

COLUMBUS MCKINNON CORP

Form 10-K

May 30, 2018

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
(FEE REQUIRED)

For the fiscal year ended March 31, 2018

Commission file number 0-27618

COLUMBUS McKINNON CORPORATION

(Exact name of Registrant as specified in its charter)

New York 16-0547600

(State of Incorporation) (I.R.S. Employer Identification Number)

205 Crosspoint Parkway

Getzville, New York 14068

(Address of principal executive offices, including zip code)

(716) 689-5400

(Registrant's telephone number, including area code)

Securities pursuant to section 12(b) of the Act:

NONE

Securities registered pursuant to Section 12(g) of the Act:

Common Stock, \$0.01 Par Value (and rights attached thereto)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes No

Indicate by checkmark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K .

Indicate by checkmark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of "accelerated filer," "large accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Act.

Large accelerated filer Accelerated filer
Non-accelerated filer Smaller reporting company
Emerging Growth Company

If an Emerging Growth Company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No

The aggregate market value of the voting stock held by non-affiliates of the Registrant as of September 30, 2017 (the second fiscal quarter in which this Form 10-K relates) was approximately \$868 million, based upon the closing price of the Company's common shares as quoted on the Nasdaq Stock Market on such date. The number of shares of the Registrant's common stock outstanding as of May 25, 2018 was 23,090,255 shares.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's proxy statement for its 2018 Annual Meeting of Shareholders to be filed with the Securities and Exchange Commission pursuant to Regulation 14A not later than 120 days after the end of the Registrant's fiscal year ended March 31, 2018 are incorporated by reference into Part III of this report.

COLUMBUS McKINNON CORPORATION

2018 Annual Report on Form 10-K

This annual report contains “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements involve known and unknown risks, uncertainties and other factors that could cause our actual results to differ materially from the results expressed or implied by such statements, including general economic and business conditions, conditions affecting the industries served by us and our subsidiaries, conditions affecting our customers and suppliers, competitor responses to our products and services, the overall market acceptance of such products and services, the integration of acquisitions and other factors set forth herein under “Risk Factors.” We use words like “will,” “may,” “should,” “plan,” “believe,” “expect,” “anticipate,” “intend,” “future” and other expressions to identify forward looking statements. These forward looking statements speak only as of their respective dates and we do not undertake and specifically decline any obligation to publicly release the results of any revisions to these forward-looking statements that may be made to reflect any future events or circumstances after the date of such statements or to reflect the occurrence of anticipated or unanticipated changes. Our actual operating results could differ materially from those predicted in these forward-looking statements, and any other events anticipated in the forward-looking statements may not actually occur.

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PART I

Item 1. Business

General

Columbus McKinnon is a leading worldwide designer, manufacturer and marketer of motion control products, technologies, systems and services that efficiently and ergonomically move, lift, position and secure materials. Key products include hoists, cranes, actuators, rigging tools, light rail work stations, and digital power and motion control systems. The Company is focused on commercial and industrial applications that require the safety and quality provided by its superior design and engineering know-how. Our products are used for mission critical industrial applications where we have established trusted brands with significant customer retention. Our targeted market verticals includes general industrial, construction and infrastructure, mining, oil & gas, energy, aerospace, transportation, automotive, heavy equipment manufacturing and entertainment.

In the U.S., we are the market leader for hoists and material handling drive systems, our principal line of products, as well as certain chain, forged fittings, and actuator products. We have achieved this leadership position through strategic acquisitions, our extensive, diverse, and well-established distribution channels and our commitment to product innovation and quality. We believe the breadth of our product offering and expansive distribution channels provide us a strategic advantage in our markets. Additionally, we believe we are the market leader for manual hoist and actuator products in Europe. Our market leadership and strong brands enable us to sell more products than our competition through our extensive distribution channels in the U.S. and Europe. The acquisition of STAHL CraneSystems (STAHL) in fiscal 2017, which is well renowned for its custom engineering of lifting solutions and hoisting technology, advanced our position as a global leader in the production of explosion-protected hoists. STAHL serves independent crane builders and Engineering Procurement and Construction (EPC) firms, providing products to a variety of end markets including automotive, general manufacturing, oil and gas, steel and concrete, power generation, as well as process industries such as chemical and pharmaceuticals.

