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ROCK - Q4 2017 Gibraltar Industries Inc Earnings Call

EVENT DATE/TIME: FEBRUARY 22, 2018 / 2:00PM GMT

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PRESENTATION

Operator

Good day, ladies and gentlemen. Welcome to the Gibraltar Industries Fourth Quarter 2017 Earnings Conference Call. Today's call is being recorded and webcast. My name is Kevin, and I'll be your coordinator today. (Operator Instructions)

I would now turn the call over to David Calusdian from the company's Investor Relations firm, Sharon Merrill Associates. Please proceed.

David C. Calusdian - *Sharon Merrill Associates, Inc. - President*

Good morning everyone and thank you for joining us. If you have not received a copy of the earnings press release that was issued this morning, you can find it in the Investor Info section of the Gibraltar website, gibraltar1.com. During the prepared remarks today, management will be referring to presentation slides to summarize the company's fourth quarter performance. These slides also are posted to the company's website.

Please turn to Slide 2 in the presentation. The company's earnings press release and slide presentation contain forward-looking statements about future financial results. The company's actual results may differ materially from the anticipated events, performance or results expressed or implied by these forward-looking statements. Gibraltar advises you to read the risk factors detailed in its SEC filings, which can also be accessed through the company's website.

Additionally, Gibraltar's earnings press release and remarks this morning contain adjusted financial measures. Reconciliations of GAAP to adjusted financial measures have been appended to the earnings release and slides.

On our call this morning are Gibraltar's Chief Executive Officer, Frank Heard, and Chief Financial Officer, Tim Murphy. At this point, I'll turn the call over to Frank, and please turn to Slide 3.

Frank G. Heard - *Gibraltar Industries, Inc. - Chief Executive Officer, President & Director*

Thanks, David, good morning, everyone, and thank you for joining us on our call today. With a strong fourth quarter, we closed another successful year for Gibraltar as we achieved meaningful progress in all elements of our transformation. Financially, we exceeded both our top and bottom line guidance in the fourth quarter. We reported revenues up 11% year over year and achieved GAAP EPS of $0.78, up from a loss of $0.24 a year ago. Our earnings this quarter included $0.39 benefit from tax reform, which we will discuss later in the call.

From a Q4 end-market perspective, we achieved a 34% increase in sales in our Renewable Energy & Conservation segment and a 13% increase in our Residential Products segment. Our Industrial & Infrastructure segment reported modest organic growth, excluding the impact of the divestiture of our bar grating business in Q1 2017, indicating that this segment has turned the corner.

On a full year basis, we reported an increase of 86% in GAAP EPS to $1.95 or 49% to adjusted EPS of $1.56, excluding the one-time benefit of tax reform, and a 2% increase on an adjusted basis to $1.71. We're particularly pleased that the delta between our GAAP EPS and non-GAAP EPS has narrowed significantly over the past few years, signaling that we've been making right strategic moves on our transformation journey to generate increasing returns to our shareholders.

We now -- we're now three years into our five-year transformation strategy, and our results for the quarter and the year demonstrate that we've made tremendous progress, both operationally and financially. Since 2014, we've improved annual GAAP EPS from a loss of $2.63 in 2014 to earnings of $1.95 in 2017, and we increased return on invested capital from 3.9% to 12.6%. Through operational excellence, portfolio management, innovation and acquisitions, we now have a platform for sustainable growth built upon a portfolio of markets and businesses that have a much greater ongoing upside potential. I'll provide an update on each one of these strategic pillars later in the call.

With that, I'll turn the call over to Tim to review the financial results.

Timothy F. Murphy - *Gibraltar Industries, Inc. - CFO and SVP*

Thank you, Frank, and good morning everyone. Let's move to Slide 4 in the presentation entitled "Solid Consolidated Results". We reported solid fourth-quarter results with revenues and earnings exceeding both prior year and guidance. Strong demand in our Residential Products and Renewable Energy & Conservation segments offset a challenging year-over-year comparison in our Industrial & Infrastructure segment due to portfolio management actions at the beginning of 2017. On an apples-to-apples basis, excluding divestitures, our base revenues were up 20%, and each of our segments experienced growth. On the bottom line, our consolidated earnings benefited from higher volumes in our Residential and Renewable Energy & Conservation segment, reduced corporate expenses due to lower variable compensation, 80/20 simplification initiatives resulted in 130 basis point increase in adjusted operating margin and a $12.5 million or $0.39 per share benefit from tax reform.

Let me take a moment to review the impact of the new tax legislation on our results. Please turn to Slide 5 entitled "Tax Reform Impact". The "Tax Cuts and Jobs Act" has and will have a material positive impact on Gibraltar as we generate substantially all of our pre-tax income domestically. Over the past two years, as our portfolio management actions, we exited industrial operations in Europe and our residential solar racking business in Germany. In 2017, due to the signing of the Act on December 22, we recognized a benefit of $16.2 million related to the reduced rate at which we will settle our deferred income taxes, partially offset by a $3.7 million charge resulting from the deemed repatriation of our foreign earnings. As a result, we're reporting a benefit of $12.5 million or $0.39 per share in the fourth quarter related to tax reform. In 2018, we expect our effective tax rate to approximate 28%, which will benefit our earnings and cash flows. The 2018 effective rate is expected to be 730 basis points below the 2017 rate before the impact of tax reform. A proforma reconciliation of our 2017 GAAP and adjusted EPS as if our 2017 rate was equal to the expected 2018 rate is included in the appendix to these slides to provide comparable earnings reference points as we move throughout the year.

