VIAVID
communications simplified.

Manitex International, Inc.

First Quarter 2020 Results Conference Call

May 7, 2020

C O R P O R A T E P A R T I C I P A N T S

Stoyan Filipov, *Chief Executive Officer & Director*

Steve Kiefer, *President & Chief Operating Officer*

Laura R. Yu, *Senior Vice President, Chief Financial Officer & Treasurer*

C O N F E R E N C E C A L L P A R T I C I P A N T S

Michael Shlisky, *Dougherty & Company*

P R E S E N T A T I O N

Operator

Good day, everyone, and welcome to the Manitex International, Inc. First Quarter 2020 Results Conference Call.

Today's conference is being recorded.

At this time, I'd like to turn the conference over to Steve Filipov, Chief Executive Officer of Manitex International. Please go ahead, sir.

Stoyan Filipov

Thank you, Lorie, and good afternoon, ladies and gentlemen, and thank you for your continued interest in Manitex International.

I hope everyone is safe and healthy I and appreciate everyone taking the time to listen to our call. Today on the call with me, we have Steve Kiefer, our President and COO; as well as Laura Yu, our Senior VP and CFO.

Please see our website for replay instructions for this call, which will be available until May 14, 2020.

Now please refer to Slide 2 regarding our Safe Harbor statement. We ask that you review this statement and also refer to our SEC filings for further guidance on the many risk factors associated with our Company. I will begin with an overview of our first quarter results, followed by operating commentary from Steve, and Laura will present a financial summary, after which we will welcome your questions

Please now turn to Slide 3. I would like to start by providing an update on COVID-19 and the effects it has had on our operations, and what we are doing to address the pandemic going forward.

We have been very fortunate so far and no team member has been affected by the virus. We are taking every necessary step to protect the safety, health and well-being of our team. Our Leadership team has done an excellent job dealing with this uncertainty and continues to develop new ways to keep our teams safe and healthy. During a crisis, you need leaders to lead, provide direction and communicate, and that is what we have been doing and will continue to do until further notice. We aren't out of the woods yet. And as you all are aware, COVID is still out there and health and safety precautions remain priority number one.

We have been closely monitoring the Centers for Disease Control and Prevention, the CDC, regarding COVID-19 and have implemented a number of protective measures to keep our employees and their families safe while operating our facilities appropriately in this challenging time. Following the guidance of the world's health authorities, we will implement, communicate changes or updates to our cleaning protocols as they evolve, and we'll continue to implement any appropriate and safety conscious spacing provisions on our shop floors.

Turning to more specifics around what we have been doing to make sure Manitex continues to grow and position ourselves for the recovery.

Our distribution networks network continues to grow and take us to new markets in construction, utilities, rental and more industrial applications. Our knuckle boom cranes, truck-mounted aerials and zero-emission pick-and-carry cranes serve a very diverse group of end markets and have resulted in a balanced representation of end markets away from energy. Steve Kiefer will provide a more detailed market breakdown, but most importantly, big picture wise, we've seen energy trend down from 70% of our business back in the shale play days to less than 10% today.

We also made a decision to sell the Sabre tank business in order to focus on our core specialized lifting equipment. And this process is moving along well with several interested parties that we're talking to today. We hope to complete the transaction that is good for our shareholders by year-end.

The PM Group continues to perform very well. And up until COVID-19 was well ahead of our expectations with an excellent start to 2020. Even with COVID-19, we achieved a positive book-to-bill ratio. And with our work to solidify our backlog in the fourth quarter, this helped to recover for our shutdown as mandated by Italian health and safety regulations that went into effect late March to contain COVID in Italy. Our plants, again, are back up and running there.

We have a strong balance sheet and cash liquidity of $46 million. Prior to the pandemic outbreak, we paid down a portion of our converts in the quarter in order to save on interest expenses, which Laura will discuss further on this call.