Our business strategy, Blueprint 2021, is a three-phased strategy to increase the earnings power of the company and transform us into a growth-oriented industrial technology company. The goal of our strategy is to increase our earnings power and expand EBITDA margins, as well as improve our Return on Invested Capital. Phase I, which began early in fiscal 2018, was focused on attaining operational control and instilling a performance based culture to drive results. We formed four teams of cross-functional experts (tiger teams) to address specific areas:

- Grow the North American core business,
- Leverage the Magnetek acquisition,
- Create value with the STAHL acquisition, and
- Pay down debt incurred as a result of the STAHL acquisition.

We also instituted a new operating system, Earnings Power Acceleration or “E-PAS™.” E-PAS™ includes a set of tools that we will use to improve the efficiency of our business and deliver meaningful profit improvement.

We completed Phase I during fiscal 2018. In doing so, we believe we grew market share in the U.S. and achieved \$6 million of synergies related to the STAHL acquisition. In addition, we introduced several new products incorporating smart hoist technologies and repaid \$60 million of our long-term debt.

We began Phase II of the strategy in November 2017. This phase is focused on operational excellence and profitable growth and is about simplifying the business structure and product platforms, improving operating performance, and focusing our R&D expenditures to grow profitably. Investment in R&D will advance our smart hoist technology and enhance our customers’ digital experience so we can capitalize on the automation megatrend. We expect to double

R&D expenditures by fiscal 2021 from fiscal 2017 levels, including approximately \$5 million related to STAHL. Research and development costs were \$13,617,000, \$10,482,000, and \$7,393,000 in fiscal years 2018, 2017, and 2016, respectively.

Phase III of the strategy is centered on business development including the assessment of our current product portfolio as well as an acquisition strategy to advance our transformation into a leading industrial technology company. Our acquisitions of Magnetek, Inc. and STAHL and our efforts to leverage their technology are well aligned with our transformation efforts. We have demonstrated our ability to acquire companies and achieve significant synergies and growth. We will look for acquisitions in the material handling and motion control markets. We believe the automation megatrend will provide a deep pipeline of attractive, high margin companies that will continue to transform us.

Our business is cyclical in nature and sensitive to changes in general economic conditions, including changes in industrial capacity utilization, industrial production, and general economic activity indicators, like GDP growth. Both U.S. and Eurozone capacity utilization are leading market indicators for our Company.

Business Description

ASC Topic 280 “Segment Reporting” establishes the standards for reporting information about operating segments in financial statements. We provide our products and services through one operating and reportable segment.

We design, manufacture, and distribute a broad range of material handling products for various applications. Products include a wide variety of electric, air-powered, lever, and hand hoists, hoist trolleys, explosion-protected hoists, winches, industrial crane systems such as steel bridge, gantry, and jib cranes, and aluminum work stations; alloy and carbon steel chain; forged attachments, such as hooks, shackles, textile slings, clamps, and load binders; mechanical and electromechanical actuators and rotary unions; below-the-hook special purpose lifters and tire shredders; power and motion control systems, such as AC and DC drive systems, radio remote controls, push button pendant stations, brakes, and collision avoidance and power delivery subsystems. These products are typically manufactured for stock or assembled to order from standard components and are sold primarily through a variety of commercial distributors and to a lesser extent, directly to end-users. The acquisition of STAHL brings market leadership with independent crane builders and EPC firms. The diverse end-users of our products are in a variety of industries including manufacturing, power generation and distribution, utilities, wind power, warehouses, commercial construction, oil and gas exploration and refining, petrochemical, marine, ship building, transportation and heavy duty trucking, agriculture, logging and mining. We also serve a niche market for the entertainment industry including permanent and traveling concerts, live theater, and sporting venues.

