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ROCK.OQ - Q1 2021 Gibraltar Industries Inc Earnings Call

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## PRESENTATION

**Operator**

Greetings and welcome to the Q1 2021 Gibraltar Earnings Conference Call. (Operator Instructions) I would now like to turn the conference over to your host, Carolyn Capaccio of LHA. Please go ahead.

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**Carolyn M. Capaccio** *- LHA Investor Relations - SVP*

Thanks, operator. Good morning, everyone, and thank you for joining us today. With me on the call this morning is Bill Bosway, Gibraltar Industries' President and Chief Executive Officer; and Tim Murphy, Gibraltar's Chief Financial Officer.

The earnings press release that was issued this morning as well as the slide presentation that management will use during the call are both available in the Investor Info section of the company's website gibraltar1.com.

Please note that Gibraltar has classified the industrial business which was divested on February 23, 2021, as a discontinued operation with fourth quarter 2020 results. Results of TerraSmart which was acquired at the end of December 2020 are included in first quarter 2021 results.

Gibraltar's earnings press release and remarks contain non-GAAP financial measures. Tables of reconciliation of GAAP to adjusted financial measures can be found in the earnings press release that was issued today. Additionally, Gibraltar has separated its renewable energy and conservation segment into 2, renamed the Renewables and Agtech segments. Gibraltar has provided historical Renewables and Agtech segment information for the 4 quarters of 2020 and full year 2019 on the Quarterly Results page of its website, which can be accessed through the Investors section by clicking on Reports and Presentations.

Also as noted on Slide 2 of the presentation, the earnings press release and slide presentation contain forward-looking statements with respect to future financial results. These statements are not guarantees of future performance, and 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.

Now I'll turn the call over to Bill Bosway. Bill?

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**William T. Bosway** *- Gibraltar Industries, Inc. - President, CEO & Director*

Hey, good morning, everybody, and thank you for joining our call today. Let's start this morning with an overview of first-quarter results and then a review of the segment reporting change we announced earlier today. Then, Tim will provide more detail regarding our Q1 financials and then I'll come back and I'll review our strategic priorities and our guidance for 2021. Then we'll open the call for your questions.

So let's turn to Slide 3 to discuss Q1 results. So we delivered solid results that reflect ongoing execution, participation gains across our markets, and healthy end-market demand while we continue to operate through the pandemic, managing challenging weather across the country, worked through material inflation, and deal with material and labor availability shortages.

For the quarter, revenue increased 34%, of which 10% was organic, driven by strong growth in our Residential segment, growth in our Renewables business which compared to good volume related to safe harbor in the first quarter of 2020. Our acquisitions performed as planned with TerraSmart and Sunfig starting their integration into our Renewables business. Architectural Mailboxes completed second full quarter of integration activity into our Residential business and thermal energy solutions, completing its first full year of integration in our Agtech business.

Our order backlog strengthened to record $355 million, up 27% on a pro forma basis and up 48% on an absolute basis versus last year, and we also generated good order bookings during the quarter as well. Adjusted earnings increased 30.8% to $17.4 million or $0.53 per share, the result of organic growth and continued margin expansion in the Renewables, Residential, and Infrastructure segments, the TerraSmart acquisition, good product and services mix, good price cost management, and 80/20 productivity initiatives.

Now let's turn to Slide 4 and I want to discuss our new segment reporting. As we continue our transformation of the business, I think it's really important going forward that we offer even greater transparency to our investors and stakeholders concerning our strategy as well as the performance of our core businesses. As well, providing insight into the markets we participated is also important to understand the unique and focused investments required and how we allocate our time, talent and energy in accelerating our vision and performance.

So beginning with this quarter, we separated the former Renewable Energy and Conservation segment into 2 segments, Renewables and Agtech. And we'll now report business results across 4 segments. So we have Renewables, Residential, Agtech and Infrastructure. So the graph on this slide shows the composition of our revenue and adjusted operating income by segment before and after the segment change.

And if you look closely in the first quarter of 2021, Renewables represented 30% of our revenue; Residential, 49%; Agtech, 16%; and Infrastructure the remaining 5%. For comparison in the first quarter of 2020, the Residential business represented 41% of our business, while Renewables and Agtech segments collectively represented 38%. These 3 businesses accounted for 79% of our total business. And this year, these 3 represented 95% of the business.

So the shift in revenue is a result of our portfolio actions we started in 2020 to really start shifting the business to higher growth end markets and away from more monetized offerings.

Let's move to Slide 5 and we'll review our renewables segment, which, as a reminder, serves our solar energy market, specifically the community, commercial, industrial and utility and solar segments.

This slide should be familiar to those who were able to join us in early January when we announced the acquisitions of TerraSmart and Sunfig. But beginning in 2015, we started our solar business through the acquisition of RBI Solar. And through both organic growth and subsequent acquisitions, we more than doubled this business over the last 5 years. And then in December of 2020, we added TerraSmart and Sunfig, strengthening our position as the largest turnkey provider in the domestic solar energy market with the broadest technology portfolio, including ground-mount and canopy infrastructure, tracker technology, and design and software solutions, really focused on serving customers across all 3 solar segments that are investing in solar fields of any size and on any terrain.