As we close out the first quarter, we shut down our PM Facilities on March 21 and missed an estimated $3 million of shipments, but the good news is that this is now a timing issue as these orders will be deliverable in Q2 and Q3 as we start operations.

I want to reassure everyone given the current uncertainty, we are taking a very close look at our backlog to make sure every order has been confirmed and reviewed weekly and provide any changes or updates through our sales and operations planning process. We did not see any cancellations in the quarter, which is a testament to the need for our equipment, but we will continue to focus on adjusting to the market if we see additional slowdown in orders or demand.

We are taking all the necessary actions to reduce our production and scrutinizing each and every cost going forward. We have used temporary layoff programs at PM during the facility shutdowns, which going forward, gives us the flexibility to bring back our team as we ramp back up in the second and third quarter.

As Steve will comment in a moment, we have seen sluggishness in order intake with our straight mast cranes, and we have reduced our build schedule to only build what we have orders for in Q2. We have also started reducing our headcount in Georgetown to preserve our margins and profitability for the remainder of 2020.

Finally, we are all very excited to report that the PM facilities are up and running since April 21 and as of this week, running back at 100%. As we noted earlier, we have orders to deliver, and the team is excited to get back to work. I am proud of the leadership team at PM as we have tightly managed our cash flow during the shutdown and not needed to raise any additional cash to fund PM's operation.

Please turn to Slide 4. The PM Group is starting to deliver solid results and continued to perform well in the quarter with a run rate near $100 million and obviously, prior to COVID-19. Two consecutive quarters of sales growth and margin expansion is a good start, and we believe we will consistently be building from here. These changes have come from a few different initiatives.

With the addition of a handful of experienced sales and marketing leaders that we brought in since my arrival here in September and the emergence of a newly reenergized team, we now have a strong and focused Leadership team in place. They know the market, our customers and our products. Managing our talent continues to be one of our key initiatives, and we are still filling in some key talent to further strengthen our purchasing, quality and engineering initiatives.

At the same time, we are controlling our SG&A cost to keep them in line with our current revenue forecast and delivered an 11% Adjusted EBITDA margin and clearly a new performance record for this business.

The knuckle boom business had over 40% growth in France with our new dealer strategy in place and clearly paying dividends. We were able to grow our share in Chile and move from the number 3 player to the number 2 leader. We continue to hold the number one market leadership position in Argentina. Simply said, our new sales and marketing strategy is working, and we are going to fish where the fish are.

The Oil & Steel aerials business had an excellent quarter with market expansion in France, Spain and Italy. Lastly, we have put in place an aggressive sales plan to relaunch our Valla brand globally. We have significantly improved our product literature, social media marketing and are now leveraging our Manitex distribution and sales team in North America.

Now let me turn it over to Steve to discuss some further operational highlights in North America.

Steve Kiefer

Thank you, Steve.

I would also like to reiterate the encouraging words from Steve, acknowledging the focus we've put on safety and the well-being of our employees at each of our facilities and also taking actions to keep business moving forward in the unprecedented and harsh challenges of COVID-19, which remains a force to contend with around the globe.

Thanks to our multiyear diversification strategy, our products currently serve an array of end markets, with most of those end markets supporting essential and critical infrastructure needs. In particular, approximately 45% of our revenue is generated from the telecom, electrical utility, infrastructure, military and government sectors. Another 40% of our revenue supports the construction industry, with that revenue evenly divided between the nonresidential and residential segments.

The remaining 15% of our global revenue is generated from oil and gas, rail and other applications. The diversification we have in our end markets today represents a notable shift from just a few years ago when almost 70% of our revenue was generated from the energy sector. This transformation prepared

Manitex to weather the storm and emerge from the COVID-19 pandemic a potentially even stronger company.

Regarding our Manitex straight mast crane business, we began the year with the expectation of a flat market versus 2019. While industry orders softened during the quarter, we were pleased to see Manitex securing over 40% of the industry total, which is a strong testament to the Manitex product line and our strong dealer network. And as such, through the great products, service and execution, we remain a market leader in the straight mast boom truck space.

