x on a financial covenant basis, down 0.3x year-over-year and we expect our net leverage ratio to end the current fiscal year at approximately 2.0x. As a reminder, we repriced our Term loan B in March, lowering our cost of debt. We expect this to generate approximately $2.5 million of interest expense savings in fiscal year 2025.

Slide 14 provides our guidance for fiscal year 2025 and the second quarter. Our guidance considers the improvements we are driving throughout the business, our visibility into the funnel and our solid performance in the first quarter despite a softer macroeconomic backdrop. We have also built into our forecast for the second quarter, the expected impact of consolidating our North American linear motion production into our center of excellence in Monterrey Mexico.

With that in mind, we are issuing the following guidance.

In the second quarter we expect:

- Sales growth to be down low-to-mid single digits from the prior year, and
- Adjusted EPS growth to be down mid-single digits year-over-year.
- We are also anticipating several one-time costs related to the factory closure including:
  - $2 to $4 million of expected cash restructuring costs, and
  - $4 to $5 million of non-cash asset impairment costs related to the consolidation.

This is an important step on our 80/20 journey with our overall footprint simplification plan expected to deliver 200 basis points of gross margin improvement by fiscal 2027.

For the full year, we are re-affirming our fiscal 2025 guidance of:

- Low single digit sales growth year over year
- Mid-to high single digit growth in Adjusted EPS

- CapEx in a range of $20 million to $30 million, which includes approximately $8 million related to our footprint simplification initiative
- and we expect our Net Leverage Ratio to end Fiscal 25 at approximately 2.0x

Operator, we are now ready to take questions.

QUESTION & ANSWER SECTION

Operator

Thank you. We will now be conducting a question-and-answer session. The first question comes from the line of James Kirby with JPMorgan Chase. Please go ahead.

James Kirby
JPMorgan Chase & Co

Good morning, guys. Starting with the second quarter guidance in the context of the full-year guidance. Is it safe to say that the second quarter will be the lowest point of the year or is it too early to tell what the back half holds?

David J. Wilson
President and Chief Executive Officer at Columbus McKinnon Corporation

That's what we expect, James.

James Kirby
JPMorgan Chase & Co

Got it. You mentioned the moderating benefit from pricing. What is embedded in the second half of the year? I assume we take another step down maybe next quarter in 2Q. Is there anything in the back half of the year that gives you confidence pricing might return to strength?

David J. Wilson
President and Chief Executive Officer at Columbus McKinnon Corporation

We have a position of strength as it relates to pricing typically, and we do outpace inflationary costs with our price adjustments. The point that we are making is that pricing has moderated in terms of the impact relative to the lower inflationary environment versus prior year that we are in. While I don't expect pricing to have a material impact on the second half of the year, we do believe that it will be outpacing the impact of any inflationary pressures that we would see.

Gregory P. Rustowicz
Executive Vice President and Chief Financial Officer at Columbus McKinnon Corporation

James, I would just add that in our North American lifting business, our price increases took effect in the month of June. And so, there is backlog still priced at old pricing. We do expect pricing as we alluded to at the end of the fourth quarter to moderate as inflation has come down. We would expect it to be in that 1% to 2% range for the year and we would see it modestly higher going forward as the price increases take effect.

James Kirby
JPMorgan Chase & Co

Got it. That makes sense. I appreciate it, Greg and David. Thanks.

Operator

Thank you. Next question comes from the line of Matt Summerville with D.A. Davidson. Please go ahead.

Matt J. Summerville
D.A. Davidson & Co.

First, with the second quarter dynamic, I guess you weren't sure which quarter this was going to happen 90 days ago, but I guess why not kind of get out in front and articulate that the second quarter was going to be a little bit of an air pocket. And second, similarly, that implies a pretty big, an uncharacteristically big second half of the year. So, help us get comfortable that the full-year guide on the bottom line is still achievable.