So let me provide you a quick update on integration progress with TerraSmart. The team driving our integration process has focused its initial efforts on optimizing really key organization functions with emphasis in sales and marketing, finance, business systems, human resources, engineering and product management.

I think we're making pretty good progress in each area. And over the last 120 days, we have consolidated both our sales and marketing organizations. We are -- and we are moving towards a single phase for customers, and we are also putting the entire business on a common ERP and CRM system.

Our engineering product management teams completed their assessment of our tracker technology portfolio. That's TerraSmart's TerraTrack and our legacy Sunflower. The teams were challenged to select the best performing, most flexible and most reliable platform with a proven software-based operating and remote management system. We also challenged the team, simplify our tracker offering so we can focus future engineering investments and expand bankability with the financing community.

As a result, the TerraTrack technology has been selected as our go-forward tracker platform. For both existing and future customers, we have started transitioning everyone to TerraTrack and we will continue to support customers with existing Sunflower installations accordingly.

So there's much more integration work to do, but we're off to a good start. We're making progress and remain on plan.

Now let's turn to Slide 6 to look at our new Agtech segment. So Rough Brothers was supporting 2 core markets when we acquired the business in 2015: the solar energy market, which we just discussed and the controlled environment, commercial growing market, which it had been present in for over 80 years. The RBI greenhouse business was approximately $66 million in revenue in 2015 and provided design, engineering, manufacturing, distribution, and installation of multi-purpose greenhouse structures really focused on 6 market segments.

Over the last 5 years, we've more than tripled the size of the Agtech business through good organic growth and subsequent acquisitions, adding best-in-class capabilities in cannabis and hemp growing and processing as well as in fruits and vegetables produce growing. In 2016, we acquired Nexus, based in Denver, Colorado, a provider of multipurpose greenhouse structures and the leader in North America of cannabis greenhouse structures. In 2019 and in 2020, we added Apeks Supercritical and Delta Separations, both leaders in processing equipment used in botanical oil extraction and refining solutions for both cannabis and hemp.

Then in 2020, looking to build a strong presence in the fast-growing North America produce growing market, we acquired ThermoEnergy, the leading provider of large-scale turnkey greenhouse operations for controlled environment growing. This is an exciting market growing 7% per year and it's attracting significant investment as consumer demand for pesticide-free produce grown locally year-round and more environmentally responsible ways continues to accelerate.

Let's turn to Slide 7. And I'll take you through a brief overview of the Agtech portfolio of technology and services in key markets we serve. The left side of chart really describes our services and domain knowledge, all of which are critical to providing managing a successful growing environment.

And the right side illustrates the 6 core segments we serve. The Produce segment is actually our largest and you can see the size of the growing facilities we design, build, and install to help growers scale and deliver successful results. The cannabis segment, which involves growing structures and extraction equipment for processing is also an exciting segment with strong end-market demand for many consumable products produced for the oil extracts we process, whether for medicinal or recreational purposes.

This industry is still relatively immature. But as more states legalize and improve licenses, the consistency and balance of supply and demand will improve along with predictability and scalability of the market. The remaining 4 segments reflect our legacy business and we continue to hold leadership positions of each accordingly.

Now let's turn to Slide 8 to discuss our new go-to-market brand for the Agtech segment we launched yesterday called Prospiant, which reflects our leadership portfolio for controlled environment solutions and leverages our 6 heritage brands representing a combined 187 years of experience supporting over 2,500 acres of installed controlled environment operating solutions in North America. Prospiant really represents by far the broadest portfolio of Agtech solutions for controlled environment agriculture and soil to oil cannabis ecosystem.

Our markets are relatively new and are moving quickly toward their next phase of maturation, and we are now positioned well to help them accelerate. Our vision is to help build and shape our market with the best set of technologies, products, and services and we really do so with partner customers along growing and processing environment at a time.

We believe it's important our customers had a single solution they'd know and trust, let's create the opportunities and solve the problems they have for success, and really that is Prospiant.

So now let me stop there. I'll turn it over to Tim to take you through overall results in total and by segment. So let's turn to Slide 9.

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**Timothy F. Murphy** - *Gibraltar Industries, Inc. - Senior VP & CFO*

Thanks, Bill, and good morning, everyone. I'll take you through our consolidated segment results. And as a reminder, my discussion will cover results from continuing operations.

Consolidated revenue increased 33.5% to $287.6 million, driven by the Renewable and Residential segments. Organic revenue growth of 10% was driven by continued execution on strong demand and participation gains in the Residential segment as well as continued demand and strong execution in the Renewable segment, which offset winter storm impact and shipping delays.