We implemented a process of weekly channel checks with our distribution network during the quarter with that process continuing into the second quarter. While a number of our larger dealers are taking steps to reduce stocking levels at this time, we are seeing reasonably good quoting activity with a significant portion of dealers reporting their stocking levels to be adequate or low based on ongoing activity in the critical markets they serve.

Although sales were increasingly hard to close in April, while much of the country was shut down, going forward, our dealers and our internal sales team are pleased to see the phased openings taking place across the country in May and have resumed some travel and meetings with customers to serve their equipment needs.

Overall, we are anticipating a 10% to 15% reduction for the straight mast crane market and have begun implementing the necessary actions to balance our production with this level of market demand. Some of the headcount reductions we're making in North America due to the straight mast crane market, are being offset by growth of the Manitex branded articulating crane line, which we refer to as MAC. This increased articulating crane activity includes production of a $5.4 million order for a large international military customer with shipments beginning in the second quarter. We are pursuing additional military orders and anticipate further announcements in the coming months.

In early April, we introduced the full line of Manitex' articulating crane products at the ConExpo Trade Show in Las Vegas. We're pleased that ConExpo trade show took place before the nationwide quarantine was implemented, and were able to introduce the MAC line as well as several other new products, while conducting important meetings with key dealers and customers.

The other products we introduced at ConExpo included a 60-ton straight mast crane for a higher lift capacity applications, a 50-ton straight mast crane with a removable counterweight system targeted towards parts of the country where more stringent road weight regulations exist, a 24-ton straight mast crane mounted on a semi-tractor for distribution and construction applications, and several new industrial cranes highlighted by a 9-ton zero-emission remote control Valla crane, targeted towards compact and inside applications.

As a follow-up to the ConExpo Trade Show, we're pleased to generate approximately $2 million in orders from these new products as well as others. Additionally, our sales team began engaging the North American dealer network to leverage opportunities and growth for the zero-emission line of Valla cranes for a variety of construction, warehouse and maintenance applications.

As we move through the rest of the second quarter and enter the second half of the year, our top priorities are maintaining a sharp focus on our health and safety measures, meeting the needs of our customers and dealers, cost reduction, maintaining our liquidity and reducing our working capital.

Regarding working capital improvement, we began the second quarter with an increase in inventory of approximately $7 million versus year end, mainly in North America. Approximately one-third of this inventory increase was associated with the articulated crane military order and new industrial cranes. The remaining two-thirds is associated with our seasonal first quarter inventory build to support our backlog for spring and summer shipment activity.

In aggregate, we're confident execution of these top priorities will enable us to successfully perform through these difficult market conditions and strongly position Manitex for the coming economic recovery.

Now let me turn it over to Laura for a more detailed discussion of the financials. Laura?

Laura R. Yu

Thanks, Steve.

Good afternoon, everyone. Thank you for joining our call today.

Let's move to Slide 5 and Slide 6, Q1 financial update and operating results. Results showing us from continuing operations.

Our revenues for the quarter were $48.7 million, a decline of 8.2% compared to the fourth quarter of 2019. The decrease was primarily driven by $3 million loss in sales due to the fourth shutdown of our PM facilities in Italy with the outbreak of COVID-19.

Also attributable to the revenue decrease was lower crane sales from our crane and machinery business units, driven by the market softness we have been experiencing in North America. Looking at the sales from a year-over-year basis.

Total revenue in the quarter declined by 10.5% compared to the first quarter of 2019. Part of the revenue decline was due to the unfavorable currency impact caused by a weaker euro against the U.S. dollar. This accounted for 1.4% of the total revenue decrease.

Our book-to-bill ratio for the quarter was 0.83, which reflects the slowness in order intake with our straight mast cranes. And as Steve has noted, we have taken actions to bring our production in line with the slower order rates.