David J. Wilson
President and Chief Executive Officer at Columbus McKinnon Corporation

Matt. Fair enough. And in terms of the timing impact of the factory consolidation, we are managing the business and have employees that we need to be sensitive to. Obviously, we can't get out ahead of that with that communication and articulate that detail until we are ready to do it as there are notifications and other related filings that we need to be sensitive to. We have been very clear about the fact that we are marching towards a multi-action plan that results in 200 basis points of expansion.

The second half of the year now obviously has a ramp relative to the first half, but it's well within the range of what we think is achievable. It's a 6% growth with a modest gross margin expansion. And we have as we indicated in our previous discussions, an elevated backlog and order rates that we think will support that outcome. As we expect backlog to moderate or normalize over the balance of the year with the order funnel that we referenced in our prepared remarks earlier, we think that will be positioned to execute on that plan for the rest of the year.

Gregory P. Rustowicz
Executive Vice President and Chief Financial Officer at Columbus McKinnon Corporation

And Matt just to add on from an EPS perspective, we will benefit from interest expense savings as we have repriced our Term Loan B back in March and we have been very aggressive in paying down debt. We would also expect incremental gross margin expansion. We do expect that by the fourth quarter we should start to benefit from the facility consolidation that we announced today. So all together, we feel very confident with our guidance overall.

Matt J. Summerville
D.A. Davidson & Co.

As I think about the second quarter, can you maybe articulate what the top and bottom-line impact, the stuff you can't non-GAAP out associated with this move? Is there a way to parse out the financial impact on the P&L in the quarter from disruption?

David J. Wilson
President and Chief Executive Officer at Columbus McKinnon Corporation

Duplicate costs, moving costs, restructuring costs, and asset impairments were laid out in the 8-K that was filed this morning. Those will all get adjusted out. It's really the top-line impact with the disruption from a facility where people were notified very recently that their jobs are going to end. And that's also going to have an impact potentially on productivity and on our ability to maintain our typical delivery performance.

Gregory P. Rustowicz
Executive Vice President and Chief Financial Officer at Columbus McKinnon Corporation

We are obviously going to try to do better on that. But it’s what we would expect being prudent with the idea that there is going to be some amount of disruption.

Matt J. Summerville
D.A. Davidson & Co.

Got it. Thanks, Greg.

Operator

Thank you. Next question comes from the line of Steve Ferazani with Sidoti and Company. Please go ahead.

Kyle May
Sidoti & Co. LLC

Hey. Good morning, everyone. This is Kyle May on for Steve. Just wondering if you could talk about any updates on cross selling of new acquisitions. And if you found traction for the montratec outside of its previous core markets?

David J. Wilson
President and Chief Executive Officer at Columbus McKinnon Corporation

We have had good success at training our workforce around the world to represent the broader precision conveyance portfolio and we have been building a nice pipeline of opportunities beyond geographies that that business has serviced as well as we expect to as we go forward. We have got a funnel of opportunities that are quoted and active that is around $5 million in the U.S. right now for that product line. We did close an opportunity with a prescription fulfillment service provider that we communicated last quarter. That was a nice large order and it's one of several that could come that are not included in the number that I just gave you that could come over time. We are broadening their reach into areas from a footprint perspective and market perspective that go beyond where they have been able to play. And most recently, what we are really excited about is that we have really begun to demonstrate our specific application advantages related to the battery production market with montratec. That led to the PowerCo order that we referenced in the prepared remarks. And there is a nice runway of opportunity for those expansion investments that they will be making over time as well as others related to that – that very attractive end market.

Kyle May
Sidoti & Co. LLC

Got it. That's helpful. And my next question, cash conversions topped 100% for the last four quarters. Is that something that you can maintain at or above 100%?

Gregory P. Rustowicz

Executive Vice President and Chief Financial Officer at Columbus McKinnon Corporation

We think we can, Kyle. It's because we are a CapEx-light company. With the cash generation capability of the company we should be 100% and north of 100%.

Kyle May

Sidoti & Co. LLC

Okay. Great. Thanks for the time.

Gregory P. Rustowicz

Executive Vice President and Chief Financial Officer at Columbus McKinnon Corporation

Thanks, Kyle.