We generated 23.5% growth from the 2020 acquisitions of Architectural Mailboxes, Sunfig, TerraSmart, ThermoEnergy and Delta. The total backlog at quarter-end was $355 million, up 27% over first quarter 2020 on a pro forma basis, driven by continued end-market demand across our businesses.

Adjusted operating income increased 33.1% in the first quarter with adjusted EPS up 32.5%. The increase was a result of organic growth and continued margin expansion in the Residential and Renewable segments along with the impact of our recent acquisitions, product and services mix, and ongoing benefits from operational excellence initiatives.

As a result, we were effective in offsetting the impact of the pandemic, material inflation, labor and material availability, and increased performance-based compensation costs. Our have been working very hard to procure materials and obtain the labor and shipping services required to meet our customers' needs, and we expect this dynamic will continue for the foreseeable future.

As Bill noted, we now report in 4 segments: Renewables, Residential, Agtech, and Infrastructure, breaking out with this quarter's reporting, the former renewable energy and conservation segment, into 2, Renewables and Agtech.

Now let's review each segment starting with Slide 10, the Renewable segment. Segment revenues increased 80.8%, driven by the TerraSmart and Sunfig acquisitions as well as 2.1% organic growth in our legacy business. As experienced during the fourth quarter of 2020, project schedule movement and timing remained dynamic in the quarter given record infection rates, some unique weather events, and ongoing supply chain challenges.

The current investment tax credit of 26%, which was scheduled to step down to 22% at the end of 2020, was instead extended in December for 2 additional years to 2022. The ITC helps our customers finance their projects and its extension removed the safe harbor incentive to invest 5% or more of the project's cost prior to the end of 2020 to retain the higher credit amount. In the first quarter of 2020, a portion of revenues were related to projects that were initiated under safe harbor rules to maintain the 2019 ITC benefit of 30%. Despite not having ITC safe harbor benefit in 2021, we grew revenues, reflecting continuing customer activity levels.

Strong demand was also evident in the quarter with significant increase in new business booked, and backlog ended the quarter up 51% in a pro forma basis across the entire solar business. Adjusted operating margin performance in our legacy solar business improved 50 basis points through continued 80/20 productivity and execution, and TerraSmart performed as anticipated. Integration is proceeding on schedule, and we have started implementing our 80/20 operating system, and we expect TerraSmart to drive growth and be margin accretive in 2021.

Let's move to Slide 11 to review our Residential segment. Segment revenues increased 35.6% from last year with strong organic growth in participation gains across all 4 Residential businesses, despite the impact from challenging weather in February and dynamics related to material and labor availability and logistics. Organic revenue grew almost 27% and the acquired Architectural Mailboxes business contributed 9% growth with the integration of this business on track.

Segment adjusted operating margin increased with higher volume, execution of 80/20 productivity initiatives, and solid price cost management, which offset ongoing pandemic concerns, higher input cost, labor and material availability, and logistics management challenges.

Now let's move to Slide 12 to review our Agtech segment. Segment revenue was down 5.1% as the pandemic, challenging weather, and supply chain dynamics during the quarter impacted existing and new project schedules. The produce market continued to gain momentum and offset slower but improving market conditions in the cannabis and hemp markets. We're encouraged by the increasing activity we see from our customers in the cannabis and hemp markets and expect this activity to convert to increasing demand as we progress through the year.

Segment adjusted operating margin was impacted by the overall mix and timing of projects and volumes in the processing and equipment business. The integration of ThermoEnergy Solution, Agtech's core produce market business, is progressing well despite the continued pandemic-related closure of the U.S.-Canadian border.

We've worked through the majority of the lower margin projects we inherited through the Thermo acquisition and margins are expected to expand in 2021 through execution of newer higher margin projects in backlog and the benefits of the implementation of our 80/20 operating systems.

We also completed the consolidation of facilities in the processing business, which will provide a better cost structure going forward. Segment backlog increased 5% sequentially to $96 million, driven by an active produce market and this trend is expected to continue and drive positive results in 2021.

Now let's move to Slide 13, to review our Infrastructure segment. As we discussed on our fourth quarter call, we completed the sale of the industrial business on February 23 and have included its historical results as discontinued operations. My comments today will cover the continuing Infrastructure operations.

Segment revenue decreased $400,000 or 2.6% as the pandemic continued to impact existing and new project schedules, driven by state and federal DOT funding. Order backlog grew 14.8% to $52 million in the first quarter, reflecting positive momentum as the economy continues to recover.

Segment adjusted operating margin improved 330 basis points, driven by ongoing investment in operating systems and technology, 80/20 productivity initiatives, and strong execution in fabricated products. This momentum has helped the business offset the slow but recovering market for higher margin, non-fabricated products and solutions.

Let's move to Slide 14 to discuss our liquidity position. We used $1.2 million of cash from continuing operations in the quarter, driven by an increase in inventory to meet growing customer demand and rising raw material prices. We generated $22.6 million cash from investing activities with $27 million in cash from the industrial divestiture, partially offset by capital expenditures of $4.4 million. Cash used in financing of $30 million was mainly result of net repayment of approximately $27 million of outstanding borrowings.