Our backlog was $57 million as of March 31, 2020, which declined 12% compared to the year-end. However, backlog from the PM business increased by $3 million, or 12% compared to the year-end, and represents the largest proportion of our backlog with PM, which is encouraging. The increase was partially offset to the decline in straight mast cranes orders in the U.S.

Gross margin was 21%, up 230 basis points compared to the fourth quarter 2019. The higher gross margin was achieved, notwithstanding the decline in revenue compared to the prior quarter, and was driven by supply chain cost reduction initiatives, improvement in operational efficiency and favorable sales mix.

Adjusted value-add margin was 22.7%, compared to 20.6% from the prior quarter.

Our first quarter 2020 adjusted net income was $1.6 million or $0.08 earnings per share.

Adjusted EBITDA was $3.5 million or 7.2% of sales. Adjusted EBITDA as a percentage of sales improved by 90 basis points from the fourth quarter 2019. The higher Adjusted EBITDA was primarily driven by improved gross margin.

Adjusted SG&A expense, excluding nonrecurring charges for the quarter, decreased slightly compared to the prior quarter. The first quarter 2020 results also included a $6.7 million noncash charge related to the impairment of goodwill and intangible assets. This is best explained as a required accounting adjustment to reflect the Company's current market capitalization and the expected effect of the COVID-19 pandemic and the underlying value of certain long-term assets. This was a noncash charge and had no impact on our cash flow or liquidity position.

As a result of the softness in the market and challenges for our customers, suppliers, our team members and production facilities that we expect to persist at least a few more months, we took action to reduce pretax costs by $1.5 million to $2 million for the remainder of the year, which would annualize to $2 million to $3 million. These cost reduction actions include salary reductions, lower Management incentive compensation expense, furlough, limiting travel, reducing project costs and other discretionary spending.

Moving to Slide 7, net debt update for Q1 2020. Net debt was $42 million at quarter end, flat compared to year-end 2019. At the end of the first quarter, the Company had available liquidity of approximately $46 million, including $22 million of cash and cash equivalents. Our revolving credit facility in the U.S. was amended in September last year to increase the loan commitment to $30 million and extend the maturity date to July 20, 2023.

The revolver availability at March 31, 2020, was $23.5 million, with the outstanding balance of $6 million, which was used to pay down the convertible notes. The Company made several million in total only principal payments on the Ferrara (phon) note, which carry a 6.5% annual interest rate.

This early payment was made to save on interest expense. Under the current bank agreement, the Company can opt to pay interest at a LIBOR rate plus a spread when drawn from the revolver. The spread over LIBOR is 175 basis points based on the Company's current revolver excess availability. The Company has two convertible notes, of which $7.5 million will mature on December 19 this year and the remaining $8 million will mature on January 7, 2021. We are also required to make a $3 million annual repayment related to the Italian term debt at the end of this year.

Management is confident that the Company will meet its obligations over the next 12 months. We are now, and we expect to maintain full compliance with all debt covenants.

On April 14, 2020, the Company and its U.S. subsidiary received a $3.7 million loan from the Paycheck Protection Program as part of the CARES Act. In accordance with the requirements of the PPP, the Company will use proceeds from the PPP loan primarily for payroll costs. Under the terms of the PPP, certain amounts of the PPP loans may be forgiven if they are used for qualifying expenses as described in the CARES Act.

Management will continue to control costs, improve working capital performance with a strong focus on inventory management, debt reduction and cash flow or Adjusted EBITDA.

With that, I will now turn the call back to Steve Filipov.

Stoyan Filipov

Thank you, Steve and Laura.

Please turn to Slide 8. In summary, today's environment is changing by the day, if not by the hour. And our Leadership team is leading and dedicated to the highest safety standards and maintaining the wellness of our team. We are excited that we're up and running in 100% of our facilities, and we're hopeful this trend continues as economies and global markets start to reopen.

