26-Jul-2019

Gibraltar Industries, Inc. (ROCK)

Q2 2019 Earnings Call

CORPORATE PARTICIPANTS

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

William T. Bosway
President, Chief Executive Officer & Director, Gibraltar Industries, Inc.

Timothy F. Murphy
Chief Financial Officer, Gibraltar Industries, Inc.

OTHER PARTICIPANTS

Daniel Moore
Analyst, CJS Securities, Inc.

Kenneth Zener
Analyst, KeyBanc Capital Markets, Inc.

Walter Liptak
Analyst, Seaport Global Securities

Julio Romero
Analyst, Sidoti & Company, LLC

MANAGEMENT DISCUSSION SECTION

Operator: Good day, ladies and gentlemen, and welcome to the Gibraltar Industries Second Quarter 2019 Earnings Conference Call. Today's call is being recorded and webcast. My name is Kevin and I'll be your coordinator today. At this time, all participants are in a listen-only mode. We'll be conducting a question-and-answer session towards the end of the conference call.

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

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

Good morning, everyone, and thank you for joining us. If you don't have a copy of the earnings press release that was issued this morning, you can find it in the Investor Info section of the company's website, gibraltar1.com. During the prepared remarks today, management will be referring to presentation slides that summarize the company's second quarter performance. These slides are also 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 its 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 is Gibraltar's President and Chief Executive Officer, Bill Bosway; and Chief Financial Officer, Tim Murphy.

Please turn to slide 3, and I'll turn the call over to Bill.

William T. Bosway

President, Chief Executive Officer & Director, Gibraltar Industries, Inc.

Thanks, David, and good morning, everybody. I want to thank everyone for joining us today. Let's get started. We delivered a solid second quarter with earnings in line with our guidance despite revenue being below our expectations. Our revenue in Q2 of $262.7 million was essentially flat with last year with positive growth in our Renewable Energy & Conservation segment and in our Infrastructure business. During the quarter, we continue to build our backlog to a record level of $242 million, up 30% over last year, which gives us confidence to reaffirm our full-year guidance and deliver second – strong second-half performance.

We do have parts of the business where revenue was flat or down in the quarter particularly in our Residential segment and our Industrial business. Residential was impacted by both weather and labor shortages and our Industrial business was impacted by the ongoing downward movement of steel prices.

Our GAAP earnings of $0.61 and our non-GAAP earnings of $0.73 were in line with our guidance and would have been stronger if not for an incremental expense of $2.3 million or $0.05 per share related to the field modifications we began in Q1 of our existing tracker system. In hindsight, given the uniqueness of each solar field, we underestimated the incremental labor expense to complete our work as we entered Q2.

Fortunately, our product enhancements are working quite well in the field and we've minimized or prevented disruptions for our customers. We've completed the modifications of 80% of the installed systems. The remaining 20% of systems are currently undergoing modification and we've accounted for the cost to complete these projects. Of the 80%, we've completed, 45% are up and generating power of 15% or are in the process of starting up and 40% are awaiting start-up that's not related to our modifications.

In all, our customers are supportive of our proactive approach and our product modifications and we continue to see demand for our solution. Our tracker solution continues to provide better economics associated with lower land acquisition, land preparation and installation costs. And overall, our solar backlog is currently at an all-time high.

After Tim reviews our financial performance, I'll update you on our key initiatives and provide additional color around our expectations for the second half of the year. So, with that, I'll turn it over to Tim.

Timothy F. Murphy

Chief Financial Officer, Gibraltar Industries, Inc.

Thank you, Bill, and good morning everyone. Let's move to slide 4 in the presentation entitled solid consolidated results. Our 1.2% decline in consolidated revenues came in as a result of lower volume in our Industrial segment mainly due to customers utilizing their on-hand inventories of expanded metal in anticipation of lower pricing and steel cost decline during the quarter.

These lower volumes were partially offset by increased activity in our Renewable Energy segment and Infrastructure business. Customer demand at our project-based businesses is strong. We've built our backlog of projects to a record of $242 million, up 30% from the same period last year.

On the bottom line, while our revenues were less than we anticipated, our consolidated GAAP earnings were within guidance and, as expected, below last year. The decrease in GAAP earnings this quarter reflect volume leverage, higher restructuring costs, senior leadership transition costs and costs associated with our solar tracker solution. These increases were partially offset by benefits from interest savings from our debt repayment, lower performance-based compensation and our simplification initiatives.

Consolidated adjusted earnings were up 2.8% year-over-year and in line with our guidance. The increase was due to interest savings from the recent repayment of our notes, lower performance-based comp, and continued benefits from 80/20 simplification initiatives. These benefits were partially offset by the impact of lower volumes and costs incurred to improve the durability and ensure performance of our innovative tracker solution.