Now let's review each of our three reporting segments, starting with Slide 6, the Residential Products segment. Top-line growth in this segment was driven by strong sales in building products, centralized mail and electronic package lockers. We continue to benefit from enhanced service levels resulting from 80/20 initiatives, which is leading to strengthened partnerships and increased market share. Increasing e-commerce activity and the related demand for safe, secure, at-your-convenience solutions continued to drive sales in our electronic package locker systems in the multi-family space. On the bottom line, strong sales as well as the benefit of 80/20 initiatives contributed to the segment's operating income improvement. Adjusted operating margins decreased slightly due to product mix.

Turning to Slide 7, the Industrial & Infrastructure Products segment. Overall revenues were down over the prior year, solely due to the impact of our divested bar grating business, which represented 23% of fourth quarter 2016 sales. On an apples-to-apples basis, excluding the divestiture, our base revenues were up 4%, a sign that we're coming off the bottom and beginning to see growth in this segment. In the fourth quarter, as expected, lower market activity continued to impact infrastructure sales. At the same time, we are encouraged by a growing backlog and our new perimeter security solution continues to gain traction. We expect these items will accelerate the rebound of the segment throughout 2018. The bottom line growth in the fourth quarter primarily reflects operational efficiencies from 80/20 projects, and we expect that margins will continue to improve in 2018 as security products gain further traction and infrastructure activity increases.

Now turning to Slide 8, the Renewable Energy & Conservation segment. Strong demand in the domestic market more than offset a $2 million impact from the exit of our European solar racking business and drove a 34% increase in revenues for the quarter. The bottom line was affected by higher material costs, net of pricing actions. Adjusted operating margins for the segment were 12% for the quarter, in line with expectations. On January 22, the President approved a 30% tariff on imported solar panels in excess of 2.5 gigawatts, which is scheduled to decline by 5% per year over the next four years, when the tariff will drop off.

GTM Research estimates that panel prices will be in the range of $0.45 to $0.49 per watt in 2018, which would take prices to the level last seen in 2015. That price is higher than the mid-$0.30 per-watt price from early 2017 but lower than the mid-$0.50 per-watt price from the latter half of 2017. We expect the tariff will have a nominal impact on the rate of growth of our sales in this segment due to nature of the products we participate in, our distinct advantage in helping to reduce overall costs for solar projects, and our continued development of a tracker solution that opens a market more than twice the size of fixed-tilt market we currently serve. The focus of our solar business is in smaller-scale community solar and commercial projects under 10 megawatts because our value proposition provides an integrated solution of site layout, racking design, structural engineering, manufacturing and installation. We are confident this business will continue to provide a distinct competitive advantage due to the combination of our close customer relationships and unique value proposition.

Please turn to Slide 9, Capturing the Opportunity. We continue to be well positioned to execute on our acquisition strategy with low leverage and high liquidity. Cash increased $52 million from $170 million at the end of December 2016 to $222 million at the end of 2017. We remain focused on targets with EBITDA between $25 million and $100 million that will be material to our performance, although we will consider smaller acquisitions that can benefit us from a technology standpoint.

At this point, I'll turn the call back to Frank. Please turn to Slide 10, Four Pillars Driving Value Creation. Frank?

Frank G. Heard - *Gibraltar Industries, Inc. - Chief Executive Officer, President & Director*

Thank you, Tim. In 2017, we made great progress on our four-pillar value creation strategy. In "Operational Excellence", our first pillar, we focus on reducing complexity, adjusting costs and simplifying our product offering through 80/20 initiatives across the organization. In Q4, 80/20 projects contributed 130 basis points of operating margin improvement. In 2018, we expect to implement key projects in in-lining and market rate of demand replenishment, which will improve operating characteristics when complete. We expect to start benefiting from these projects in the latter half of 2018. In conjunction with the in-lining projects, we expect to advance our outsourcing initiatives for our "B" products across our businesses.

To recap our progress since we launched our strategy, from 2014 to date, our average adjusted invested capital has decreased 15% from $601 million to $511 million, inventories have been reduced by $43 million or 33%, and our fixed assets have decreased by $20 million or 17%, all while growing sales 14.5% and increasing our on-time shipping performance to our '80' customers from 65% to 95%. As a result, we're gaining market share in the building products markets. As Tim referenced earlier, with the combination of our increased levels of service and better pricing alignment derived from 80/20 projects we have regained trust from our legacy customers across our business portfolio.