We do not have any current plans for further shutdowns unless the pandemic takes a different course. We cannot continue to control the end markets, but we can control our production schedules and our costs. By closely working with our customers, our suppliers and our team members, we will take the necessary actions to conserve cash and maintain profitability through this challenging time. As Laura called out in her remarks, we have identified close to $2 million of savings for 2020, and we will be looking for more as we get better clarity on our order intake in the next few months.

The foundations at Manitex remain very solid with strong brands, loyal customers and innovative products. We'll continue to drive share growth and look towards the future; and with the portfolio diversification we have implemented, this will continue to provide us with the opportunity to access new end markets and new customers.

With our solid balance sheet and liquidity, which is probably in the best position we have been in for many years, we will continue to conserve cash and scrutinize every cost to help us weather through this period. We have shown that our PM business can perform even in challenging markets and that we can deliver improved profitability by the actions we have taken to put a strong Leadership team in place, augmented operational process improvements, focused geographic diversification and leveraging our three brand strategy with PM, MAC and PM-Tadano.

Let me finish with a comment on cultural change. After six months as the CEO of Manitex, I'm very proud to be a part of the Manitex team. We have an engaged and passionate team, and we are in the process of changing our culture. The fundamentals around this change are going to be around safety, entrepreneurial spirit and cash management.

Safety starts with process and leadership. We have just started on this journey, but taking the current COVID-19 pandemic situation, this is all about crisis management and critical to our success. The team has done an excellent job in protecting our team and leading in a time of uncertainty.

Entrepreneurship is all about keeping things simple, efficient and making sure we do what we say. We need to discuss, debate, but most importantly decide and take the necessary actions to drive change in our business.

Cash management is going to be pretty simple, keep control of each and every cost as if it was your own. The environment is another opportunity for us to show we can manage our working capital and overachieve our cash flow targets. Our Q2 and Q3 opportunity is to generate cash from the inventory build in Q1, which the entire team is focused on.

I will stop there, and thank you for your time and attention today. And I'll ask the Operator to please start the Q&A session of the call. Operator?

Operator

Thank you. If you would like to ask a question at this time please signal us by pressing star, one on your telephone keypad. If you are using a speaker phone please make sure your mute function is turned off to allow your signal to reach us. Once again if you would like to signal for a question it is star, one. Please make sure your mute function is turned off to allow your signal to reach us. We will pause for a brief moment.

We'll take our first question from Mike Shlisky with Dougherty & Company.

Michael Shlisky

I wanted to start off with a couple of clarifications. First, you mentioned on PM. Before the COVID crisis became a big deal, globally, it sounds like you were on track for $100 million of top line this year. Did I hear that correctly? And did you also say that you were looking at margins above 11% for the year? Is that what you were saying before? Or is that more of a long term forecast?

Stoyan Filipov

Thanks for the question. First of all, yes, we were on track to get around $100 million of revenue in the business. Obviously, that's changed since the shutdown. But we were, as I say, blowing and going in the first two months of the year and well ahead of the plan, which helped us, I think, deliver a very good quarter.

As for the 11% EBITDA, we did north of 10% in Q4, we did 11% in Q1. And that's obviously going to change, but I think my point was that business can deliver above 10% EBITDA margins. And that, I think, is now proven for a couple of quarters, and we're going to deal with the pandemic today, and we'll have to work through that. But clearly, the really good news is, is that we started operations back up on April 21, with a very small crew because we have some military orders to deliver on, and the government allowed us to start up a little bit earlier. But as of this week, we've been up 100%. And I think out of the total employment base in Italy, I think we had one team member that didn't show up for work.

We’re really excited, and we're really starting to get ramped back up, but obviously, that's going to take some time to get back to that run rate. So hopefully, that answers your question.

Michael Shlisky

Sure. Just to follow-up, though. I mean, it sounds like you have lost six weeks where it was very close to no production, or very little. Is there a chance you could get in the neighborhood of $100 million for the year? Or is that just not going to happen at this point? Is it that much affected, you can't really catch up?