During the quarter, we achieved $2.9 million in interest savings from the repayment of our outstanding debt during the first quarter. We continue to anticipate annualized savings of $13 million in interest payments for a benefit of $0.22 to diluted earnings per share for full-year 2019.

Now, let's review each of our three reporting segments starting with slide 5, the Residential Products Segment. Revenue in the Residential segment were essentially flat year-over-year, as lower demand for building products due to difficult weather conditions and continuing labor shortages were largely offset by increased selling prices. On the bottom line, operating margin declined due to unfavorable volume leverage, product mix, and alignment of price to material costs. These factors were partially offset by benefits from our 80/20 simplification initiatives. Looking ahead, we expect increased end market activity as weather-related delays have subsided as we move through the seasonally stronger period of the year.

Turning to slide 6, the Industrial and Infrastructure Products segment. Revenues were down 8.2% year-over-year as increased activity in the Infrastructure business was more than offset by the impact of lower demand for our core expanded metal products. The decline in operating margin for the Industrial and Infrastructure segment resulted from the reduction to volume of our core products on the Industrial side, mix and the alignment of material costs to selling prices.

This was partially offset by continued benefits from 80/20 initiatives. At the same time, we had strong performance in the Infrastructure business, which continues to improve with great year-over-year performance and an increasing backlog. Looking ahead, we expect this segment to benefit from higher backlogs and increased bidding activity in the Infrastructure business. We're covering Industrial demand as steel prices are expected to continue to climb through the third quarter. Growing demand for innovative products and continued benefits from ongoing 80/20 simplification activities. Turning to slide 7, the Renewable Energy & Conservation segment, revenues in this segment increased 3.1%, driven by strong demand for our greenhouse solutions and the prior-year acquisition of SolarBOS. Our revenues from the tracker solution were muted during the quarter, as we paused on accepting new orders while we implemented modifications to existing systems in the field. During the second quarter, we incurred $2.3 million incremental costs related to our solar tracker system. As we discussed previously, we had a significant ramp in the installation of our projects – product in the second half of 2018 with approximately 75% of our projects for that year during the third and fourth quarters.

In the first half of this year, we followed up with a labor-intensive in-field enhancements to the systems already installed. These activities ensure the performance of our tracker system meets expectations, while also improving durability. Customer feedback regarding system functionality and our level of service has been positive. The modestly lower GAAP and adjusted margins for the segment were due to these additional tracker-related costs, which more than offset the benefits of price to material cost alignment and mix. Excluding these tracker-related costs, which were mainly for additional in-field service labor, operating income and related margins for the segment would have increased year-over-year. We entered the third quarter with record levels of backlog, nearly double in greenhouse and up approximately 20% renewables. We expect margins of the segment to continue to improve as we complete field modifications and benefit from improved volumes.

Please turn to slide 8, capturing the opportunity. With cash on hand and our undrawn revolving credit facility, we had $476 million available to us at the end of the second quarter, which gives us tremendous flexibility for capital allocation. And remain – we remain well-positioned to execute on our acquisition strategy.

With that, I'll turn it over to Bill. Please turn to slide 9, four-pillar strategy in value creation.

William T. Bosway

President, Chief Executive Officer & Director, Gibraltar Industries, Inc.

So guys, as we move into the next phase of our transformation, we are focused significantly on enhancing long-term growth and margin profile of our company. And so to do so, we're going to continue to build on and evolve our four-pillar strategy while focusing on really five key initiatives. First, accelerating operations excellence with continued 80/20 focus on quality, costs, productivity, working capital performance and business model execution; secondly, really working hard to create a stronger and more direct connection with our end customers, to become their most relevant trusted partner; third, bring new products innovation to market that solve inherent industry and customer problems and to do with discipline, some best practices and the best value proposition for our customers; fourth, optimize our portfolio, we're deploying capital both people and dollars in markets and businesses that are most attractive, fit our strategic rubric and have the highest value creation opportunity for our shareholders; and finally, fifth, execute acquisitions to strengthen our platforms particularly, in attractive fast-growing markets that are driven by technology and engineered solutions, but also have stable end-market demand for products and services.

So let me update you. On our first initiative, the operations excellence, a work that's being done. We continue to reduce the complexity of our business, simplify our product lines and drive productivity initiatives. We are advancing our in-lining market rate of demand and outsourcing initiatives and during the quarter achieved 114-basis-point improvement. We're also making good progress with our second initiative, building a direct connection with our end customers, the folks that truly make – that are truly making decisions about our products and services. In the second quarter, our direct end customer business reached 41% of our total sales, driven by greenhouse, solar, infrastructure and perimeter security businesses. This is up from 39% in 2018. And I really do expect this to continue to grow as we move into the second half of the year and into 2020. In our Greenhouse business, our strategy to work directly with cultivators and growers to deliver a broader portfolio of products and services is resonating really well in the market. We now offer an array of greenhouse structure options but also system and technology integration services to ensure customer operations start-up on time but also meet performance expectations.

