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ROCK.OQ - Q2 2021 Gibraltar Industries Inc Earnings Call

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PRESENTATION

Operator

Greetings, and welcome to the Q2 2021 Gibraltar Earnings Conference Call. (Operator Instructions) As a reminder, this conference is being recorded. It is now my pleasure to introduce your host, Carolyn Capaccio of LHA. Thank you, Carolyn. You may begin.

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

Thanks, Paul. Good morning, everyone, and thank you for joining us today. With me on the call are 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 Investors section of the company's website gibralter1.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 half 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. 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 will turn the call over to Bill Bosway. Bill?

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

Good morning, everybody, and thank you for joining today's call. Let's start this morning with an overview of the second quarter results and then we'll discuss the ongoing market environment we continue to manage in. Tim will then provide a detailed financial review of the quarter and then I'll give you an update on our 2021 strategic priorities and our guidance for the year. Then we'll open up the call for your questions. So, let's start.

Let's turn to Slide 3. We delivered a solid quarter with revenue up 36.5%, 14% of which was organic and 22.5% came from acquisitions. We got off to a good start in the first quarter with 34% growth and the momentum accelerated into the second quarter. Growth was driven by healthy end

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market demand, further participation gains and the realization of multiple price actions implemented in the first and second quarters. In total, our order backlog, which reflects signed contracts grew 54% to over $400 million, a record level really for Gibraltar. And on a pro forma basis, order backlog grew 32%, again, reflecting accelerating order momentum as we exited a strong first half of 2021.

The integration of TerraSmart is on track and we continue to evolve into one organization. We're 6 months into the process and have combined sales, marketing, supply chain, finance, HR and have a strong leadership team in place. TerraSmart's operating margin nearly doubled versus the first quarter and demand remains robust as we enter the second half of the year. Historically, the strongest quarters for this business and for the solar market. In our residential business, Architectural Mailboxes completed its third full quarter of integration activity and is delivering to plan as well.

Adjusted operating income increased 8.2% and adjusted EPS expanded 6.7% to $0.80 per share. Although our margin contracted during the quarter, our success in implementing various price actions and productivity initiatives helped offset a large portion of the macro headwinds that accelerated during the quarter and drive positive growth in operating income. Our macro headwinds included ongoing inflation, materials, labor and freight and the supply and availability of materials, labor and transportation. As it relates to the reemergence of COVID, we maintained our operating protocols through the quarter and we're able to minimize disruption accordingly.

So, let's turn to Slide 4 so I can share with you a little bit about inflation and supply chain dynamics. So, let me provide some context concerning the macro headwinds and the environment we continue to operate in. And I realize there is plenty of debate in opinion regarding the inflation going forward. But regardless, June was the 9th month in a row with a significant market increase for core input cost and inflation continued to accelerate in July as well. The magnitude of the increase combined with the speed in which it has occurred is really unprecedented and I think it's been surprising for many industries.

For example, in January 2020, if you think about it in a good economy and prior to the pandemic, the CRU price for hot rolled steel was $570 per ton. And really over the next 9 months, by September 30, 2020, the price had increased 5.1% to $599 per ton. Now in contrast, between September 30, 2020 and June 30, 2021, another 9 month period, the CRU price for hot rolled steel increased 188% to $1,723 per ton. And during July, it increased another 4.8%, surpassing $1,800 per ton. The net result, hot rolled steel pricing is more than 3x higher in a market where demand levels today are actually less than they were prior to the pandemic. Pricing for other input costs and materials has risen as well with aluminum up 50%, resins up 97%, transportation rates up 29% over the same time frame.

Now, there are a number of reasons for causing today's situation. We have capacity reductions during the pandemic, labor shortages, tariffs, import duties, supply capacity, management strategies and other macroeconomic questions, but our expectations are these issues will continue in 2021. So, yes, it has been a tough and fast-moving environment, and we expect it will continue, and we will remain proactive in attacking our inflation and supply chain challenges. As discussed in our first quarter earnings call, we started engaging customers and suppliers in the fourth quarter of 2020 and also start implementing our first round of price increases with subsequent price actions as inflation accelerated.