Our next step is to drive organic growth in new product development through trade focus selling and marketing strategies. We will be spending more time with our customers to fully understand their value proposition and pain points and use that knowledge to develop innovative products that reduce that pain, ultimately delivering more value to them. Our goal is to grow market share with our existing products or to enter new markets by developing innovative products with our existing manufacturing capabilities. A great example of this approach is the way RBI used their existing expertise of attaching glass to metal to expand from their whole historic greenhouse market to the solar racking market. We will have focused projects launching across our businesses throughout the year.

This leads me to our next pillar, "Innovation", where we focus on products with patent protection, developed internally or through acquired product lines. Innovative products now represent 7% of our sales, up from 5% in 2016 and 4% in 2014. In our Residential Products segment, our Express

Locker continues to gain momentum. In 2017, we almost doubled the number of installed systems, meeting our target for installations in total and strengthening our position as the market leader.

With the recent acquisition of Package Concierge, we're targeting new types of properties and expect to continue to grow our solutions that supply safe and secure storage for the multi-family residential and commercial building markets.

In our Industrial & Infrastructure Products segment, our perimeter security solution continues to gain traction and is expected to contribute to top line growth in 2018. Our goal is to capitalize on the increasing demand for solutions that protect high-value physical assets, and we expect this product will accelerate the turnover of our Industrial & Infrastructure segments towards improved profitability.

In our Renewable Energy & Conservation segment, our solar tracking solution is an exciting new disruptive technology that allows us to participate in a larger adjacent space relative to our fixed-tilt solutions. We closed 2017 with a handful of installations, and our work continues to meet all industry expectations and standards as set out by our customers. As Tim referenced earlier, we believe this solution, in combination with RBI's unique value proposition, will allow us to navigate any impact of the new tariffs. We have placed ourselves in an excellent position to generate a higher rate of return from investments in innovation than ever before. This provides us with the ability to be patient with our acquisition strategy and only execute on the most attractive targets.

"Portfolio Management" is our next pillar, where we focus on evaluating product lines, customers and end markets to best allocate leadership time and resources to the highest-potential platforms and businesses. We view portfolio management as a continuous process that will remain an important part of our strategy as we look to improve Gibraltar's long-term financial performance. Currently, we are supporting all of the businesses in our portfolio today.

Our fourth pillar is growth through "Acquisitions", which we consider an important part of Gibraltar's transformation. Our improved and more sustainable operating income allows us to consider larger targets, and our executive leadership team continues to invest a large portion of time and energy in the prospecting and vetting process. But, as I just referenced, we have the luxury of only making an acquisition if it is the right one that will contribute long-term sustainable value to Gibraltar and its shareholders. We continue to search for M&A prospects in attractive end markets with unique value propositions, supported by patented products or technologies. Our target markets for M&A continue to be postal and parcel solutions, residential building products, perimeter security and infrastructure, renewable energy and conservation.

Please turn to Slide 11, Continued Progress. Since we launched our four-pillar value creation strategy at the end of 2014, we've made tremendous progress, both operationally and financially. Our GAAP EPS has significantly increased and we have greatly narrowed the delta between GAAP EPS and non-GAAP EPS. Through portfolio management and acquisitions, we are now tied to more attractive markets that increase our ability to sustain top and bottom line growth. As a result, we can generate value for our shareholders through both organic growth and as well as M&A. Three years ago, our balance sheet was limited and we were very close to breakeven levels. Today, we generate healthy cash flow and have negative net leverage. We now offer our shareholders a more predictable rate of return on invested capital.

This leads me to slide 12 "2018 Guidance." We enter 2018 with continued optimism about the year ahead. We plan to drive sustainable organic growth through the acceleration of new product development initiatives, the implementation of new 80/20 simplification projects, and seek value-added acquisitions in attractive end markets. At the end of the year, we expect once again to have generated increased profits at a higher rate of return with a more efficient use of capital. Our guidance reflects our current knowledge of various items that could impact the markets we serve, including the tariff on PV panels and modules that Tim discussed, along with the continued volatility of material costs. For full year 2018, we expect sales in excess of $1 billion. We expect GAAP EPS between $1.75 to $1.87 per diluted share, up from $1.56 on a GAAP basis, excluding the $0.39 impact of tax reform, or between a $1.96 to $2.08 on an adjusted basis compared with $1.71. For the first quarter 2018, we expect revenues of between $213 million and $220 million, up from Q1 2017. We expect consolidated GAAP EPS between $0.20 and $0.25 per diluted share or between $0.23 and $0.28 on an adjusted basis. These amounts reflect the benefit we expect from the recently enacted tax reform, as Tim described earlier. If 2017 benefited from our 2018 expected tax rate, GAAP and adjusted EPS for the full year of 2017 would have been $1.74 and $1.88, and first quarter GAAP and adjusted EPS would have been $0.14 and $0.21 respectfully.

In closing, with the successful execution of our four-pillar strategy, we now have a platform for sustainable growth built upon a portfolio and target markets that have a significantly greater ongoing upside potential. We look forward to another year of continued success in building long-term value for our shareholders, and thank our customers and all members of the Gibraltar team for their ongoing commitment and contributions.

At this point, we'll open the call up for any questions that you may have.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question is coming from Daniel Moore with CJS Securities.