So, we believe the continued expansion of our backlog, now at record levels and up almost 100% over last year supports our direction. The direct business model is also helping us gain insight into the various challenges and opportunities within the industry. Having a strong direct relationship has created a very positive impact with our third initiative which is new products and innovation.

We think of innovation as the thought process regarding our business models but also our products, services and investment and trade focused competency. The key for us as always is to ensure our customers have authentic genuine demand for what we do for our products and our services, and we're doing a better job at this through our trade focus work. We continue to develop our new product development engine and invest in necessary marketing competencies. During the quarter, our patented products grew at faster rate than our core products representing 13% of our sales, that's up from 9% in Q2 of 2018.

We do see growth in our solar, perimeter security, package lockers, and greenhouse initiatives, all which have intellectual property and/or new offerings integrated in them. In general, our new products and expansion of our service portfolio, the last two quarters have played an important role in building a record backlog to $242 million at the end of the quarter. In our portfolio management work, our fourth initiative, we continue to evaluate our product lines, customers, end markets and recently have implemented the following. First, we've developed and deployed our strategic rubric which is a disciplined process and our guide to determine where, why, and how we will build our business. Secondly, we further flattened the organization and created more focused as a result with our leadership in our core businesses. And third, we are really working hard to surgically allocate our time, talent, and energy in our businesses to ensure we execute and deliver performance. So I remain excited about the opportunity we have to create more value in each of our businesses and, obviously, we plan to do so accordingly.

Finally, our fifth initiative, acquisitions. We are very active in the end markets, we believe are most attractive to us that help us strengthen our platforms and put us in a position to drive leadership, relevance, and shape the markets we participate in, and acquisitions continue to be the primary focus of our capital allocation.

So with that, please turn to slide 10. Let's talk about 2019 guidance. So looking to the second half of the year, we expect positive end market activity across our portfolio, our backlog in our project-based businesses is at record levels and we expect increased end market activity in our Industrial business as steel prices are expected to continue to climb through the third quarter. Additionally, in our Residential Products segment, we believe weather-related delays have subsided and as we move into the seasonally stronger period of the year. We are reiterating our full-year 2019 guidance expecting sales in the range of $1.30 billion to $1.50 billion. We expect GAAP EPS between $1.95 and $2.10 per diluted share. That's compared to $1.96 on a GAAP basis in 2018 or between $2.48 to $2.55 on an adjusted basis, up from $2.14 last year.

For the third quarter, we expect revenues between $288 million and $298 million, up between 3% and 6% over Q3 2018 and we expect consolidated GAAP EPS between $0.71 to $0.78 per diluted share or between $0.84 to $0.91 on an adjusted basis up from $0.71 last year.

So with that, we'll open the call up for questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. We'll now be conducting a question-and-answer session. [Operator Instructions] Our first question today is coming from Daniel Moore from CJS Securities. Your line is now live.

Daniel Moore
Analyst, CJS Securities, Inc.

Q

Morning, Bill. Morning, Tim. Thanks for taking the questions.

William T. Bosway
President, Chief Executive Officer & Director, Gibraltar Industries, Inc.

A

Hey, Dan.

Daniel Moore
Analyst, CJS Securities, Inc.

Q

Start with the backlog, obviously, really nice ramp to $240 million. Maybe just a little bit more color, can you break that down across each of the businesses and if you don't want to get that granular, maybe just a bit more color on where you're seeing the most success and increase in demand?

William T. Bosway
President, Chief Executive Officer & Director, Gibraltar Industries, Inc.

A

Yeah. So, Dan, it's – yeah. It's been a good situation the last quarter two as we built the backlog. I would say, it's really we've seen a lot of that build under Renewables and Conservation. There's a lot to do with Solar and in our Greenhouse businesses. That has a lot to do with our direct to end customer model

And I would say, it also has a lot to do with the portfolio of products and the services that we're now offering that maybe weren't offered a year or so ago. So, that's a substantial piece of the backlog grow, but what we've also seen good activity in our Infrastructure business. Our perimeter security business continues to build as well. So, it's a little broader than just the Renewables, but it's – I would say, it's more weighted towards that. And those are good end markets that we're well-positioned in I think hopefully we'll continue to take advantage of.

Daniel Moore
Analyst, CJS Securities, Inc.

Q

Helpful. And [indiscernible] (00:18:21).

William T. Bosway
President, Chief Executive Officer & Director, Gibraltar Industries, Inc.