Our supply agreements with our customers, specifically within our residential customers include commodity index and clauses that support price changes and also a well-defined process and timing for approval implementation of changes. This does create an actual lag for price realization relative to commodity increases and in the second quarter, resulted in margin contraction for us, especially given the sharp and substantial cost increases in steel, aluminum, resin. Historically, though, the price realization lag has been anywhere between 1 to 2 quarters.

Once inflation turns down, now until this happens, we will continue to implement necessary price actions and really focus on maximizing operating profit dollars. And when input costs do start to fall, we'll manage price accordingly to facilitate margin recovery. Now, we've also continued to execute on our 80/20 initiatives that we had planned going into the year and we're staying very close to our suppliers and trying to stay in sync with our customers at the same time. I think all of these efforts have helped us manage relatively well in the current environment and deliver this quarter's results.

And with that, let me turn it back over to Tim, and we'll give you a little more detailed review of our results. Tim?

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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 36.5% to $348.4 million. Organic revenue growth of 14% was driven by continued execution on strong demand, participation gains and pricing in all 4 segments, despite some supply chain dynamics and materials and labor availability, particularly in the renewables, residential and agtech segments. We generated 22.5% growth from the 2020 acquisitions of Architectural Mailboxes, Sunfig and TerraSmart. Total backlog at quarter end exceeded $400 million, up 32% over second quarter 2020 on a pro forma basis, driven by continued end market demand across our business.

Adjusted operating income increased 8.2% in the second quarter with adjusted EPS up 6.7%. The increase was the result of continued execution on solid demand across the business segments that drove organic growth as well as TerraSmart's acquisition and 80/20 productivity initiatives, partially offset by the timing and alignment of higher input costs and price increases, supply chain disruptions and in the agtech and renewable segment shifts in project timing. As Bill commented, we continue to work with suppliers to manage materials, transportation procurement and with customers to manage pricing. We expect margins to recover as inflation subsides with a 1 to 2 quarter lag.

Now, let's review each segment, starting with Slide 6, the Renewables segment. Segment revenue increased 92.5%, driven by the TerraSmart acquisition as well as organic revenue growth of 4%. On a pro forma basis, including the TerraSmart transaction, revenue grew 25%. Revenue growth accelerated sequentially from 80.8% last quarter and we achieved this growth through solid execution and converting strong backlog in the revenue despite solar industry headwinds of significant input cost inflation, supply chain challenges, particularly with panels that impact our customers' ability to finalize design and cause project timing delays and the impact of the safe harbor ITC extension announced in December 2020, which served to remove incentives for developers to build early in 2021.

Demand continues to be strong across our broad offering of fixed tilt, tracker, canopy and eBos product solutions, serving community, commercial and industrial market segments. Backlog ended the quarter over $218 million, up 54% on a pro forma basis across our entire solar business. Adjusted operating income improved 45.2%, while adjusted operating margin contracted 380 basis points. The majority of which was expected from the integration of TerraSmart.

Of the remaining margin contraction, approximately half was related to a onetime tariff credit received in the second quarter of 2020, with the remainder the result of timing and alignment of price actions with input cost inflation and project movement related to supply chain schedule and logistics challenges. The TerraSmart integration is delivering the results as expected with adjusted operating margins nearly doubling sequentially as demand continued to accelerate and we begin to implement simplification initiatives. TerraSmart remains on track with its full year margin plan.

Let's move to Slide 7 and review our Residential segment. Segment revenues increased 17.7%, driven by increased pricing and volume despite supply chain dynamics related to material, labor and logistics. Organic revenue grew 12% and the acquired Architectural Mailboxes business contributed 6% growth, with the integration of this business on track. Segment adjusted operating margin decreased versus last year, driven by the impact of accelerated inflation, material and labor availability and the timing and alignment of price actions with input costs. As we anticipated this inflationary environment, we have implemented multiple price increases since the beginning of the year.