At March 31, we had $335 million available on our revolver, cash on hand of $21 million, and our net leverage was approximately at quarter turn. We continue to expect to repay our remaining balance on our revolver within the year using our cash flow generated from operations.

Our strong operating cash flow and relatively modest capital expenditure model offers us ample liquidity to invest in operational excellence, organic and inorganic growth initiatives, and the development of our organization and the repayment of debt. We remain active in M&A discussions and continue to remain focused on managing our working capital.

Now I'll turn the call back to Bill.

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**William T. Bosway** - *Gibraltar Industries, Inc. - President, CEO & Director*

Yes. Let's turn to Slide 15 for an update on our key priorities as we continue to accelerate our transformation in 2021, really through our 3 pillars of portfolio management efforts, improving our business system, and strengthening our organization.

Our key priorities remain consistent with our last earnings call and we remain very focused on them accordingly. Our top priority is, #1, scale of our Renewables and Agtech business. We have to continue to integrate our acquisitions per plan and execute our record and growing customer backlog as well as apply our 80/20 operating model to scale our field operations and project management delivery system.

We also continue to build organization capabilities, invest further in digital systems, processes, and tools in parallel. We are strengthening our solar energy portfolio with additional technology and IP, software development, and defining our position and strategy in the operations and maintenance services segment of the market.

Our priority #2, improving our execution across Gibraltar with continued focus in health and safety, our 80/20 productivity initiatives, new product development capability, and enhanced quality control systems.

And third, proactively managing and optimizing our supply chain, material inflation; availability of material, whether it's steel, aluminum or resin; transportation and logistics, and really diligently managing our price cost opportunities and lead time dynamics with our customers. We must also stay laser-focused on managing labor availability in the near term while we assess automation solutions in our facilities for the medium and longer term.

And fourth, continue to conduct business the right and responsible way every day. Our efforts to drive environmentally sound solutions via solar energy production, growing food, and residential efficiency is progressing with 90% plus of our portfolio now focused in these areas.

On Slide 16, I've summarized a list of initiatives supporting our effort to continue conducting business the right and responsible way. And I absolutely believe in the manner in which we build and support our ongoing relationships with our customers and our suppliers, our people and the communities where we do business is foundational to both our culture and is important to us -- to all our stakeholders.

So I just wanted to touch on a few of our key initiatives. So let me give you a brief update on 5 of them that we currently have in flight. First, we continue with our employee education initiatives, requiring each employee and our Board Members to complete 12.5 hours per year of online training with our curriculum focused on compliance and ethics with the intent of creating the best culture and environment where our people feel included and can realize success. In Q1, our team completed a 100% of their assignments representing over 5,000 hours of education.

Secondly, we continued our diversity and inclusion mapping process for each of the 40 plus communities where we operate. This entails understanding our level of diversity in each location as a comparison of diversity of the community itself. It's really important we understand this to determine the appropriate initiatives to support each location. In parallel, we have been requiring diverse candidates slates when filling our new positions and, over the last 12 months, 50% of our new hires have been diverse.

Number 3, we launched our partnership with the Department of Energy's Better Plans programs and have partnered with local universities to help us with facility energy assessments in starting DOE program. We've also selected an outside energy management firm to help us assess our energy usage and spend, and the opportunity to source energy for our facilities from renewable sources. Our partnership with the DOE is also contributing to the development of our company-wide sustainability report based on a scientific-based carbon reduction plan for each of our locations, and we'll have that ready by the end of 2022.

And finally, we have evolved our Board of Directors over the last 15 months with 4 new members adding competency and experience in digital transformation, information technology, cyber security, renewable energy, ESG management, marketing and legal. Our Board is very diverse and, more importantly, brings a tremendous diversity of thought to the management team as well. We also recently restated all our committee names and expanded our missions and charters for each committee.

So let's move to Slide 17 and we'll discuss our outlook for 2021. We're off to a good start and we continue to see solid end-market demand supported by a strong customer order backlog. While challenges remain in terms of the pandemic, general inflation, labor availability, and supply chain dynamics, we do have confidence in our business going into the second quarter. We will continue to manage through the current operating environment and focus on executing while maintain a safe environment for our people.

Given today's environment, we reiterate our previous guidance of revenue and earnings for the full year 2021 and we will continue to refrain from providing quarterly guidance until we have more clarity as we move through the year.

As a reminder, consolidated revenue is expected to range between $1.3 billion to $1.35 billion. GAAP EPS is expected to range between $2.78 and $2.95 compared to $2.53 in 2020, and adjusted EPS is expected to range between $3.30 and $3.47 compared to $2.73 in 2020. Yes, I'd say, regardless of the quarter-to-quarter cadence, we have confidence in overall 2021 outlook, and we will continue to remain focused on executing our plans and delivering our full-year plan.