Daniel Joseph Moore - *CJS Securities, Inc. - Director of Research*

Tim, wanted to start with the outlook for growth. Guidance implies kind of low- to mid-single-digit growth for 2018. I guess, one, do you expect that to be fairly even throughout the year or start out a little later in the first half? And then, two, any color, maybe not to the basis point, but just sort of directionally, differentials in terms of your expected growth rates in the different segments? And a quick follow-up.

Timothy F. Murphy - *Gibraltar Industries, Inc. - CFO and SVP*

Dan, I would say that the growth probably follows our normal seasonal pattern, so we expect the second through the third quarter, fourth quarter to be obviously higher than the first. And so far as across the segments, they're all in that range.

Daniel Joseph Moore - *CJS Securities, Inc. - Director of Research*

Got it. So no major outliers there and so typical seasonality in terms of actual revenue dollars as it relates to the rest of the year.

Timothy F. Murphy - *Gibraltar Industries, Inc. - CFO and SVP*

Correct.

Frank G. Heard - *Gibraltar Industries, Inc. - Chief Executive Officer, President & Director*

Yes. Dan, I think 2018 will be the first year where prior year '17 will be pretty solid reference points because we really do not have any one-time events that have to be normalized out. So I think first quarter to first quarter, second to second, will be pretty comparable periods, and we don't expect any great shifting in seasonality than what we saw in '17, by and large. So what we've shown in modest single-digit growth slowly improving over the course of time through the balance of the year is about what we expect.

Daniel Joseph Moore - *CJS Securities, Inc. - Director of Research*

Got it. Shifting gears, maybe just update us, Frank, on your efforts, both internally and via M&A, in terms of gaining traction in perimeter security. Remind us how large that market opportunity is, and at this stage, how confident you are in gaining a more meaningful foothold.

Frank G. Heard - *Gibraltar Industries, Inc. - Chief Executive Officer, President & Director*

Yes. I'll start, and I'll let Tim talk maybe a little bit around sort of rolling backlog and pipeline. But certainly, the market opportunity is about a $2 billion market, and we see innovative products within the segment that drive higher margin profile. And you see that in some of the businesses that participate in it that (have) high rates of return in terms of the businesses, with manageable balance sheets in terms of a balance between fixed assets and intangibles, so it's an attractive market. We do not do a material amount of business in the space today. But as I've said before, we already have the assets, the manufacturing aspect of the AMICO U.S. business that can be leveraged that are underutilized. And we've developed products and technologies that, in the security side, around barrier fencing, both conductive and non-conductive, that we think are new and different than what's in the market today. And with local manufacturing competing against some imports, we think we can gain meaningful share. And that's beginning to manifest itself. I was just at a fencing show a week or 1.5 weeks ago with the new and dedicated team around these products with the end users actually participating in the shows, and we've got some really positive reactions. And that's starting to, Tim, show up in our pipeline rolling into the new year.

Timothy F. Murphy - *Gibraltar Industries, Inc. - CFO and SVP*

Yes. Dan, so when we started this time last year, there was very little -- other than the bids that were in front of us, our sales teams were really just starting to come together and market to this space. And so we've now got -- we're a year farther along on the sort of, open bids, so that funnel is significantly greater. And whenever the funnel is greater, what falls through goes up proportionally. So backlog is up pretty significantly year over year for the security products, and the funnel of projects continues to sort of fill. So we're encouraged, but it's still early days and...

Frank G. Heard - *Gibraltar Industries, Inc. - Chief Executive Officer, President & Director*

But I think to conclude on that, Dan, we've now done just over a year's worth of research and development work, and product, and organizing teams and developing a way to market. We validated the market is $2 billion, and we think there's adjacent products that make it larger. We've got a brand that used to exist in this space. We've rebuilt -- we're building under that brand. And what we're bringing to the market directly to users and large property owners is really -- we're starting to see evidence that it's really resonating with them. And to Tim's point, the pipeline is rolling, and we're starting to win some of those jobs on a test basis to validate that we can deliver on the supply chain side. And we see 2018 -- if we started this crawl stage of crawl, walk, run, we're not going to be running yet, but we're certainly going to get up on our feet and start to walk. And we think it's going to start to become material and has a long-term material opportunity to contribute to Gibraltar's growth profitable -- in a profitable way.

Daniel Joseph Moore - *CJS Securities, Inc. - Director of Research*

Perfect. And lastly, and I'll turn it back. Parcel and postal with Package Concierge, what is that in a proforma percentage of revenue? And I won't use the baseball analogy, but how do you -- how is that business gaining traction? Are we accelerating, decelerating, steady solid growth? How do you sort of view the marketplace there in '18 and beyond?

Timothy F. Murphy - *Gibraltar Industries, Inc. - CFO and SVP*

So it's nominal to revenue rate. It seems very small but growing at a pace significantly faster, with expectations, in line with our expectations. That -- that's a market that is sort of brand new, and there's a lot of demand. So, we have very high growth rates expectations, and they've been delivering pretty high growth rates.

Operator

Our next question today is coming from Ken Zener from KeyBanc Capital Markets.