The timing of these adjustments is not in lockstep with accelerating inflation. And going forward, as inflation begins to moderate, we expect alignment between pricing and cost to improve and the operating margin to recover, which historically occurs 1 to 2 quarter time period past the inflation peak. During this transition, we'll continue to maximize operating profit dollars with a focus on continued alignment of selling prices with input costs, execution and 80/20 initiatives.

Let's move to Slide 8 to review our Agtech segment. Segment revenue increased 27% with solid activity across the produce, commercial, car wash, retail and processing equipment segments, a sequential improvement despite the rescheduling of delays in expected projects -- on a number of projects from the second quarter into the second half of 2021, because of permit delays, rescoping of projects and supply chain disruptions. For example, on one of our larger produce projects, imported glass for our greenhouse roofing system was delayed in a West Coast port for more than 11 weeks, waiting for the port authority to move the containers to a carrier for delivery to our job site. Like many other companies, the port authority is challenged for finding labor to increase capacity support increasing demand.

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Segment adjusted operating income was flat year-over-year with adjusted operating margin contracting year-over-year due to business mix, the movement of projects into the second the year, as I just mentioned, higher input costs and logistics challenges. These headwinds, which we view as temporary, were partially offset by improvements in legacy greenhouse structures, cannabis greenhouse structures and cannabis and hemp processing equipment businesses, which are encouraging. And on a sequential basis, adjusted operating margin expanded 180 basis points as the processing equipment business continued to improve along with continuing benefits of the integration of the produce business. Agtech order backlog experienced a temporary contraction during the quarter, followed by July customer order activity that is accelerating backlog momentum and the segment remains on track with expectations for the year.

Now, let's move to Slide 9 to review our Infrastructure segment. Segment revenue increased 29.7%, driven by demand for fabricated and non-fabricated products that increased as State D.O.T. project funding improved with the strengthening of the U.S. economy. Order backlog increased 11% to over $46 million during the quarter, indicating growing strength across the business. Segment adjusted operating income and margin expanded from last year, driven by favorable mix of higher margin non-fabricated products and solutions, strong execution on higher volumes overall and continued investment in 80/20 productivity initiatives. We also continued to improve our manufacturing processes during the quarter, allowing the team to shift labor between production processes and combined with better material flow, reduced lead times significantly.

And let's move to Slide 10 to discuss our liquidity position. We generated $14 million of cash from continuing operations in the quarter, driven by higher net income and increased accounts payable, partially offset by increased inventories and accounts receivable as we enter the seasonally strongest quarter. We generated $8 million in cash from investing activities with $13 million in cash collected on the note related to the sale of the industrial business, partially offset by capital expenditures of $5 million. Cash used in financing activities of $25 million was mainly the result of net repayment of $25.8 million of outstanding borrowings.

At June 30, we had $360 million available on our revolver, cash on hand of $17 million, and our net leverage was slightly less than a quarter in turn. We continue to expect to pay the remaining $33.2 million balance on our revolver prior to year-end using cash flow generated from operations. Our operating model generates high cash flow with relatively modest capital expenditures, offering us ample liquidity to invest in operational excellence, organic and inorganic growth initiatives, organizational development and to repay debt. We remain in active M&A discussions and remain focused on managing working capital.

Now, I'll turn the call back to Bill.

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

Thanks, Tim. Let's turn to Slide 11 for -- and I'll give you a quick update on our key priorities for the year. At the start of the year, we communicated really 4 key priorities important to executing the business in 2021. Our 4 business priorities remain very aligned with today's environment. And obviously, we're very active and focused on all 4. As a reminder, our priorities, first and foremost, scale our renewables and agtech businesses, as mentioned earlier, we are making good progress integrating TerraSmart, while executing a very high demand environment with a dynamic supply chain situation. We continue to build processes, drive scalability and integrate our key functional areas. Our broad and evolving solar portfolio, which really is the broadest turnkey offering in the market, is resonating well in the market. And with 6 months into the acquisition, our results relative to our expectations and acquisition plan demonstrate I think our strategy is working.