Stoyan Filipov

Yes. Right now, Mike, I think it's a little too early to say that. I mean, like I said, we've been up and running a week. Obviously, order intake for the month of April was fairly slow because everything is shut down. I really can't answer that question. We're doing scenarios around minus 10%, minus 15%, minus 20%, minus 30% revenue. And then we're going to have those plans ready to start to pull as we get better visibility in May.

I think the way you should think about this is both the U.S. business and the European business, we need the month of May to kind of figure out where all of this is going. So we're tracking it every week with Steve and the team, and we'll see. But it's tough for me to really tell you how far off we're going to be. And that's why I mentioned the $3 million that we missed was basically because of the shutdown.

If things keep going, that's really good news for us, but it's a little too early to tell.

Michael Shlisky

Okay. Fair enough. Perhaps turning over to the other side to the straight mast side. Steve Kiefer, you had mentioned that you have secured 40% of the orders so far year-to-date, it was a down year. But can you just give us a sense, was that a share gain? I think you were in the 40% range in the past at some point. Do you think you're outperforming the overall market here?

Steve Kiefer

Our share of the orders, Mike, in the first quarter were over 40%. As you know, last year, from some of our conversations, we finished the year a little under 40%. So we are seeing some share gains. And over the past several years, over the past five years, we've increased the share from about 25% to 40%, and that's really been driven a lot by the market diversification strategy and the new products that we've introduced over the past several years.

Michael Shlisky

And could you maybe confirm, is the other trend of going to larger heavier cranes, which usually have higher margins? Has that trend held so far in 2020? And Steve, ask, I guess, for both of you, on the PM side, has that been a theme there too?

Steve Kiefer

Yes. For the straight mast crane side, Mike, it's absolutely beneficial. We introduced the 60-ton straight mast crane, which has been received well and is performing well. We also at ConExpo, introduced a new version of our 50-ton crane that has a removable counterweight system, which makes it more flexible and very attractive for parts of the country that have more stringent road weight regulations.

Over the past couple of years, as you recall, Mike, we spent a lot of time focusing on some of the lower capacity cranes to round out the product line, which is now paying dividends for us at this time with COVID and some of the market disruption. But going with some of the most recent new product introductions like the 60-ton and the new 50-ton as well as going forward. We're very focused on the trend towards higher capacity cranes and having best-in-class products in that portion of the segment.

Michael Shlisky

Okay. And on the PM side, is there a similar trend?

Steve Kiefer

Mike, I'd say, we're where the market is, right? So we're kind of in that mid-range. I mean, our range is strong where the market is which is basically 50-ton meter up to about 150-ton meter. And then obviously, we have the smaller products. We also have the much larger products. But those are, I'd say, lower volume. So we're kind of at the core of it, and we're doing well. I think the testament, as an example, to a 40% year-over-year growth in France is because we're executing on that type of product portfolio. I think in North America, the MAC team is doing a really good job to get into that range, that 50-ton to 80-ton meter capacity range and doing a pretty good job there. I think, definitely positive from both sides.

And really, to go back to what Steve was saying on the straight mast side, with the new products that we've launched at ConExpo and the 40-ton-and-up capacity, I'm really confident we're going to continue to see share gains with that product.

Michael Shlisky

Great. Also I wanted to touch on Valla, because I haven't heard that name in quite some time. So you've got some new programs there. It sounds like it's probably just kind of more just starting out. So could you maybe comment, do you think if there's some kind of economic normalcy in the back half of the calendar year here, could Valla be a pretty strong tailwind for you to close out the year? Or is that more of a 2021 question?

Steve Kiefer

Yes. I think—again, thanks for the question, Mike. I mean, I really have a lot of time for Valla. I think it's zero emission. Everybody is going green. It's really a great product. We use it in our rental fleet. We have a small rental fleet here, crane and machinery. It delivers a great return. And I think as we expand this marketing plan to the rental community, I think they're going to see a lot of benefit into putting them into their fleet. But it's a small specialized market. So it's got good margins, but it's not high volume. So what I'd tell you is, we just started. Obviously, they've been affected quite a bit by COVID at our facility in Italy. They were completely shut down for 6 weeks. So we've got a good—I'd say, a good order backlog there with that product. I would think of it as probably Q4 as this thing kind of takes off with North American launch and then more into 2021, I think.