Kenneth Robinson Zener - *KeyBanc Capital Markets Inc., Research Division - Director and Equity Research Analyst*

With -- In solar, I believe -- could you talk to the cadence of the seasonality of the business, now that we're through 2017, which is impacted, obviously, in part, by the tariffs, can you just -- can you see if the tariffs -- the new tariffs are going to impact the seasonality of the business in terms of the top line, realizing you guys only have 90 days visibility? And could you talk to the cadence of the margins that we'll see in that business? Because last year I think we're running roughly at 8% in the front half, call it 12%, 13% in the back half, just so we can understand the revenue cadence and the margin traction.

Frank G. Heard - *Gibraltar Industries, Inc. - Chief Executive Officer, President & Director*

Yes. I'll start, and I'll let Tim jump in on both topics. I think this relative seasonality of our participation in the solar market is, in my view, from a long-term perspective, hasn't normalized yet. Because when we entered it and part-way through '15, we had the on-and-off-throughout investment tax credits coming in and out that, in my view, skewed the normal kind of distribution histogram of the building season. At the end of the day, in Continental United States, whether you're building a house or you're building a solar rack, you still can't do it in the wintertime to the same degree you can do it in the summertime. So one could argue that when this thing completely normalizes out without all these one-time issues and investment tax credits being brought in and then threatened to be taken off, which has created, to some degree, shifting of demand. And again, to some degree, with what's the tariff going to be for x for 6 months versus what it actually became potentially shifted demand a little bit. My view is eventually that's going to normalize out over time to a normal building season as tariffs come off over the next 3, 4 years and as the investment tax credit becomes less of an incentive over the next -- over a similar period of time. So that looked to me as our long-term view of it. I think what we're going to see -- what we saw in '17, what we will see in '18, it's our belief, at this point in time, that we believe we're going to see a similar cadence in revenue distribution throughout the year and quarters as what we -- in '18 as what we saw in '17. And then that will obviously flow through and have a similar kind of impact from a leverage perspective, just on volume, to the operating income and margins. So now I think the one issue in this is if you buy into that theory, one could argue then that maybe at some point what came into the fourth quarter would have to -- at some point in the future have to come out in the first. We don't see evidence of that. The reason we're sticking to the same cadence in '18 and '17 is in terms of bidding activity, in terms of booked orders, pipeline, our first quarter is actually not down, not the same, but it's up versus prior year. So if there's something in the future we don't quite understand yet, it's not in -- to your earlier point, it's not in our 120-day window yet that would suggest it's going to be different. So, Tim, I don't know if you want to add something to that?

Timothy F. Murphy - *Gibraltar Industries, Inc. - CFO and SVP*

No. I think that was pretty comprehensive.

Frank G. Heard - *Gibraltar Industries, Inc. - Chief Executive Officer, President & Director*

He isn't normally that generous, Ken.

Operator

Our next question today is coming from Walter Liptak from Seaport Global Securities.

Walter Scott Liptak - *Seaport Global Securities LLC, Research Division - MD & Senior Industrials Analyst*

Wanted to ask you at a high level, just looking at the guidance page, looks like you're guiding 2018 operating profits up $4 million to $10 million or 4% to 10%. And I wonder if you could just help us think about volume leverage, 80/20 benefits and then maybe -- the good things, the positive things and then maybe some of the things that are headwinds, price-cost, other costs that might be rolling through. That kind of operating profit growth rate looks a little bit low to me given the 2% to 4% revenue guide?

Frank G. Heard - *Gibraltar Industries, Inc. - Chief Executive Officer, President & Director*

Yes. Just -- I'm going to open and let Tim jump in on a segment basis. I think -- like others, I think probably the one thing that stretches across all businesses that are in our portfolio is -- will be, ultimately, the outcome of any impact on steel costs through tariff activities that the President may or may not take. We think that we've captured all those variables within our various businesses, and we demonstrated to ourselves that we have an ability to recapture price, and our people are -- have positioned themselves for that, no different than any of our competitors because just about everything in industrial products is going to be affected by this. And at the end of the day, we think it's a positive thing for our business, long term, but it's certainly going to be something that we'll have to navigate as those decisions are made. I think that is probably the underlying aspect of our -- maybe if there's a view that we're being somewhat conservative in terms of year-over-year operating income, that's probably the underlying aspect to it. I think the rest of the -- the other parts of your question, I would say that we have more pluses than negatives in terms of concerns on a segment basis once you get past the raw material input issues. We think that we're better positioned than we were 3 years ago to grow share profitably than we were in the past. So Tim?

Timothy F. Murphy - *Gibraltar Industries, Inc. - CFO and SVP*

Yes. Walter, as I think about it, as Frank mentioned, so there's -- we've got uncertainty around material costs. But certainly the market, material costs is up, so pricing with customers to align with material costs. We've got some carryover 80/20. I would say most of the low-hanging fruit has been harvested, so there's some carryover to that. We've got some work this year around in-lining and MRD, and we'll do the work this year when we realign our -- or rearrange our factory floors. But most of the benefit to that really doesn't come until much in the latter half of the year after that work is completed. So I think it -- we took into account sort of everything going on in the marketplace when we put our guidance together.