The agtech business is also making progress and demonstrating the sequential improvement we expected as we move through 2021. As we exit 2021, we expect the agtech revenue growth and margin run rate performance to surpass 10%. The integration of thermo is expected to drive positive results in the second half, along with the market recovery of our cannabis and processing equipment businesses and steady growth in our legacy business. Our agtech presence is strengthening and our M&A strategy is working here as well.

Second-party was to manage inflation, optimize our supply chain. We already discussed the environment and how we've managed to date and our continued focus going forward. I do want to mention, we are accelerating our additional 80/20 projects, focused really on developing and implementing automation solutions to better optimize labor management for key facilities in 2022. Thirdly, focus on improving our execution with continued focus in health and safety, 80/20 productivity initiatives, new product development capability and quality control systems. In today's environment, our ability to consistently execute is helping us navigate through the year and deliver our plan. We must also stay diligent in driving

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our health and safety progress as we move into our busiest quarters, continue to manage supply chain and labor challenges and deal with the reemergence of COVID.

Finally, we have continued with our investment in our business systems, ERP, CRM, HRIS and quality system implementations, which I believe will drive additional productivity and scalability across our businesses. And finally, fourth, particularly in this kind of environment, just want to continue to conduct business the right and responsible way each and every day. Regards of how challenging or complex, the operating environment, we've got to continue to focus our efforts on driving environmentally sound solutions for solar energy production, food growing and residential efficiency is a while acting response mean helping to support our people, customers and suppliers.

Let's move to Slide 12 and we'll discuss our outlook for 2021. So, we do remain confident in our existing full year 2021 guidance for both revenue and earnings, which we are reaffirming today. Although we expect the current business environment to continue through the second half of the year, our first half performance, with revenue up 35%, adjusted operating income up 17%, adjusted diluted EPS up 15% reflects our ability to operate in this environment. And our first half performance is also consistent with our historical first half pattern. We are also well positioned with good demand in end markets, where the second half is seasonally the strongest. We have record order backlog and a very healthy balance sheet.

Our outlook also includes profitability improvement in each business, a continued focus on daily execution, driving our acquisition integrations and further strengthening our organization operating systems. We continue to expect consolidated revenue in the range between 1.3 and $1.35 billion. GAAP EPS from continuing operations in the range between $2.78 and $2.95 compared to $2.53 in 2020 and adjusted EPS from continuing operations in the range between $3.30 and $3.47 compared to $2.33 in 2020.

Finally, look, I want to thank our entire team and our Board of Directors, our suppliers and customers for their support, their focus and diligence and executing today's environment. It's been extraordinary 18 months and our team has and continues to perform in an extraordinary way and I'm really excited about what's in front of us.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from Ken Zener with KeyBanc Capital Markets.

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

Just if we could spend a little time on renewable. Appreciate the Slide 4 guys in terms of the steel cost inflation. But I wonder if you could put 2Q in context of some of the comments you made in 1Q, just so we can understand where the margin differences are coming, because I think that's obviously an appropriate focus for investors. So, in the first quarter slide on renewable, you talked about a 50 basis point lift in the legacy business. Could you -- if appropriate, could you please update us if that -- how that organic moved? And I'm asking, Tim, so you could kind of force rank what the other cost pressures are? So, it sounded like the TerraSmart, obviously, steel, there was a credit timing, but I just want to see how the legacy business did and then the other drivers, please.

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

So, Ken, the TerraSmart was just its sort of planned operating margin was the biggest impact. And next in line was this -- than these other 2 items are really on the core business. So, we got -- in the second quarter last year, we got the benefit of a onetime tariff credit that had built up over -- it wasn't just related to that quarter. It was just when we were able to get it back. And then third and less impactful than the tariff credit was the just timing of price material.

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

So, I guess it does sound, though, just to stick on the legacy, the legacy was down year-over-year, led by the tax credit and then steel cost. So it's not -- steel cost was only -- it wasn't the main driver here in the operating margins.

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

Not the main driver, but there is an impact.