A

Sorry, Dan. One other thought. I'm sure people are wondering inside the greenhouse world, that backlog is being built across all our sub-segments within that space. It's not heavily weighted on one or the other. There are five kind of submarkets there that we work really hard on every day, and that's the other thing we're happy to see. It's not dependent on one sub-segment. It's happening across the board.

Daniel Moore
Analyst, CJS Securities, Inc.

Q

Good. Saves me a question there. On the perimeter security side, can you give us a sense for how much revenue you're generating either in the quarter or year-to-date? And what does backlog growth look like? Just trying to get a sense of how meaningful that could look in 2020 and beyond.

Timothy F. Murphy
Chief Financial Officer, Gibraltar Industries, Inc.

A

So, Dan, it continues to grow what I would say is, it can be lumpy because it's still pretty small. So from quarter to quarter, I think if we look at this quarter to last year's quarter, backlog is up. It's up pretty significantly but I know we probably had a couple of jobs delay this quarter. So the project-based business is always – you get the project, you think it's going to ship on one quarter and there can be a delay. So I think we continue to see strong growth there. The pipeline is up significantly, backlog is up quite a bit. But it is small and we continue to grow that piece of the business because it does have that attractive margin profile.

William T. Bosway
President, Chief Executive Officer & Director, Gibraltar Industries, Inc.

A

Yeah. You got to remember, Dan, that's something we started couple of years ago and I would say the percentage growth in backlog you see in total is probably consistent with what you'd see in perimeter along with Renewables that is on a percentage basis. It's just much smaller. But it's very active and it's kind of an exciting space.

Daniel Moore
Analyst, CJS Securities, Inc.

Q

Got it. And last for me and I'll jump back. In the Industrial side, any way to quantify the impact of the lower steel prices and customers utilizing existing inventory in Q2? And have you seen an uptick in Q3 or customers to-date still pulling from existing inventory? Thanks for the color.

Timothy F. Murphy
Chief Financial Officer, Gibraltar Industries, Inc.

A

So more than the drop, Dan, in Industrial was caused by this sort of volume reduction. So there's a $5 million decline in revenue. It's a little bit more than that in that core Industrial product, partially offset by some increased Infrastructure activity. And just to be very clear on what happens, that product generally goes through a distribution channel and the customers, the service centers, as prices are coming down and they look out two weeks and see a projection [indiscernible] (00:21:22) price, they'll hold back on ordering and deplete their in-stock inventories figure and they can buy it cheaper two weeks later. And when that happens they go through a destocking period. We did see prices turn in the expectation of the market as they continue to climb through the third quarter and we have seen increased activity in that business as we would expect once that sort of market dislocation cleared itself.

William T. Bosway
President, Chief Executive Officer & Director, Gibraltar Industries, Inc.

A

And it is pretty immediate when the prices move as well. I'd say the markets are really efficient at managing as Tim described. So, when you see things turn within days, you start to see activity shift and unfortunately in the quarter going down that happened quite quickly. And as we said earlier, it's – prices are starting to change and we're starting to see a change accordingly. So, we'll see how it tracks, but, hopefully, it'd be better than – probably steel pricing will be more beneficial in the third quarter than it was in the second.

Daniel Moore
Analyst, CJS Securities, Inc.

Q

Got it. Thanks for the color. If I have any follow-ups, so, I'll jump back. Thank you.

Operator: Thank you. Our next question is coming from Ken Zener from KeyBanc Capital Markets. Your line is now live.

Kenneth Zener
Analyst, KeyBanc Capital Markets, Inc.

Q

Good morning, gentlemen.

William T. Bosway
President, Chief Executive Officer & Director, Gibraltar Industries, Inc.

A

Good morning, Ken.

Timothy F. Murphy
Chief Financial Officer, Gibraltar Industries, Inc.

A

Hi, Ken.

Kenneth Zener
Analyst, KeyBanc Capital Markets, Inc.

Q

So, you talked about the $5 million hit. I believe you just said it in Industrial. Obviously, it was like I think the wettest second quarter in the record. Can you talk about the impact weather had on the Residential space recognizing it's probably not impacting mailboxes, but I think it's impacting your roofing products? Could you kind of talk about what that means?

Timothy F. Murphy
Chief Financial Officer, Gibraltar Industries, Inc.

A

Yeah. I think – Ken, that's very accurate, the mailbox business doesn't impact a lot. But two-thirds of the Residential segment is either the ventilation or roofing accessories product. And so, as various regions experience cooler weather, it just delays reroofing projects and that's really when our projects stay used, we think about 80% to 85% of these products go to the repair and remodel side of the business and then the remaining go to new build. So new build housing isn't a big driver here. It's really that repair remodel and it's just the ability to get out and get on the roof and do the work. The other challenge that this end market has is labor availability. We're so focused on unemployment and I think all contractors are – have labor issues where there's more work to do than they can get to because of labor. So it can tend to flatten the season a little bit. If the weather stays good later into the year, we've seen that in the last couple of years, activity continues strong.