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

## QUESTIONS AND ANSWERS

**Operator**

(Operator Instructions) The first question is from Ken Zener from KeyBanc Capital Markets.

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

How do you say Agtech again? Could you say that word again for me, pro -- ?

**William T. Bosway** - *Gibraltar Industries, Inc. - President, CEO & Director*

Prospiant.

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

Prospiant, okay. Just so I can refer to it correctly. I appreciate the disclosures. Trying to think about the annual data you gave us in '19, the run rate in '20, the comments. Now let me just start with the Agtech. Margins 2019, you had about 17%. It looks like you're just under 7% in '20. And then, Tim, I believe you said that you expected -- but you're not giving quarterly guidance. It sounded like you were being descriptive about which segment margins you expect to be up in the year, is that correct? So you expect the Agtech to be positive margin growth this year?

**Timothy F. Murphy** - *Gibraltar Industries, Inc. - Senior VP & CFO*

Yes, I think of all. Generally, we expect all to go up.

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

Okay. The reason I ask that is I'm trying to understand the decline in margin, which in '19 was 17%, to 7% today and 7% plus in '21. Can you maybe walk us through, when you have bought Delta, Apeks, and all these companies, you're obviously spending a lot of money on investments, right? I assume to IT systems and safety, its sales investments, and then there is a volatile end market. Can you maybe give us a sense of the lower margin? Is that really just a function of volume leverage or there are investments that are happening, and do you think the margin that you acquire these at is attainable over time? Just to start. Really appreciate the breakout.

**Timothy F. Murphy** - *Gibraltar Industries, Inc. - Senior VP & CFO*

Let me take out --





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**William T. Bosway** - *Gibraltar Industries, Inc. - President, CEO & Director*

Yes, go ahead, Tim, and I'll follow-up.

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**Timothy F. Murphy** - *Gibraltar Industries, Inc. - Senior VP & CFO*

Yes. So Ken, 2 separate probably pieces in there. One is the cannabis and hemp market, which impacted the processing businesses that we purchased along with our core cannabis and hemp market business in the historic business. And that really took a downturn certainly towards the, I guess, the end of the first quarter, but certainly over the remainder of the year and the volume in processing was way off. We actually had some losses in those businesses in a couple of quarters.

And the core produce business that we acquired in January, we acquired a series of projects that were either underway or were to start, and they were at lower margins than we would normally be doing work at, but we had time to our customers' requirements. And so the combination of those 2 items pulled margin down. And as we move through this year and refilled the pipeline with more maybe normalized project levels and profitability along with seeing some recovery in cannabis and hemp markets in both our core and the processing businesses and the restructuring we did in the processing business to reduce facility and lower cost, all of those are expected to help. So yes, volume is part of it, but there is other pieces.

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

Okay. It seems like when I look to next year, kind of how crazy this year is. You know now that you've broken this out, I think it's really good that you did that. The renewable piece can continue to grind it seems. But would -- I mean, 7% isn't necessarily what you would be bidding projects at, right, whether it was on the Ag side I assume or on the flowers and vegetable stuff? You're just kind of working through acquired backlog is what I hear you saying as a drag on this year's margin level and last years as well. I'm just trying to think about operating leverage, I guess there is another way to say it. I mean, do you think operating leverage in that business is generally going to be in that 25% range, consistent with kind of your broad business, 25% EBIT operating leverage?

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**Timothy F. Murphy** - *Gibraltar Industries, Inc. - Senior VP & CFO*

It's going to depend on project mix. So it's hard call out given that there's a whole host of new businesses in there. So I wouldn't -- the processing business have different leverage than the produce than the cannabis. But in general, Ken, yes, the 7% last year, 6.9% is not our target margin for that business. You will see it improve over time as we integrate these businesses and put the operating systems in place and then get some volume back from a couple of the key markets.

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

Great. And I guess my last question, I am just going to stick with this Agtech since it's the, I think, to me the most interesting and known category now that you've started breaking it out. As states go through -- we continue to have legalization in states, how does the federal involvement, for example, the last year you talked about cash payments. State transfers were an issue in the cannabis business because of that. If the Fed gets involved at a national level and allows this stuff to happen, I mean how does that change the business? Does that actually elevate the business or is it just move instead of taking cash within state lines? You can take credit across state lines or accept Bitcoin or who knows. I mean how much this actually impacts the business demand or stability on that? And that's my final question.

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**William T. Bosway** - *Gibraltar Industries, Inc. - President, CEO & Director*

I think what will end up happening, Ken, is, so as more and more states come on board, which is what you see happening and even more considering it now, the legalization process is one thing. And then you get into those licensing process and then creates all this choppiness as we've been dealing with and talking. So that's just part of the inventory to market. And the states wanted to remain, I suspect, state to state if possible because of the revenue associated with that for themselves, which a lot of states are probably interested in having going forward. And I think it depends on the involvement at the federal level, and there could be a couple of different angles that could be played. I think each of those have a little different scenario.