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

Yes. But I don't think it's as great as perhaps the industry would have thought. Given that steel costs are so incredibly robust, despite the spread in U.S. and international prices, I think scrap rolled over 60 days ago. Is there any -- I think you guys have been better buyers of steel than others perhaps would have expected. But is there increase -- could you talk to these price indexes? I guess, Bill is what I'm talking about. And how customers are responding to such robust pricing, which seems necessary in order to maintain your margins?

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

So, there's a number of variables that customers are thinking through depending on which business. But in the solar world, go back and remember the 4% benefit or elimination of the reduction that was expected going into the year was a plus for everybody, right? So, you've got that that's 4% on the total project. So, that was towards the good. And then you have these other headwinds that developers and such have been facing. I think the economics, as we've talked for the year, have not been as good as they would have been for projects maybe a year ago, but they're still attractive. So, I think customers continue to move forward.

And I would characterize kind of 3 buckets of customers, if you will, not necessarily equally spread, but you have a group that is, hey, send me everything you can. Let's keep going, go hard, and you see that in our demand profile. You have a group of customers that are just struggling getting, say, panels or what have you, and that's the bucket that still wants to move, but they're just being disrupted a little bit by other -- some of their supply chain challenges and you see some movement flow through on that. And then you have, I'd say, smaller group, and these are typically the newer folks into the marketplace that are more in a wait and see mode because of inflationary environment.

So, it's -- you've got 3 different scenarios there. What I would say is the returns on these projects seem to be still relatively attractive, and that's showing up in our demand as we've seen in the first half of the year in our backlog. So, we're trying to help them find ways to make those project economics a little bit better. There's ways we can do that through the design upfront of the project itself and help them avoid maybe some of those planning costs, etcetera.

But it's a tough environment in terms of every project is what it is, but we're staying very engaged with them, trying to help them navigate through each project across all the variables that they're dealing with. So, yes, it's -- as we said early, late last year and early this year, it's -- we are out in front engaging folks. I don't think people anticipated this. I can't say I did not to the extreme. But walking hand-in-hand through this together has been, I think, very helpful with us our customers. No one likes it at the end of the day in terms of the impact, but we're learning how to manage it.

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

Right. It seems like the industry is getting more rational, perhaps around pricing, given pressure on other competitors you face. The last question I have is, could you talk to the sequential nature of margins in specifically renewable, but also Tim, the company in the second half. For example, do you think renewable margins will be up year-over-year in the second half where you basically have a high 12 handle in renewable? And then just comment, if you could, on any 3Q or 4Q waiting overall, that would help consensus, so we avoid surprises.

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

I guess, a little hesitant to tell you what I think margins are going to do, because I don't know what inflation is going to do, and that will impact it. So, we see opportunity to improve. But if material costs don't moderate with both the speed and the rate of change, I don't know that we would get ahead. So, we're set to make higher margin across the business, I think, or improving margins, but that's with a scenario that there is not rampant continued inflation that we have to go on.

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

But at today's net pricing, it sounds like you -- which understandably, you don't want to comment about the spot or the commodity market. But in today's environment, given net price in, it seems like it would be a favorable trend at today's known variables, correct?

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

Yes. I think a fair way to think about it is, at any given time, we are either working price to get to the current market where we've gotten there, just depends on a given day across the businesses. And so if we stayed at the current price, definitely.

Operator

Our next question comes from Dan Moore with CJS Securities.

Stefanos Chambous Crist - *CJS Securities, Inc. - Equity Research Associate*

This is Stef calling in for Dan. So, on agtech, what is your confidence that increases in the backlog will translate to revenue in the second half? And are you seeing that happen already in a more material way in Q3?

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

I think our plan for agtech has been sequentially get better throughout the year and the backlog that we have today reflects that. The temporary contraction that Tim mentioned is really a shift from June to July and the first 3 weeks of July. Those projects we thought were coming in June just they've come through the process. So, they're on board now. And they'll start being executed. And when you think about the length of executing project or when those start to flow through, it does vary by end market. But our backlog is shaping up where they're going to be contributing -- it will be contributing to the second half. So that's what gives us confidence that our plan to, again, continue to sequentially improve is on track.