Operator

Thank you. Next question comes from the line of Jon Tanwanteng with CJS Securities.

Jon Tanwanteng

CJS Securities, Inc.

I was wondering if you could give a little bit more specificity as to the revenue impact from the move in Q2. Were there any pull-ins in the Q1 to the extent you anticipated the move? And how much do you think is pushing out to Q3 and beyond? I guess what I am trying to get at is what the normalized run rate is expected to be assuming things go as planned.

Gregory P. Rustowicz

Executive Vice President and Chief Financial Officer at Columbus McKinnon Corporation

We would expect that there will be some disruption. We have put a lot of effort into planning for this. But nonetheless we do think there is going to be some impact. It's in the order of magnitude of probably a couple of million dollars we would expect.

Jon Tanwanteng

CJS Securities, Inc.

Do you expect that pent-up demand I guess to be served in Q3 pretty quickly or does that customer go away I guess to a different provider if they can't get it?

David J. Wilson
President and Chief Executive Officer at Columbus McKinnon Corporation

We would expect that to be made up for in Q3, or at worst case in Q4 and come back in the year. We obviously are maintaining a close proximity to our customers and communicating with them related to these changes and ensuring that we have the right kind of service levels with all the preplanning work that we have done, both in Mexico and at our existing facility. This is prudent as we plan and think about the impact that could come from these moves. We are confident in the plan that we are executing, but obviously we have to be sensitive to the fact that there could be some disruption in the period.

And there is also a level of backlog phasing that impacts the revenue profile of the second quarter based on the order rates and the timing of orders that came in in the first quarter. And so, our project backlog phasing has an impact on the top-line in the second quarter as well as we are advancing through this quarter.

Jon Tanwanteng
CJS Securities, Inc.

Got it. That's helpful. For my second question, I think you had previously talked about your book-to-bill likely to be below 1 for the year as you burn-off backlog. It was above 1 this quarter and it looks like it's going to be above 1 in Q2 with the revenue down and the orders to date being better. How you are thinking about the rest of the year beyond that and if there is anything that – that's different from what you expected?

David J. Wilson
President and Chief Executive Officer at Columbus McKinnon Corporation

We remain really encouraged with the funnel of activity that we are managing and the opportunities that we think are realistic for us to close on. We are obviously maintaining a focus as I said in my prepared remarks on what we can control. We are executing on our commercial initiatives and our customer experience initiatives. That is resulting in attractive opportunities. Thus far, we have had a level of success with that. We remain encouraged, but we are maintaining the guidance that we set at the beginning of the year. As I said earlier, we remain cautiously optimistic of our ability to achieve that.

Jon Tanwanteng
CJS Securities, Inc.

Okay. Great. Thank you, guys.

David J. Wilson
President and Chief Executive Officer at Columbus McKinnon Corporation

Thanks, Jon.

Operator

Thank you. Ladies and gentlemen, we have reached the end of question-and-answer session. I would now like to turn the floor over to Mr. Wilson for closing comments.

David J. Wilson
President and Chief Executive Officer at Columbus McKinnon Corporation

Thank you, everyone, for joining us today.

Our team continues to execute our strategic plan, improve our customer's experience and make significant progress on our simplification initiatives. I'd like to extend my personal thanks to our entire team for their dedication and the relentless execution that enabled us to begin fiscal year 2025 with strong results.

In our first quarter we delivered year-over-year sales growth, expanded gross margin, secured new customer wins, increased backlog with a book-to-bill ratio in excess of 1 and accelerated debt repayment.

We also announced the continuation of our footprint simplification plan and the consolidation of our North American Linear Motion facility into our Monterrey, Mexico manufacturing center of excellence, an important next step along our journey to deliver 200 basis points of gross margin expansion by fiscal year 27.

Finally, our team remains focused on the prioritized initiatives that will enable us to achieve our growth and financial performance objectives. We are encouraged by the pipeline of opportunities we see in our funnel, continue to be optimistic about our prospects and are reiterating our full-year outlook.

Thanks for investing your time with us today. As always, please reach out to Kristy if you have any questions.