So at federal level there's maybe -- there is FDA kind of angle. There is banking angle. Those are the 2 that most people think about. But regardless of that, I think over time as the industry matures, you have multi-state operators right now that are trying to snap up licenses and buy licenses across states. So effectively that's starting to happen. And I think that will continue and you will have a pairing of hundreds of companies that existed some time ago to something less. And whether that happens -- how that happens over the next 2 or 3 or 4 years I think will depend on what kind of things come out of Washington. But in the meantime, I think states are going to continue to move forward. And as they do that, you'll see multi-state operators trying to extend. I know that the folks are trying to partner with and so I would characterize it more as a natural evolution of the marketplace. That's the way I think about it.

Access to banking funding will be helpful, but it's been a challenge for a lot of small players up to this point. But as these multi-state operators become bigger, their ability to finance their expansion gets a little bit easier too. So that's the balance I think you'll see over time on that front.

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**Operator**

The next question is from Walter Liptak of Seaport Global.

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

Thanks for the description in the last question. I guess, I know that 80/20 is not a silver bullet for higher profits, but can you tell us, is Agtech or each of the different business units running their 80/20 numbers and doing 80/20?

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**William T. Bosway** - *Gibraltar Industries, Inc. - President, CEO & Director*

Yes. In fact, Walter, good question. We just finished a week-long effort in our solar business. So as part of our integration with our traditional or legacy business and TerraSmart, there is a teaching education on 80/20 where we just spent a week-long mapping both the cash for that business. And what we're helping people understand is, there is 80/20, but most people are used to using in the world of, I'd say, more traditional manufacturing, but there's also 80/20 as it relates to the other half of our business model, which is the field operations delivery. And that's half of our revenue and profitability to think about it. So we have to really excel there as well.

So that's really driven on -- you think about product line simplification and in-lining applied to that piece of the business model as well as it is supplied to our traditional piece of manufacturing inside our 4 walls. So yes, that we're pretty aggressive in that area and working at pretty hard. We're doing the same thing in our Agtech business.

Splitting these 2 businesses out over the last year, we have split the organization, we brought in leadership for each of the respective businesses. We've been implementing systems and processes accordingly, common ERPs, common CRMs. All that stuff was over a period of time different over the last 5 years. And we've been consolidated into kind of a single framework, trying to leverage across the businesses, but have focus on both.

If you think about the business models for each, they're very similar in terms of what we do and putting things in the ground. So 80/20 going into solar is very active. We are going to kick that off in Agtech as well here shortly. So that's happening. And I would say in our Residential business, we've been doing a lot of work there on 80/20 in a couple of our businesses that were -- still had a lot of runway and still yet to go there. So I think it's very active there.

And then where you see a lot of improvement over the last 3 or 4 years is in our Infrastructure business where there has been a tremendous amount of 80/20 work done there. Again, new -- some new leadership in that facility and our ability to convert dollars today is much better than it was 3 years ago and, as importantly, our ability to scale up and utilize our capacity more effective way is much better.

So when we think about 80/20 now across each of our businesses, there is a different angle as to why and what still needs to be done, but the consistent theme is effective execution, scalability to meet this record demand that we're seeing in front of us. So -- and it's really across each of our businesses on the demand profile side. So yes, we're -- the question is perfect because we just finished a very intense week of mapping everything -- re-mapping everything and now implementing some of the work that needs to be done.

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

Okay, great. Yes, it sounds like the entire business is doing, and there's maybe some uniqueness to doing 80/20 around project work, so that's great.

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**William T. Bosway** - *Gibraltar Industries, Inc. - President, CEO & Director*

Yes it is, Walt, but it's -- if you replace the words there, whether it's a service or a product, whether you're in-lining or PLS-ing, it's really not a whole lot different. That's why we're trying to show people and help them understand. So just drilling down into that is important piece for us because half of our business is in project management if you think about it. So we've got to apply that in a consistent and accelerated way going forward as well. So -- anyway, sorry. Go ahead.

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

Okay. No, it's great. I wanted to ask too, last quarter you guys were talking about 5 or 6 large projects that were having some issues with some components, supply, as well as permitting. And then this quarter we're hearing about the safe harbor. I wanted to make sure I understood what the safe harbor comments were about. Is that related to the -- a difficult comp in solar because of that safe harbor from 2019?

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**William T. Bosway** - *Gibraltar Industries, Inc. - President, CEO & Director*

Yes.

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

And maybe an update on the large projects.

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**William T. Bosway** - *Gibraltar Industries, Inc. - President, CEO & Director*

Yes. So first, the projects we had 4, 5 -- 4 projects about 50 megawatt or 60 megawatt that got delayed. Those are still in flight. They'll be spread out between Q1 and Q2. The solar panel, which was the big issue for those specific projects, that's working itself through. It's still a bit of a challenge, but it's getting better. And I think if you recall, we were talking about there was a particular component that goes into a panel manufacturing or there is a facility in Asia that went offline for a bit. It was coming back online. So I think that's working itself through. So those projects will get across the finish line in the first half of this year. So that's that piece of that.