Stefanos Chambous Crist - *CJS Securities, Inc. - Equity Research Associate*

And then in terms of residential, you have some tough comps coming up. If you look forward to the next 4 quarters, do you still expect to continue to generate positive growth? And then also, how should we think about margin?

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

I think the growth profile that is going to be consistent, I think, with what we see happening in the industry. And so obviously, I don't think we're going to grow at the rates we did last year just because the comps, to your point, are pretty robust. We had record quarters last year in history of the company for residential. I think a lot depends on what happens with this inflationary environment. At some point in time, consumers are going to vote with their pocketbook relative to pushing forward or not. And all these variables that we've talked about, which we've assumed will stay

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in place for the next 6 months across all our businesses. They're still out there. And if they remain, then not get worse, but remain, then we'll see margin recovery go forward. If things continue to move up on inflation, then we'll have a -- we'll continue to chase those up and just maximize operating profit dollars. So, that is the question. We think our margins will get better. And the assumption is that the environment we have today, on inflation front kind of holds where it is. It doesn't get markedly worse, meaning things continue to go up. But if it does go up further and further, then we will maximize operating profit dollars and margins will be delayed in terms of recovery. That's how that will work, just like it has in the second quarter.

Operator

Our next question comes from Julio Romero with Sidoti & Company.

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

So, I wanted to just, I guess, first, stay on resi. Can you maybe rank order some of the headwinds you're facing there? I know you mentioned price lagging inflation, but also some availability issues with material and labor.

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

So, inflation is still very high, as we all know. And as I mentioned, July wasn't any better than the previous 9 months in terms of increase. But I would say that availability of some of the materials that we were struggling with, resin and aluminum, in particular, are starting to work themselves out. We started to see that in the latter half of second quarter. So, we feel like that one is heading in a positive direction. Labor availability is something that I think everyone's going to continue to struggle with for some period of time. And depending on what happens with -- continues to happen with COVID, that could cause some challenges for folks. But we're managing through that pretty well. So, that's just going to be a continuous battle as we move through the next couple of quarters. So, inflation, #1, material availability is starting to improve, but still there a bit. And we still have strong demand. We're trying to support it, but we got to have the material coming in. That's getting a little bit better and then the third is any other disruption associated with COVID, which, I think, like I said, to this point, we've been managing relatively well.

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

So, it sounds like the material shortages would be focused on non-steel, right? Steel, you didn't really have issue.

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

No, steel has not been an issue. It's really been aluminum. And frankly, if you go back in time, when the February weather hit the Midwest, it hurt a lot of suppliers, particularly those that are doing some value-add in the area of aluminum. Resin then impacted by a number of things. So those things have kind of worked themselves out, but that gives you an idea of the magnitude of that weather disruption for 8 or -- 8 days or 10 days, it's just now kind of getting itself worked out, but I feel like that's gotten better.

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

And is there any way to think about once steel starts to not stay on this upward trajectory. Just trying to think about how to quantify the impact of price lagging inflation, either from an operating and dollar standpoint or a margin standpoint?

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

Well, one way to think about it is, we don't need -- we don't necessarily, relative to the rest of the year, need inflation to start going down. We just needed to moderate. We just needed to flatten out. Our assumption in our plan is that everything stays elevated for the next 6 months in terms of input cost. So, if they -- if our input costs, things like these major commodities issues just subside, that would be very helpful going forward. And then our pricing will start to read through and catch up. What we don't know today, what I can't tell you today is if that is going to happen with inflation, because, again, for 10 months in a row we've been wrong. Everybody has been wrong. And that's the piece that's kind of the open card right now. So, we're assuming that everything stays elevated in our second half. We're assuming our price increases that we've actually put in place -- we implemented our fourth one yesterday across the residential businesses. Those will start to catch up. But if inflation continues to move up, then we'll continue to focus on, like I said earlier, maximizing the operating dollars and then margin will recover as things subside and start to move down.