Michael Shlisky

All right. I just got two more left here, in my first bunch of questions. I also wanted to ask about the supply chain. As you brought back production in Italy, as you've kept production going in North America, have your suppliers been able to keep the lines open? Or are there any issues that you're currently dealing with?

Steve Kiefer

So far, so good. I'd say, Mike, I'll give you an example in Europe, we have a factory in Romania that produces all of our weldments or at least most of our weldments for the knuckle boom product. And we basically decided to keep that facility open on a small shift to create a buffer of weldments, so that we would be ready to restart. So that was a good decision by the team. And right now, first week going, we haven't seen any major shortages from any suppliers. But that could change over time, but right now, it's been pretty good. And I'd say, as we said in North America, we've been running the whole time. So there's not been really any shortages on the supply chain side. And like we said, we're kind of pulling back a little bit. So we're working closely with the suppliers on that side.

Michael Shlisky

Great. And then, Laura, you had mentioned some cost savings. I think you said $2 million. Can you just give us some more color there on—are those—is that $2 million annualized? Did you not get any of it in the first quarter? Or is that just for the rest of the year? And also, how much of it is on a permanent basis? Are these like the cost cuts you have done all along as you try to rightsize PM and elsewhere? Or is this just like a very temporary thing?

Steve Kiefer

Yes. I'll ask Laura to answer the details. But as I said, Mike, I think that's our current outlook and that's part of that scenario planning that we're doing. And I would say that's more in line with kind of a minus 10% revenue trend that we're kind of seeing today; that could change. But so far, we basically stopped any new hires. We've reduced our temporary staffs in all locations. And that's mainly North America is what I would say. Europe, we have temporary layoff programs that really helped us during the complete shutdown. So now we're taking a look at the ramp-up and then if we need to take any further action in Europe. So that's really North America.

But Laura, if you want to walk Mike through some of the details?

Laura R. Yu

Yes. It's mainly North America, but we also have cost savings from PM too. And Mike, to answer your question from Q2 and for the remainder of the year, so if we annualize, it's a little bit more. For PM, it's—some of the initiatives are similar. We are pushing out some of the new hires to the next year. There's also savings on T&E. We try to rein in travel for the entire team. There are some savings on the project cost. We try to push some of the projects later, if we can.

Steve Kiefer

So it's a mix, Mike, of cost avoidance on one side, and then there's actually some headcount that's also going down.

Operator

Once again just a reminder to our phone audience it is star, one if you've a question or comment. That's star, one. We will pause for just a brief moment.

We do have a follow-up from Mike Shlisky.

Michael Shlisky

If no one else wants to ask a question, I certainly can ask a couple more.

All right, so you had mentioned there were other opportunities for the military orders. And it sounds like the one you've got going on here in Q2, you—I think back when you first announced that I think you said it was only $4.5 million, I think you said it was $5.5 million today.

Stoyan Filipov

Yes, $5.5 million. Some additional parts orders, Mike, associated with that, some changes to the project that occurred along the way.

Steve Kiefer

But I would say, Mike, on the military orders, so the comments that Steve had. One was a potential add-on to that additional order. We also have another add-on in PM for knuckle boom that we had an initial order for that may come. And we're just trying to be aggressive out there with any defense military contracts because we've proven that we've got a product that we can adapt for those uses. So we'll see. And it's a good base business. I mean, if you remember, I think on one of my first conference calls, the team had already signed up this order for the military. And I think in this environment, in North America, where we've got to take down the straight mast products, we're actually seeing growth in knuckle booms, and this is a good business for us to have to make sure that we can stabilize the facility in Georgetown.