I think the permitting stuff, we deal with all the time. We just had -- if you recall when we talked about permitting, we do a lot of smaller projects. Those 4 projects for 60 megawatt, those are big projects for us. So when we had a big project move, it was pretty substantial whereas having 1 project in the past. But it wasn't a big deal because we were typically dealing with average sized 3 megawatt. Well, as we've gotten bigger and we've gotten -- developers have got more confident in themselves wanting to do more and bigger projects. We're getting pulled into bigger stuff, which we like. But when those things get delayed, it whips us a little bit differently or did in the quarter. So that was the permitting side of that. But the permitting stuff, I won't -- we've been dealing with that for years. It's just something that you learn to deal with and stop and start your flexible and so forth.

The safe harbor thing is kind of interesting. This is an industry thing which if you think about the step down of the ITC benefit the last 3 years, as Tim kind of described, about every November-December and people can take different approaches to how they do this, knowing that you're going to step down on the benefit using the fourth quarter, towards the end of it, you place an order and you can buy racking, you can buy inverters, you can buy panels. But you have to buy at least up to 5% of that value of that project for you to maintain that ITC benefit going into the next year.

Well, we've had 3 years of that step down. So when that happens, the first quarter for the industry in the following year tends to be bit overly inflated from a seasonality perspective. Those projects happen, but it's just more of a shift out of Q1. Since there was no really benefit to do anything for safe harbor this year or in 2020 in December, a lot of people didn't place those orders. Therefore, the demand doesn't show up in Q1. Because once you put some of that money down, you commit to that project. You've got to actually start using that material within the next 4 months of the following year. And that's where it starts to show up as revenue.

So the industry itself I think for the next couple of years is not going to have -- is going to have a more replicated seasonality that you would normally see. And it makes sense because January and February it's tough to put stuff in the ground around the country because of weather. So a lot of that revenue you see is loose material that was bought forward because of the benefits step down and industry has not seen -- doesn't have it this year and won't have it next year. So you probably won't see a Q1 that's typically reflective of the previous years. That's an industry kind of situation. And for us, yes, we were impacted by it as well.

So if you think about our demand having offset -- not having safe harbor in Q1, it was such a late extension decision by the administration to extend it. We do understand the real impact of what it would mean in Q1 at the time, but people decide not to attend the data. They didn't have to, so they didn't. So we effectively had to offset that. And we did and still generated growth in Q1 this year, year-over-year.

So it's actually a good -- pretty good quarter, reflecting good solid end-market demand. And I think that's having bookings that are reflecting that as well, also supports, again, ongoing good demand. So did that helped with the safe harbor piece?

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

Yes.

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**William T. Bosway** - *Gibraltar Industries, Inc. - President, CEO & Director*

So I don't think you'll see a safe harbor impact going into next year either. There is no incentive to do it because of the extension of 2 years. So we won't have this discussion next year Q1 as it relates to safe harbor because there is no incentive to do it.

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

Okay. Is there a second quarter impact that happened last year?

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**William T. Bosway** - *Gibraltar Industries, Inc. - President, CEO & Director*

Yes, you can have a little bit of it. Yes, you always have to go back for the industry, look project by project because you have really 4 or 5 months, I think it's 4 months to up through like April, so you could have a little bleed over into Q2. I don't think that's going to be a big deal for us. I don't know about the rest of the industry. Again, it depends kind of project by project and what developers decided to do. And as you know, we have implied around 3 -- well, we'll do over 500 projects this year. So across a lot of different developers. So it's kind of hard to track each one. But I don't anticipate it being a big deal in Q2 for us.

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**Operator**

The next question is from Julio Romero of Sidoti and Company.

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**Julio Alberto Romero** - *Sidoti & Company, LLC - Equity Analyst*

So wanted to ask about the Residential segment. It looks like the organic growth rate in the segment, 27% this quarter, is actually accelerating sequentially. I think you had 21% in 4Q and 20% in 3Q. So I was just hoping if you could give us a little more maybe granularity on what product lines or channels are kind of driving that strong organic growth rate?

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**William T. Bosway** - *Gibraltar Industries, Inc. - President, CEO & Director*

Yes, well, I would say, across the board, we've been fortunate. And I think part of it has to do with some of the work that's been done in the last couple of years. We've made some good progress across each of our channels with participation gains and I think that's a result of a lot of things that we've been able to fix relative to 80/20 initiatives, our ability to deliver more consistently. Frankly, we've really focused on trying to take cost out of the -- cost -- reduced cost of doing business with us. So you think about logistics and transportation and how do you plan and help our customers evolve their strategies around distribution of product. So there's been a lot of work done. I think that's just helped us gain participation.