Frank G. Heard - *Gibraltar Industries, Inc. - Chief Executive Officer, President & Director*

Yes. And I think the other positive thing we see is that we inherited existing products, existing customers. And I think three years into this, the organic side of our growth, organizations related to new product development and pursuing new routes to markets, either with existing products or with new products, has really -- is really starting to gain some traction. And we expect some material contributions over and above what we had in the past, whether it'd be in the perimeter security area or in the tracker space or in the ventilation space, the parcel delivery space. There are new products and new revenue opportunities at higher levels of margins. Two years ago, to be quite honest, we didn't have a lot, and we weren't working on a lot. Today, we have many projects, and we think that some of them are going to have a material impact on our financial results beginning in 2018 and going forward. So anytime you're doing something, if you stand still long enough, eventually you'll shrink. And I think you have to be doing something new to counteract that. And I think we've got that going on organically now that we didn't have in the past. So that's something I think is important. In the absence of M&A, I think we can grow with innovation.

Walter Scott Liptak - *Seaport Global Securities LLC, Research Division - MD & Senior Industrials Analyst*

And do you have some of that organic revenue growth from new products in the 2% to 4%?

Timothy F. Murphy - *Gibraltar Industries, Inc. - CFO and SVP*

Yes.

Frank G. Heard - *Gibraltar Industries, Inc. - Chief Executive Officer, President & Director*

We do.

Walter Scott Liptak - *Seaport Global Securities LLC, Research Division - MD & Senior Industrials Analyst*

Maybe if you could break out for us, in the 2% to 4%, what's price, what's market, what's organic initiatives from R&D?

Timothy F. Murphy - *Gibraltar Industries, Inc. - CFO and SVP*

Well, it's a blend-in at 2% to 4%, and it's a little bit different in each business. There are some CLS, PLS, where we trim our product lines a little bit and continue to go through that project. So, look, it's early in the year to break 2% to 4% into 5 segments.

Walter Scott Liptak - *Seaport Global Securities LLC, Research Division - MD & Senior Industrials Analyst*

Okay, fair enough. Going back to the -- so it sounds like to the first question, it's the -- it's steel costs, it's raw material inflation that you're being conservative on. And can you quantify the millions of dollars, like what was the negative impact that's in the guidance?

Timothy F. Murphy - *Gibraltar Industries, Inc. - CFO and SVP*

I don't know that we have necessarily a lot of negative impact. I mean, I think if you just look from -- there's uncertainty around steel and aluminum and what's going to happen in the next 45 days with (Section) 232 (of the Trade Expansion Act). There is uncertainty in some of the end markets around the Cole Memo, so what that can do to medical marijuana opportunities in the short term. So given just general -- our initial view of the tariff for Suniva is that shouldn't have much of an impact. But like Frank mentioned, is that going to -- with some of the fourth quarter activity we saw, (would it impact) activity that we would have seen later this year, we don't believe so today, but we weren't going to -- we're cautious.

Frank G. Heard - *Gibraltar Industries, Inc. - Chief Executive Officer, President & Director*

And I think specifically to the raw material input, assuming the same unit volume year over year, our process is we kind of listen and do a lot of research around what we think may be the number and then we run that, whether it's on resins or steel or aluminum, through the businesses on an annualized basis and then try to break it out on a quarterly basis in terms of when would it take effect. Once it's takes effect on our -- on the raw materials side if it gets announced, when will it take effect on our supply chain side, how much inventory do we have? When will we time price increases? In some channels, we have fixed contracts for 90 to 120 days. Some are tied to any variance off of raw material, of plus or minus 5% or 3%, there's an automatic, others are negotiated. So we kind of go through that process, pick a number that we think is real, pick a timing that we think is real and those -- and then we look at -- our expectation is always not only to recover price but make sure our customers remain competitive. In this scenario, we think everybody has to land at the same place. But unfortunately, our calendar year is January to December. So on an annualized basis, we may get there, but we -- it may be over two calendar years. So we discount the back end of the recovery that doesn't fit into the current calendar year a little bit in order to be conservative. That's where our natural hedge is on raw material inputs. It's about timing, and it's about recovery in terms of the actual dollars versus our various customers. So...

Operator

(Operator Instructions) Our next question is coming from Brad Meikle from AMPAC Research.

Brad Meikle - *AMPAC Energy & Technology Research - Managing Director, Renewables Research*

Just to clarify on the steel side of things. So steel is up, I guess, 25% in the hot-rolled coils since November. So are you -- looks like you're assuming some of the impact of that in Q1? And what's the assumption on steel costs throughout the second half of the year?

Timothy F. Murphy - *Gibraltar Industries, Inc. - CFO and SVP*

We have steel costs pretty flat, and we see that, Brad, moving -- we can look at forecast coming down and we can look at other forecasts that would suggest flat to increasing, and it's somewhat depending on tariffs and then what actions we can take to offset.