Kenneth Zener
Analyst, KeyBanc Capital Markets, Inc.

Q

Right.

Timothy F. Murphy
Chief Financial Officer, Gibraltar Industries, Inc.

A

Right.

Kenneth Zener
Analyst, KeyBanc Capital Markets, Inc.
Q

How will the steel does impact you? I mean because you're talking about bending right for the gutters for the vents. Did the steel dynamic you talked about Industrial impact, the top liners that can impact pricing in the second half or how should we think about that?

Timothy F. Murphy
Chief Financial Officer, Gibraltar Industries, Inc.
A

So this market moves slower. So when we look to second quarter last year to second quarter this year, pricing was up.

Kenneth Zener
Analyst, KeyBanc Capital Markets, Inc.
Q

Okay.

Timothy F. Murphy
Chief Financial Officer, Gibraltar Industries, Inc.
A

And that's a function of price increases that we got in the second half of last year or later in the quarter last year that were in place for the full quarter. So that helps offset some of that volume decline and that's one of the -- decline is a little – maybe a little less than otherwise would have been.

Kenneth Zener
Analyst, KeyBanc Capital Markets, Inc.
Q

Fair. Renewable, obviously, so you talked about 80% being done and then you did, I think a very good job breaking out like, did that impact people's running business, was the project just getting up, so it's not impacting them. The $2.3 million in the quarter, what was it in first quarter, the dollar drag associated with that? I forgot.

Timothy F. Murphy
Chief Financial Officer, Gibraltar Industries, Inc.
A

$3.4 million.

Kenneth Zener
Analyst, KeyBanc Capital Markets, Inc.
Q

Okay. So, if I add $2.3 million plus $3.4 million, I get $5.7 million. Am I to assume $5.7 million divided by 80%? I mean, there's still another third quarter component coming. Is that how I – should apply that 80% to the existing charges incurred?

Timothy F. Murphy
Chief Financial Officer, Gibraltar Industries, Inc.
A

Well, you should consider that we've taken all the costs that we're expecting into account already.

Kenneth Zener
Analyst, KeyBanc Capital Markets, Inc.
Q

Okay. Good. So...

[indiscernible] (00:26:19).

William T. Bosway
President, Chief Executive Officer & Director, Gibraltar Industries, Inc.

A

Yeah. We came out of Q1 and as I referred to, I think we underestimated what we thought come out of Q1 for Q2, and that's really related to the uniqueness of each of the fields. And so, we went back and we've gone through every field, every project in each field, and what's going to be required to finalize things and that's covered in the expansion, the charges you've seen taken in Q2. For the remaining 20% as well existing 80% that's been accounted for.

Kenneth Zener
Analyst, KeyBanc Capital Markets, Inc.

Q

Got it. Excellent. I mean the margins would be quite impressive. Correct my math, but I mean you'll be at – I added in $2.3 million, but you'd be at 15.6% margin in that segment versus the 13 last year...

A

Yes.

Kenneth Zener
Analyst, KeyBanc Capital Markets, Inc.

Q

...adjusted for that charge. Is that correct?

William T. Bosway
President, Chief Executive Officer & Director, Gibraltar Industries, Inc.

A

We would be – we'd be significantly better. That is correct. Yeah.

Kenneth Zener
Analyst, KeyBanc Capital Markets, Inc.

Q

Okay.

William T. Bosway
President, Chief Executive Officer & Director, Gibraltar Industries, Inc.

A

I would say operating wise, the team has done a nice job in the Solar business. You've got this onetime effect and look, there's no moral victory here. We get that. But if you look at our various sub-segments of, in solar that the teams actually executed quite well in Q2. It was just kind of masked by this carryover on the tracker.

Kenneth Zener
Analyst, KeyBanc Capital Markets, Inc.

Q

Yeah.

William T. Bosway
President, Chief Executive Officer & Director, Gibraltar Industries, Inc.

A

So I'm happy with the work that's been done. The team has worked their tails off. Just to remind everybody – most of the fields that we we're implementing in actually weren't even up and running. So we weren't impacting our customers in a big way by any means and it's still an issue and – but go out and telling our customers we want to get this fixed and now these fields are kind of coming up and they're working well. The ones that aren't started yet, they are more related to just getting connected to the power grid and such, nothing related to us. But I feel like the team's done a good job. I think they're operating the business as we expected going into the year from an ongoing performance. We're going to finish up getting through the tracker initiative and that gives us a little confidence going in the second half that should be better than the first half.

Kenneth Zener
Analyst, KeyBanc Capital Markets, Inc.