Products

Of our fiscal 2018 sales, \$443,433,000 or 53% were U.S. and \$395,986,000 or 47% were non-U.S. The following table sets forth certain sales data for our products, expressed as a percentage of net sales for fiscal 2018 and 2017:

	Fiscal Years	
	Ended	
	March 31,	
	2018	2017
Hoists	63 %	56 %
Chain and rigging tools	10	11
Digital power control and delivery systems	10	12
Actuators and rotary unions	9	11
Industrial cranes	4	5
Elevator application drive systems	3	3
Other	1	2
	100 %	100 %

Hoists - We manufacture a wide variety of electric chain hoists, electric wire rope hoists, hand-operated hoists, winches, lever tools, and air-powered hoists. Load capacities for our hoist product lines range from one-eighth of a ton to nearly 140 tons with the acquisition of STAHL. These products are sold under our Budgit, Chester, CM, Coffing, Little Mule, Pfaff, Shaw-Box, Yale, STAHL, and other recognized brands. Our hoists are sold for use in numerous general industrial applications, as well as for use in the construction, energy, mining, food services, entertainment, and other markets. We also supply hoist trolleys, driven manually or by electric motors, that are used in conjunction with hoists.

We also offer several lines of standard and custom-designed, below-the-hook tooling, clamps, and textile strappings. Below-the-hook tooling, textile, and chain slings and associated forgings, and clamps are specialized lifting apparatus used in a variety of lifting activities performed in conjunction with hoisting or lifting applications.

STAHL primarily manufactures explosion-protected hoists and custom engineered hoists, including wire rope and manual and electric chain hoists. STAHL products are sold to a variety of end markets including automotive, general manufacturing, oil and gas, steel and concrete, power generation as well as process industries such as chemical and pharmaceuticals.

Chain and Rigging Tools - We manufacture alloy and carbon steel chain for various industrial and consumer applications. U.S. federal regulations require the use of alloy chain, which we first developed, for overhead lifting applications because of its strength and wear characteristics. A line of our alloy chain is sold under the Herc-Alloy™ brand name for use in overhead lifting, pulling, and restraining applications. In addition, we also sell specialized load chain for use in hoists, as well as three grades and multiple sizes of carbon steel welded-link chain for various load securing and other non-overhead lifting applications.

We produce a broad line of alloy and carbon steel closed-die forged chain attachments, including hooks, shackles, Hammerlocks™, and master links. These forged attachments are used in chain, wire rope, and textile rigging applications in a variety of industries, including transportation, mining, construction, marine, logging, petrochemical, and agriculture.

In addition, we manufacture carbon steel forged and stamped products, such as load binders, logging tools, and other securing devices, for sale to the industrial and logging markets through industrial distributors, hardware distributors, mass merchandiser outlets, and OEMs.

Digital Power Control and Delivery Systems - Through our fiscal 2016 acquisition of Magnetek, we are a leading provider of innovative power control and delivery systems and solutions for overhead material handling applications used in a number of diverse industries, including aerospace, automotive, steel, aluminum, paper, logging, mining, ship loading, nuclear power plants, and heavy movable structures. We are a major supplier in North America of power and motion control systems, which include AC and DC drive systems, radio remote controls, push button pendant stations, brakes, and collision avoidance and power delivery subsystems. While we sell primarily to OEMs of overhead cranes and hoists, we spend a great deal of effort understanding the needs of end users to gain specification. We can combine our products with engineered services to provide complete customer-specific systems solutions.

We are also a leading independent supplier of AC and DC digital motion control systems for underground coal mining equipment. Our systems are used in coal hauling vehicles, shuttle cars, scoops, and other heavy mining equipment.

Actuators and Rotary Unions - Through our Duff-Norton and Pfaff divisions, we design and manufacture industrial components such as mechanical and electromechanical actuators and rotary unions. Actuators are linear motion devices used in a variety of industries, including the transportation, paper, steel, energy, aerospace, and many other commercial industries. Rotary unions are devices that transfer a liquid or gas from a fixed pipe or hose to a rotating drum, cylinder or other device. Rotary unions are used in a variety of industries including pulp and paper, printing, textile and fabric manufacturing, rubber, and plastic.