So I'd say that the market, obviously, continues to be robust. And frankly, in Q1, we were -- quite a good chunk of our Residential business that was shut down for over a week because of the weather in February. We were told to stand down by a lot of utilities. We couldn't even operate some of our facility. So we had to make up as much as we could using overtime and other things. But that kind of whipsawed into the whole industry having issues with material availability and so on and so forth, which everything you hear a lot of people are dealing with.

But in general, I think it's participation gains, strong market. We've made investments in regions with having people in place we didn't have a year ago and those things are starting to pay off for us. So it's just expansion geographically, it's expansion within customers, it's a good strong market and just our ability to execute has helped us gain some additional business. Let's say, overall, it's kind of where we are.

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**Julio Alberto Romero** - *Sidoti & Company, LLC - Equity Analyst*

Got it. And I guess maybe within the 4 Residential businesses that make up that segment, you mentioned price cost management is going to be requiring continuous effort going forward. Just I don't know if you could speak to, do any of those 4 businesses within Residential, do any those kind of stand out in terms of the effort required for price cost there?

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**William T. Bosway** - *Gibraltar Industries, Inc. - President, CEO & Director*

No, I think our biggest businesses, if you think about ventilation, roofing accessories and mail -- mailboxes and lockers, those are, for the most part, being sold through the same channels. So the challenge there is working with that same group of customers. And there are just ongoing discussions that we have with them. And so I think the challenge is pretty much the same across the board.

In our HIG business, our home improvement business, is a little bit different. You're going through dealers and it's really direct to homeowner. So that's probably been less challenging to actually implement. But I'd say in general, we've been relatively successful managing price cost in a timely manner and the discussions for each customer are one-off discussions and some are more challenging than others, but eventually, we've been able to get there. And I think it's just going to continue to be an ongoing discussion until we see more clarity and that's part of the reason why I mentioned earlier, "Hey, we're not giving quarterly guidance."

There's just a lot of variables right now. If you really think about the overall environment relative to last year, throughout the year, one, our infection rate is still higher today and the last 7-day average than it was for 11 months -- for all 11 of the 12 months last year. We just kind of forget that, but it's still something that we are very much paying close attention to in our supply chain and everything else. And then you throw into this huge spike in material inflation that drives price cost management activities and then you get into labor availability and material availability.

We have a lot of that stuff was an issue last year or set of circumstances. And so the team has done a really great job working through it. But I just think that's going to continue to have to be our focus going forward because I don't see a lot of that changing in the near term. So whether it's price cost or some of these other things you just talked about, I think the level of intensity that we'll continue to approach these things is going to have to remain high.

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**Julio Alberto Romero** - *Sidoti & Company, LLC - Equity Analyst*

Got it. That's helpful. And I guess maybe just switching gears to the Infrastructure segment, you mentioned the backlog improvement there. Is that order backlog improvement weighted more towards fabricated or non-fabricated products or anything additional over there?

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**William T. Bosway** - *Gibraltar Industries, Inc. - President, CEO & Director*

Mainly fabricated. Yes, mainly fabricated. I think we're starting to see more activity in non-fabricated. So last year, team did a great job and they had to offset the fact that airports and a lot of investments and coatings and sealants that go on parking garages and runways just stopped. So team did a great job making improvement last year. It was on 80/20 execution around fabricated product, which, if you go back 3 years, we really struggled. And so that has really put us in a good position going forward.

And I think part of the reason the backlog continues to grow is, A, the economies are recovering. So some of the DOT budgets that are heavily funded by gas tax start to pick up and that's been helpful. So we start to see more projects really late Q4 last year and Q1 this year start to come to fruition and get across the goal line. And I think that that's really important for us. And then, I think we're starting to see, because the economy as well, some of the non-fabricated order start to kick in.

So it's a combination of both of those things that are starting to happen. We're not seeing -- everyone talks about the infrastructure bill. That doesn't exist yet, we all know that. So what we're seeing I think is just a general recovery in the economy. We're just in a better position to deal with it. And I think as a result of being in a better position to execute, we are able to go out and get projects that we would have not been able to take on 3 years ago from either a margin or delivery perspective. So our ability to go expand our market during the market has been flat is starting to show up and I think I'm excited about that.

So as the topline does get supported by the economy recovering and other things that may drive the top line, we're actually able to go after bigger piece of the market than we were a few years ago. So I think that's also attributing to the backlog that we're starting to see. That makes sense?

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**Julio Alberto Romero** - *Sidoti & Company, LLC - Equity Analyst*

It does.

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**Operator**

This concludes the question-and-answer session. I would like to turn the call back to Bill Bosway for closing remarks.

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**William T. Bosway** - *Gibraltar Industries, Inc. - President, CEO & Director*

Well, again, thanks everyone for joining us today. We will be participating in a number of U.S. and European marketing dates, and we're going to attend the KeyBanc Industrials and Basic Materials Conference on June 4, and then really looking forward to giving an update on our progress in our second quarter earnings release as well. So thank you and have a great day.

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**Operator**

This concludes today's conference. You may disconnect your lines at this time. Thank you for your participation.

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