Q

Right. So I guess I'm looking at your EBIT guidance for the year. And there's a midpoint there. So. I'm going to just say, let's say 10.8%. My question is can you guys offer a little more clarity in terms of the – which is up, your EBIT margin is up. I just did a quick calculation year to date. You're 9%, so you're down 60 basis points versus last year's 9.6%. So there's, obviously, going to be a lot of lift. I mean can you talk to the cadence a little bit in margins just the Industrial, steel is still hurting you perhaps or is that all done.

Residential margins which were pretty good last year, I mean, where should we really can see the margin lifting? Can you give us some degree of clarity there to just – is it going to be coming through Renewable? Because you're running down year-over-year EBIT margins right now and you're guiding us to up. So there's obviously a big swing. Thank you.

Timothy F. Murphy
Chief Financial Officer, Gibraltar Industries, Inc.

A

Yes. I think second half you'd expect Renewable, right, we've got that significant backlog coming through. And have we not had these couple of track related costs, it'd already be running up. So, expectation is that runs higher in certainly the second half and full year. So you'll see a pickup...

Kenneth Zener
Analyst, KeyBanc Capital Markets, Inc.

Q

How much for the year if you could – is that like a 50 basis points for the year including these charges or is it – go ahead.

Timothy F. Murphy
Chief Financial Officer, Gibraltar Industries, Inc.

A

Yeah. We don't give – I'm giving you direction, all right? We don't give guidance by segment but I'm trying to help you without giving the keys to the kingdom per se. But that should be up – if you think about Industrial & Infrastructure, pretty good performance relative to the last couple of years, this past quarter with a little bit of headwinds from the steel markets, we don't expect that. So I'd expect expansion there for the remainder of the year. And you should end up a little bit up for the full year. The Infrastructure business continues to perform very well and that helps pull that up.

And then Residential it's – there's a little bit of uncertainty in that end market about what volumes will be. We saw an uptick in July, what is this -- the third week of July. So, we talk on the roofing side depending on who we talk to. It continues to look the same, up 3%, down 3% depending on who you talk to. I think we saw OwensCorning yesterday changed from down 3% to maybe flat and they had a pretty strong second quarter on what they called share gains and some regional pickup. So, I think there you'll see improvement. Do we get back to where we were last year, I think that one is a little less clear to us.

Kenneth Zener
Analyst, KeyBanc Capital Markets, Inc.

Q

Thank you very much.

Operator: Thank you. Our next question is coming from Walter Liptak from Seaport Global Securities. Your line is now live.

Walter Liptak
Analyst, Seaport Global Securities

Q

Hi. Thanks. Good morning, guys.

William T. Bosway
President, Chief Executive Officer & Director, Gibraltar Industries, Inc.

A

Good morning, Walt.

Timothy F. Murphy
Chief Financial Officer, Gibraltar Industries, Inc.

A

Good morning, Walt.

Walter Liptak
Analyst, Seaport Global Securities

Q

Sticking with the Residential business, Tim, in your prepared remarks, you talked about the profits and the year-over-year decline. I wonder if you could just kind of review those again and talk about how those may change. I think you talked about volume, there might have been some price cost in there et cetera.

Timothy F. Murphy
Chief Financial Officer, Gibraltar Industries, Inc.

A

So, the first half of the year, what we've seen is volumes off and carrying overpricing, offsetting that generally, right. So, when we think about the margins there, there's some mix, right. We have more profitable and less profitable products and we've been growing a little bit more sometimes in the less specialized, less engineered, non-patented product families have been growing a little bit faster the last couple of years. So, there's a little bit of mix going on. As we went through last year steel prices sort of peaked at year-end. We carried those inventories into the first half of this year. As that works through the system you'd expect that to catch up. So for the full year, barring any price increases, we expect pretty much to stay even on material like we always do. It's just the timing of when price changes occur and when the actual cost comes through. And then there's still a fair amount of 80/20 work to do in those businesses. So we've got a bunch of projects going on and we expect to see more come up probably more in the fourth quarter. So question will be how much impact they have in 2019 versus sort of carryover impacts into 2020.

Walter Liptak
Analyst, Seaport Global Securities

Q

Okay. Okay. I'll switch gears to the tracker product and I just wanted to ask, in the press release you talked about how you're not taking any – you're not bidding on new jobs. I wondered kind of as a post-mortem on the issues that you had with the tracker, what do you think the outlook is for that product and when do you start up again with bidding on projects?

William T. Bosway
President, Chief Executive Officer & Director, Gibraltar Industries, Inc.
A

So, well, I mean, I would say it this way. When we were going through this modification process in the field we – as we went out and talked to our customers, we said, look, let's get this right. And in so doing, sat down and said, look, let's pause on taking additional – we just want to make sure we get this right and you see it and you feel good about it and so forth. Remember most of these fields were not up and running. So, it was early in the process. And so – then you have this kind of natural pause coordinated with your customers, to get the fields up and running, so they can see the modifications and that's kind of where we've been. And that's 45% of all the projects now are up and the fields are – have been running.