I think the team is doing a really good job to kind of rebalance that. So that's—I think that's working out well for us. And it could be another nice opportunity for us in the back half of the year, not done yet, but still working on it.

Michael Shlisky

Okay. Got it. Could you also update us on how it's going with the partnership with Tadano? Any interesting progress there, either in Asia or globally?

Stoyan Filipov

Yes. Sure, Mike. Yes. Tadano, I mean, our relationship is really good. Obviously, been spending a lot of time with the team, operational teams on both sides at PM and Tadano. The big, I would say, the initial order that we had, we announced in Q4 for the Middle East has actually been shipped. So we had about $400,000, I think, somewhere around there for that order for a new dealer from Tadano in the Middle East. So that's a positive.

I would also say that with Steve's team in North America, we're also working with the Tadano team to help us on the quality side. And we all know that Tadano has a great brand. They do a great job on quality and really our partnership together is also kind of branching out into other places within the Organization. So we're looking at how Tadano can help us improve our quality even in North American products. I think Steve's done a good job with the team there. So that's where we are right now.

I mean, in the quarter, basically, we shipped that Middle East order for Tadano distribution, and then now we've been shut down. So we're kind of getting ramped up with that team, but all lights are green with our relationship there.

Michael Shlisky

Okay. Maybe almost going to torture you here with one last one for you. The debt game plan, I know you've got some two different pieces due in December and January coming up here. I appreciate that you did pay down some of the converts last quarter, but you also took the revolver on as well. Now it's lower cost debt, but can you give us your kind of game plan for when we get to fourth quarter and the first quarter? Are you—is your revolver like your like default option? Or do you have plans to generate cash from inventory or elsewhere from Sabre to help pay some of that down and then use the rest on the revolver?

Stoyan Filipov

Yes. So Mike, I'm going to—Laura could talk about the delta. I mean the reason basis why we did it, and then I'll come back to kind of the strategic view of what we're going to do with our cash.

Laura, why don't you talk about it?

Laura R. Yu

Yes. So Mike, we borrowed $6 million from the revolver, but we paid down the convertible notes by $7 million. So there's $1 million generated from the operation to pay down the convertible debt. And the interest difference is pretty significant. The convertible note is 6.5%. The revolver based on the agreement we have is 175 basis points over LIBOR, total around 2.4% to 2.6% right now. So this is a large savings for us. We were—before the COVID-19 pandemic, we were going to pay down more, but because the COVID-19, we try to conserve cash, we stopped making prepayments back in February.

Stoyan Filipov

Yes, yes. And then on the strategic side, Mike, I'd say, yes, I mean we need to get a little bit more visibility. I mean, right now, it's keep your powder dry mode for everyone. But obviously, we talked about $7 million of inventory, that's cash that we're going to generate in Q2 and Q3. So that's additional cash. We mentioned that we're not building for stock. So we're going to hold our ground on inventory and reduce it. And then as you said, Sabre deal, we'll see where we end up. But obviously, that cash—if COVID continues, we're going to keep our powder dry. But what we've said is, is that we want to continue to pay down our debt. We've got the liquidity to be able to do that with the converts, and we'll make sure that we can do that. And if we're in a position to pay down some of the converts early, then we'll do that, but we haven't made that decision yet.

I think we need to work through Q2, see what the operations kind of look like, work through Q3, see kind of how that looks like, and then we'll make that decision in Q4. And then obviously, maximize really the deal at Sabre and use that cash thoughtfully.

Operator

That does conclude our question-and-answer session. At this time, I'll turn the call back over to Steve Filipov for any closing comments.

Stoyan Filipov

Great. Thank you very much, Lorie. Thank you all for your interest in Manitex. Again, we're very excited about where we are. We're obviously dealing with a pandemic as everyone else is, but we appreciate your time and interest in the Company.

Please everyone be safe, be healthy, and we look forward to catching up very soon with everyone. So thank you all very much. We appreciate it.

Operator

That does conclude our conference call for today. Thank you for your participation. You may now disconnect your lines.