Frank G. Heard - *Gibraltar Industries, Inc. - Chief Executive Officer, President & Director*

Yes. I think our supply chain people across the corporate and across the board do a pretty good job in this area historically and generally. Whatever took place in prior year we're at full value for that today going forward, and I think they've forecasted out, I think the unknown part for this year becomes if there is a special ruling that drives new and unique change in raw material prices as it relates to steel that's 2/3 of our cost of goods sold in terms of purchasing. That's a tough one to forecast as to where that's going to land. But we think we're not behind the curve right now relative to the ramp-up prior year. We're actually in -- we're pretty current. So unless we get surprised, I think we're in good shape from a forecasting perspective relative to our guidance.

Brad Meikle - *AMPAC Energy & Technology Research - Managing Director, Renewables Research*

When you said flat, Tim, is your assumption flat versus the middle of 2017? Or -- because I would imagine you had 2 or 3 months of steel inventory, and the 25% increase we've seen, really mostly since the beginning of this year, has -- probably hasn't flowed through in terms of impacting your P&L.

Frank G. Heard - *Gibraltar Industries, Inc. - Chief Executive Officer, President & Director*

Actually, Brad, if you look at our inventories dropping 33% through the 80/20 process, we -- when I started here in '14, we averaged somewhere between, depending on the business unit, 4 and 6 months of inventory. We're pretty current, so we're not living off the low steel raw material inputs today.

Brad Meikle - *AMPAC Energy & Technology Research - Managing Director, Renewables Research*

So you're assuming the current spot prices for your annual guidance or is that -- or you're assuming spot comes back down?

Timothy F. Murphy - *Gibraltar Industries, Inc. - CFO and SVP*

We're assuming a relatively elevated price of steel in our guidance. As we look at the pricing in the last, to your point, four months, that's certainly reflected in our guidance.

Brad Meikle - *AMPAC Energy & Technology Research - Managing Director, Renewables Research*

What does relatively elevated mean like, 10% or...

Timothy F. Murphy - *Gibraltar Industries, Inc. - CFO and SVP*

I think you just quoted a 25% increase in the last 4 months in steel. I mean, we're looking at the same market data on steel costs, and we're reflecting that in our guidance.

Brad Meikle - *AMPAC Energy & Technology Research - Managing Director, Renewables Research*

Okay. And on the renewables business, what was the breakdown? Could you give us a little color on the split between greenhouses and solar? And how many megawatts did you ship in 2017? And what is your assumption on the solar business in terms of price change for this year? Because obviously the Section 201 case has impacted the developers to the tune of $0.10 or $0.15 a watt and increasing module costs. So are you seeing that translate into pricing pressure on the fixed tilt? And how much tracker do you expect to ship this year?

Timothy F. Murphy - *Gibraltar Industries, Inc. - CFO and SVP*

Let me start with the fourth quarter. We're normally about 2/3, 1/3 greenhouse, and there's probably a little bit more than that in solar, but both businesses had pretty strong demand. That was one piece of your question, Brad, then there's another piece on the fourth quarter that...

Frank G. Heard - *Gibraltar Industries, Inc. - Chief Executive Officer, President & Director*

Brad, one of the things I would say is that we report the consolidated segment, and we don't talk specifics about the financial or share perspectives within the segments for obvious competitive reasons. We get various stakeholders on the call, and we don't want to become our own worst enemy in terms of creating competitive pressures for the businesses that we participate in. But I think Tim can give some commentary and color around the solar aspect of the business because to your point the tariff issue is a unique circumstance, and I think it's up to us to explain why we think we can navigate through that to some of your questions over the course of '18. So with that in mind, we'll do the best we can to provide a little bit of information, but we are going to -- we're going to limit ourselves a little bit, just to ensure we don't put our operational people in a tougher spot, okay.

Timothy F. Murphy - *Gibraltar Industries, Inc. - CFO and SVP*

So I think, Brad, the market remains competitive. The benefit that we have in the segment of the market we serve is that we offer more than just a metal rack, so we have more of a value proposition to offer our customers in that smaller end of the market. And it's competitive pricing environment, it always is. We pin what we know today into our forecasts. I would say each job is separately bid, so there's not a list price and there's not a price, we don't disclose watts or price per watt that we install for competitive purposes. But I would generally say that our forecast reflects some increased activity in the space throughout '18.

Frank G. Heard - *Gibraltar Industries, Inc. - Chief Executive Officer, President & Director*

Yes. And I think the other aspect is that we compete in both on a fixed tilt and now on a small (tracker) basis. Smaller-scale community solar where our value proposition is design, engineer, manufacture and install is much more meaningful to those types of scale jobs than some of the larger-scale fixed tilt and the larger-scale tracker. So the impact of pricing around panels and tariffs is also, to our customers, less of a sensitive issue because it's not as great a percentage of the cost of work and the type of pricing that they get. So all that being translated back into -- we've gone back to our business unit. We sat with some of our largest customers on the development side. They remain confident. They remain busy, and that's translated into bid activity and a book of business for '18 in the first quarter. And going forward in '18, that is up over the same period of '17. So now if we were in large-scale tracker, I would assume, based on third-party independent research around some of the puts and takes on the tariffs, that's more meaningful there, and will probably have a bigger short-term impact in terms of year-over-year activity than maybe what we're seeing. So we've taken all that, and we've taken it all the way down to the customer level to try to validate some of the work our people are doing in that segment, and we think we've incorporated that in our current guidance.