And as a result of that, we're starting to see activity and we're accepting those orders to come back in as collectively we both feel good about what we're seeing. So, the tracker orders are now flowing in, as we get the rest of the customer fields up and running and you see the good results there. You'll see more of those orders start to flow in on top of that.

So, we're not turning away business, we just agreed with our customers, let's get this done, let's get your fields up and running and then feel good about our solution and then let's start moving forward. And that's kind of where we are at this stage.

Walter Liptak
Analyst, Seaport Global Securities
Q

Okay. Okay.

William T. Bosway
President, Chief Executive Officer & Director, Gibraltar Industries, Inc.
A

So, I would expect, as these fields all kind of get up and running, I think three of our six customers – large customers are active ordering and the other three are in the process of starting up. And that works through the system in the next 30, 60 days. You'll start to see orders materialize. So despite all that, we just mentioned – I mentioned that, hey, our backlog is still up 20-plus percent in the solar world.

That's – we're having a lot of activity in the rest of our Solar business. So, fixed-tilt or fixed mount has been very positive this year, probably greater than we thought. And that's kind of helped weather the proverbial storm, so to speak, on the tracker that work that we've been doing. And now, we're starting to see the tracker orders start to flow in as well. So, we think that gives us some pretty good confidence in the second half.

Walter Liptak
Analyst, Seaport Global Securities
Q

Okay. Is it fair to say that the backlog growth that you're seeing out of the Solar business that's coming from the smaller fixed tilt projects and not yet from the tracker?

William T. Bosway
President, Chief Executive Officer & Director, Gibraltar Industries, Inc.
A

Yeah.

[indiscernible] (00:37:32)

Walter Liptak
Analyst, Seaport Global Securities

Q

...the backlog build?

William T. Bosway
President, Chief Executive Officer & Director, Gibraltar Industries, Inc.

A

Yeah. And as I've mentioned earlier, probably unanticipated going into the year with the strength of fixed-tilt versus what we had thought. So that's been a pleasant surprise and gives a strong foundation to start adding back to that, the tracker as it comes back on line. So I think you'll see the backlog – the backlog growth will be made up of more of both going forward than it has in the last quarter as we went through this pause on the tracker. So it will be a little bit broader-based.

Walter Liptak
Analyst, Seaport Global Securities

Q

Okay. Okay. Great. And then I want to ask the M&A question and just get your view of the pipeline. Have you changed the pipeline at all? Is there – are you having meetings with potential targets? And just a sense of anything that may have changed either with your process or the sectors that you're going after, any kind of I guess philosophy about trying to get M&A deals done?

William T. Bosway
President, Chief Executive Officer & Director, Gibraltar Industries, Inc.

A

Yeah. So, good question. Yeah. One, I would start with we're very active. We have a variety of processes in flight. And I would say that with our strategic rubric which is really a thought process we've introduced in the organization, it's really helped us I think verify the markets we want to go a little bit faster in on that front. And those are the markets that we see good end market demand, not just short but long-term that have some attractiveness to us, that we think we can play a really important role that also tend to be direct to end customer business model. So it gives you some idea of kind of where we're spending a lot of time right now but I would say, activity has increased substantially and looking forward to getting through that process here in the next couple of quarters as well.

Walter Liptak
Analyst, Seaport Global Securities

Q

Okay. Okay. Good luck. Thank you.

William T. Bosway
President, Chief Executive Officer & Director, Gibraltar Industries, Inc.

A

Yeah.

Operator: Thanks. Our next question is coming from Julio Romero from Sidoti & Company Your line is now live.

Julio Romero
Analyst, Sidoti & Company, LLC

Q

Hi. Good morning, everyone.

William T. Bosway
President, Chief Executive Officer & Director, Gibraltar Industries, Inc.

A

Good morning, Julio.

Timothy F. Murphy
Chief Financial Officer, Gibraltar Industries, Inc.

A

Good morning, Julio

Julio Romero
Analyst, Sidoti & Company, LLC

Q

I just wanted to ask about Residential maybe in a different way. So the ARMA industry shipments were up about 4% in 2Q. And I look at your second half of last year, so maybe lighter year-over-year volume comps but not necessarily that benefit on pricing. And you mentioned July has trended a little bit better. Just thinking about that backdrop as a whole like how should volumes maybe – what could go wrong on the volume side, because it sounds like we should be cautiously optimistic I guess, to have a little better second half on volumes, but just trying to reconcile that backdrop as a whole. Any thoughts there?

Timothy F. Murphy
Chief Financial Officer, Gibraltar Industries, Inc.