Industrial Cranes - We participate in the crane industry, predominately in the U.S. market, but also globally in certain product offerings, through our offering of overhead steel jib and gantry cranes. Our products are marketed under the Unified, CES, Abell-Howe, and Washington Equipment brands. Crane builders represent a specific distribution channel for electric wire rope hoists, chain hoists, and other crane components. We also manufacture and market overhead aluminum light rail workstations primarily used in automotive and other industrial applications.

Elevator Application Drive Systems - We design, build, sell, and support elevator application-specific drive products that efficiently deliver power used to control motion, primarily in high-rise, high-speed elevator applications. We are recognized as an industry leader for DC high-performance elevator drives, as well as for AC drives used with low- and high-performance traction elevators, due to our extensive application expertise and product reliability. Our elevator product offerings are comprised of highly integrated subsystems and drives, sold mainly to elevator OEMs. In addition, our product options include a number of regenerative controls for both new building installations and elevator modernization projects that help building owners save energy.

Other - This category primarily includes tire shredders. We have developed and patented a line of heavy equipment that shred whole tires, for use in recycling the various components of a tire including rubber and steel. These recycled products are used as aggregate for playgrounds, sports surfaces, landscaping, and other such applications, as well as scrap steel.

Distribution and Markets

Our distribution channels include a variety of commercial distributors. In addition, we sell overhead bridge, jib, and gantry cranes and aluminum light rail systems, as well as certain motion technology products directly to end-users. The following describes our global distribution channels:

General Distribution Channels - Our global general distribution channels consist of:

— Industrial distributors that serve local or regional industrial markets and sell a variety of products for maintenance repair, operating, and production, or MROP, applications through their own direct sales force.

Rigging shops that are distributors with expertise in rigging, lifting, positioning, and load securing. Most rigging shops assemble and distribute chain, wire rope and synthetic slings, and distribute manual hoists and attachments, chain slings, and other products.

Independent crane builders that design, build, install, and service overhead crane and light-rail systems for general industry and also distribute a wide variety of hoists and crane components. We sell electric wire rope hoists and chain hoists as well as crane components, such as end trucks, trolleys, drives, and electrification systems to crane builders.

Specialty Distribution Channels - Our global specialty distribution channels consist of:

National and regional distributors that market a variety of MROP supplies, including material handling products, either exclusively through large, nationally distributed catalogs, or through a combination of catalog, internet, and branch sales and a field sales force.

Material handling specialists and integrators that design and assemble systems incorporating hoists, overhead rail systems, trolleys, scissor lift tables, manipulators, air balancers, jib arms, and other material handling products to provide end-users with solutions to their material handling problems.

Entertainment equipment distributors that design, supply, and install a variety of material handling and rigging equipment for concerts, theaters, ice shows, sporting events, convention centers, and night clubs.

Pfaff International Direct - Our German-based Pfaff business markets and sells most of its actuators directly to end-users, providing an additional method to market for us in the European region.

Crane End-Users - We market and sell overhead bridge, jib and gantry cranes, parts and service to end-users through our wholly owned crane builder, Crane Equipment & Service, Inc. ("CES"). CES includes the Abell-Howe and Washington Equipment brands. CES designs, manufactures, installs, and services a variety of cranes with capacities up to 100 tons.

Service-After-Sale Distribution Channel - Service-after-sale distributors include our authorized network of 18 chain repair service stations and over 221 certified hoist service and repair stations globally. This service network is designed for easy parts and service access for our large installed base of hoists and related equipment in that region.

OEM/Government Distribution Channels - This channel consists of:

OEMs that supply various component parts directly to other industrial manufacturers as well as private branding and packaging of our traditional products for material handling, lifting, positioning, and special purpose applications.

Government agencies, including the U.S. and Canadian Navies and Coast Guards, that primarily purchase load securing chain and forged attachments. We also provide our products to the U.S. and other governments for a variety of military applications.