Brad Meikle - *AMPAC Energy & Technology Research - Managing Director, Renewables Research*

Okay. So just to summarize, so you're guiding solar revenues essentially flat year on year in 2018. And if that's the case, I'd asked on the last conference call about your expectation for the fixed-tilt market and I think that my estimate is down 40%, 50% this year, and I think yours is a bit higher. So are you just gaining market share? And could you give us a little color on your customer concentration in the renewables business? What -- at what percentage of your businesses is your largest customer? And how many 10% customers do you have there?

Frank G. Heard - *Gibraltar Industries, Inc. - Chief Executive Officer, President & Director*

Yes. Brad, we're not going to give that type of competitive information down to the customer names and addresses, but I think we do buy into the thesis. Our view is, where we participate, 10 megawatts and under with an average of about 2 (megawatts), we have stated that before, that continues to be our trend. And what we've also done in the context of understanding what we do in fixed tilt in terms of the potential power output, the cost to build the system, the operating cost and when we compare that to our tracker system and we compare that to maybe other competitive tracker systems, we think we've got something unique and different, even though we're not going up against those larger-scale companies and the larger-scale projects. The market aspect, we do see a slow migration from fixed tilt to tracker, but we don't see it -- as the market overall -- but we don't see it within the community solar space. The map we look at with our developing partners is it's very site specific, where it is geographically relative to sun, where it is relative to wind loads and snow loads determine the value of what you can get out for the value -- for the cost you put in to develop it and the ongoing maintenance cost. And there isn't a natural -- in small-scale community solar, there isn't a natural default to tracker. In the larger scale, we understand that, we buy into that theory, but we don't in the area of the market we participate in and neither do the customers we do business with who serve it. So that translates into a fairly solid bid activity and a rising backlog of business going forward for '18 that doesn't translate into a 40% drop in our core business. We don't see it, and we don't -- we don't see it because we don't think we participate in that related space.

Brad Meikle - *AMPAC Energy & Technology Research - Managing Director, Renewables Research*

Just last question is at a higher level, it looks like the annual guidance is roughly in line with where The Street was at, and then the first quarter is light. Can you just help us understand how the -- what your assumptions are why it's back-end loaded? And is it assuming that steel comes back down? Or what is the nature of that?

Frank G. Heard - *Gibraltar Industries, Inc. - Chief Executive Officer, President & Director*

Thanks, Brad.

Timothy F. Murphy - *Gibraltar Industries, Inc. - CFO and SVP*

Brad, It's just the normal seasonality of our business if you look at all three segments, the Residential Products goes into residential construction. The solar renewables is either a solar project or building a greenhouse in the season for both of those peaks in the second half of the year, so just normal seasonal fluctuation. And then Industrial & Infrastructure, probably more the infrastructure side, you've got bridges don't get built as much in the first quarter as the rest of the year just for the weather.

Frank G. Heard - *Gibraltar Industries, Inc. - Chief Executive Officer, President & Director*

But there is also -- to my understanding, there's no material changes from what took place in '17.

Timothy F. Murphy - *Gibraltar Industries, Inc. - CFO and SVP*

No, normal.

Frank G. Heard - *Gibraltar Industries, Inc. - Chief Executive Officer, President & Director*

...and what we're forecasting in '18 from a trend perspective.

Timothy F. Murphy - *Gibraltar Industries, Inc. - CFO and SVP*

Normal seasonal.

Frank G. Heard - *Gibraltar Industries, Inc. - Chief Executive Officer, President & Director*

Yes. And so there's nothing on the top-line demand side quarter to quarter or segment to segment that is different, and there's no material cost changes that affects any particular quarter more than others. So I think we're aligned with prior year, and I don't think we're too far out (from) original guidance -- consensus guidance either for '18 guidance, but I'd have to validate that again. But thank you, appreciate it.

Operator

Our next question today is coming from Daniel Moore with CJS Securities.

Daniel Joseph Moore - *CJS Securities, Inc. - Director of Research*

Just a quick housekeeping. What is the -- in the 28% effective books rate, what does the cash tax rate look like for 2018?

Timothy F. Murphy - *Gibraltar Industries, Inc. - CFO and SVP*

It will be lower than that for a few reasons, so it will depend a little bit on when fixed assets get placed in service, right, because we get to take 100% deduction on those. The repatriation tax, which is I think it was about a little over $3 million. It's basically paid over 8 years, so really no impact from that. So I think the biggest swing between cash taxes and expense will be depreciation and when we place fixed assets in service.

Operator

We've we reached the end of our question-and-answer session. I'd like to turn the floor back over to Mr. Heard for any further or closing comments.

Frank G. Heard - *Gibraltar Industries, Inc. - Chief Executive Officer, President & Director*

Well, thank you, everyone, for joining us today, and we look forward to talking to you next quarter. That concludes our call.

Operator

Thank you. That does concludes today's teleconference. You may now disconnect your line at this time and have a wonderful day. We thank you for your participation today.