A

I think cautiously optimistic is a fair view, right. We were – this market has been a little bit muted, the first half, from a volume perspective in the areas that we serve which is the smile and the Midwest. We're not in the northeast. So depending on the ARMA data that you have, if the northeast is up more, that can skew it. But we've seen increased activity in the last couple of weeks in some of the businesses but it's not a quarter. They have their forecast. They talk to their customers. Everybody sort of said at the beginning of the year and we're still hearing this, the market is going to be up 3% or down 3%. And we're seeing it, in the first half it's been on the downside. There's certainly demand. I mean if the economy is good, unemployment is low, people are working.

There's no reason that shouldn't at least work out like last year but it's hard to say that it will. So, I guess if that answers your question it's just we have about beyond what we've already shipped. We have conversations with customers and we have orders that we usually turn within three to eight days depending on what our agreement with our customers. That's generally our visibility beyond looking at regional sales forecast in a much broader information that we see.

William T. Bosway
President, Chief Executive Officer & Director, Gibraltar Industries, Inc.

A

Yeah, Julio, we don't get a lot of – there's not an industry as you know, probably better than me. But there's not a lot of visibility beyond probably a 30-day period. What I would say is probably for the first time this year in the first few weeks of July we saw more activity than we had been seeing. So, we feel good about that and hope that continues and if it does then, yeah, I think you're, right. We should be cautiously optimistic about the second half relative to the first for the year. It probably lends itself to probably being roughly flat year just because pent-up demand is pent up because of things like the ability to find people to get work done and you can start getting into different parts of the season and all that good stuff, but I hope what we're seeing in the first three or four weeks continues. And that'll give us some – that gives us some reason to be cautiously optimistic, specifically in that space in the second half.

Julio Romero
Analyst, Sidoti & Company, LLC
Q

That's helpful and that's fair. And I absolutely appreciate the detail there. Just on the last point about labor being tight, is there any particular part of the value chain that maybe seeing an outsized impact of labor shortage? Would it be maybe on a customer side? Or any additional color you could give on that would be helpful.

Timothy F. Murphy
Chief Financial Officer, Gibraltar Industries, Inc.
A

Yeah. When we talk about labor, we're talking about the guys on the roof swinging hammers. It's that roofing contractor, can he get three crews out, or can he staff five crews?

Julio Romero
Analyst, Sidoti & Company, LLC
Q

Okay. And then just lastly, apologies if you mentioned it in the prepared remarks, but was there a – can you talk about the earnings contribution from patented products and what you're doing in the near to medium term to maybe drive that a little bit going forward? Thank you.

Timothy F. Murphy
Chief Financial Officer, Gibraltar Industries, Inc.
A

We did have over 13% of sales from patented products. And yeah, I mean we continue to, I think, broaden a little bit. Historically, we focused strictly on patented, but we have some innovative products and services that – you don't get a lot of benefit from patenting other than maybe giving somebody a – it might not be patentable or it might just be giving your competitors a road map to what you're doing. So, we've expanded the scope of products and services that we're offering to customers, and, quite honestly, that's we're going to try to drive the growth. Bill talked about the innovation piece.

William T. Bosway
President, Chief Executive Officer & Director, Gibraltar Industries, Inc.
A

So, one for the group on the phone, one thing to think about, that gets us really excited are. We have parts for our business, that have done a really good job for the last six to nine months, expanding the service offering that we, frankly, didn't provide a year or two ago. And in a direct to end-customer business model, particularly given the structure of some of the markets that are – we're in that are in their infancy or they're unstructured by nature or what have you.

Our ability to play a much larger role and to drive value associated with that role we're starting to recognize. And that's a big piece of what I'll call new to our portfolio of products and services. And as I said in our prepared remarks, I think is having a relatively positive impact on our ability to build our backlog.

But also put us in a position in some of these markets that really get us excited, which lends itself to a number of other questions I were asked today and where we might be heading. So, I just – I'm really excited for what our teams are doing. And you can see where it is and that's a good thing for us. So...

Julio Romero
Analyst, Sidoti & Company, LLC
Q

Helpful. Thanks very much. I'll hop back in the queue.

William T. Bosway
President, Chief Executive Officer & Director, Gibraltar Industries, Inc.

A

Thank you.

Operator: Thank you. We reached the end of our question-and-answer session. I'd like to turn the floor back over to Bill for any further or closing comments.

William T. Bosway
President, Chief Executive Officer & Director, Gibraltar Industries, Inc.

So guys, just, again, I want to thank everyone for taking the time to spend with us this morning and learn a little about our Q2 and some other things going on. And I also want to thank you for your support for Gibraltar. So, I think this is it for today. It concludes our earnings call. I hope everyone has a great weekend and look forward to catching up with you after today as well. Thank you.

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