Independent Crane Builders and Engineering Procurement and Construction (EPC) firms - In addition to the Distribution channels mentioned above, STAHL sells explosion-protected hoists and custom engineered off-standard hoists to independent crane builders and EPC firms. Independent crane builders are lifting solution developers and final crane assemblers that source hoists as components. EPC firms are responsible for project management or construction management of production facilities that purchase lifting solutions from crane and hoist builders.

Backlog

Our backlog of orders at March 31, 2018 was approximately \$177,387,000 compared to approximately \$154,450,000 at March 31, 2017. Our orders for standard products are generally shipped within one week. Orders for products that are manufactured to customer specifications are generally shipped within four to twelve weeks. Given the short product lead times, we do not believe that the amount of our backlog of orders is a reliable indication of our future sales. Fluctuations in backlog can reflect the project oriented nature of certain aspects of our business.

Competitive Conditions

The material handling industry remains fragmented. We face competition from a wide range of regional, national, and international manufacturers globally. In addition, we often compete with individual operating units of larger, highly diversified companies.

The principal competitive factors affecting our business include customer service and support as well as product availability, performance, functionality, brand reputation, reliability, and price. Other important factors include distributor relationships and territory coverage.

We believe we have leading U.S. market share in various products categories including: hoists, trolleys and components, AC and DC material handling drives, screw jacks, tire shredders, and elevator DC drives. These product categories represent 64% of our U.S. net sales.

Major competitors for hoists are Konecranes, which acquired Terex's Material Handling and Part Solutions business segment, and Kito (and its U.S. subsidiary Harrington); for chain are Campbell Chain, Peerless Chain Company (acquired by Kito), and American Chain and Cable Company; for digital power control systems are Konecranes, Power Electronics International, Inc., Cattron Group International (a division of Laird Technologies), Conductix-Wampfler (a division of Delachaux Group), Control Techniques (a division of Emerson Electric), OMRON Corporation, KEB GmbH, and Fujitec; for forged attachments are The Crosby Group and Brewer Tichner Company; for cranes are Konecranes and a variety of independent crane builders; for actuators and rotary unions are Deublin, Joyce-Dayton, and Nook Industries; and for tire shredders, Granutech.

Employees

At March 31, 2018, we had 3,328 employees globally. Approximately 10% of our employees are represented under three separate U.S. or Canadian collective bargaining agreements which terminate at various times between May 2020 and September 2021. We also have various labor agreements with our non-U.S. employees which we negotiate from time to time. We have good relationships with our employees and positive, productive relationships with our unions. The risk of employee or union led disruption in production is remote.

Raw Materials and Components

Our principal raw materials and components are steel, consisting of structural steel, processed steel bar, forging bar steel, steel rod and wire, steel pipe and tubing and tool steel; electric motors; bearings; gear reducers; castings; steel and aluminum enclosures and wire harnesses; electro-mechanical components and standard variable drives. These commodities are all available from multiple sources. We purchase most of these raw materials and components from a limited number of strategic and preferred suppliers under long-term agreements which are negotiated on a company-wide basis through our global purchasing group to take advantage of volume discounts. We have historically passed on materials price increases to our channel partners and end-user customers. We continue to monitor our costs and reevaluate our pricing policies. Our ability to pass on these increases is determined by market conditions. Although raw materials and some components such as motors, bearings, gear reducers, steel and aluminum enclosures and wire harnesses, castings, electro-mechanical components, and standard variable drives are purchased, our vertical integration enables us to produce many of the components used in the manufacturing of our products.

Environmental and Other Governmental Regulation

Like most manufacturing companies, we are subject to various federal, state, and local laws relating to the protection of the environment. To address the requirements of such laws, we have adopted a corporate environmental protection

policy which provides that all of our owned or leased facilities shall, and all of our employees have the duty to comply with all applicable environmental regulatory standards, and we have initiated an environmental auditing program for our facilities to ensure compliance with such regulatory standards. We have also