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

And I guess just switching gears to agtech. Can you just talk about how the cannabis-related businesses within agtech are performing? And are your customers on the cannabis side seeing better access to working capital, better financing, etcetera?

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

Yes, they are. And we've seen that in the backlog. Cannabis backlog has started to grow in Q2. And that's one of the reasons that agtech will start to see improvement -- sequential improvement in Q3 and Q4. So that backlog for growing structures as well as process and equipment has been steadily increasing. And we mentioned earlier, this rescoping effect. So, when -- we had a couple of projects in cannabis that have gone through a couple of iterations where a customer has changed the scope of their project a couple of times. So, it goes in and out of our backlog. We don't let it sit in our backlog if it's actually not confirmed contracts. So, we'll take it out. In our scenario, we had a pretty large project that went in. We took it back out. That was the temporary contraction associated with the backlog. They since come back in and finalize the scope, so we put it back in, because we don't want to have a false sense of backlog, but that's all cannabis oriented. So, that market, I think, is gaining momentum, which is what we anticipated in the second half, and our backlog is reflecting that. So, you'll start to see those projects read through in early -- first 3 weeks of July was also very positive in bringing more of that in, specific to cannabis.

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

And then I guess, just staying on agtech, a quick refresher on the thermo business within agtech. Did you see any impact from those projects that you had acquired when you first took on that business, I think, 18 months ago? And are you completely worked through those acquired projects?

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

I think it was came out of the first quarter, we've kind of got most of, I'd say, very, very high percentage of that behind us. What we had -- happened in -- for the produce business, was more related to some permitting delays that are being worked out. But fundamentally, the drag that was created with the projects that came with the initial acquisition, I think, are through the system. And now we're adding into that backlog projects now that we're managing. And again that will drive a positive second half as well.

Operator

(Operator Instructions) Now, our next question comes from Walter Liptak with Seaport Global.

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Walter Scott Liptak - *Seaport Research Partners - MD & Senior Industrials Analyst*

So, I wanted to ask about TerraSmart maybe a little bit more detail. Can you help us understand a little bit more about some of the integration that's going on. And maybe help us with some of the details about how those integrations play through to getting to the planned margins and is that at the end of the year or is that in 2022?

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

So, well, a lot of the synergy that we put into our acquisition plan really starts to flow through in 2022. A lot of the work we're doing now, which is 80/20 link efforts, I think I mentioned in a previous call, we started working on a couple of months ago is stuff we're working on now to put in place. And that will be, I think, those are things that will help drive the margin beyond that weren't necessarily an original plan. But like anything, we continue to go back in each of our businesses, whether it's the legacy core business or TerraSmart, they both went through the same exercise, most recently, around 80/20 refresh.

And we want to do that collectively because as we're integrating the businesses, we want to see where our best processes are and where our gaps are and where the opportunities exist, etcetera. So, that's identify some additional opportunity for us that we'll be able to read through as we get things implemented. So, -- but as it relates to this year in the margin, what drives TerraSmart, if you've looked at the first quarter, second quarter, I mean, they doubled -- effectively doubled their operating margin. Their model is a little bit different than RBI's to start with and so as you get into the busier season, Q3 and Q4. Their field services or field operations portion of the business is a fixed cost model, whereas RBI is historically in variable costs. So, when the quarters are lower in volume in terms of activity in the field, they run a different margin profile.

And then as they leverage up with the volume in Q3 and Q4, that's when they accelerate. And that's really historically what's been the case there for them. And you'll continue to see them drive 4 with margin in Q3 and Q4 because of that phenomenon, just with the way that they go-to-market with their field ops. It's not right or wrong, it's just different. And it's the way they've always done it. And we'll continue with both models because it really is project dependent, but that's a core piece of how their margins flow through the year, weaker upfront or lower upfront and stronger in the second half, and it's because of the construction cycle, because more and more of our revenue and margin comes from those field ops, not just the design and manufacturer of the materials that we put out for the field itself. Does that make sense?

Walter Scott Liptak - *Seaport Research Partners - MD & Senior Industrials Analyst*

Yes, that makes sense. So, as we start thinking about 2024 or just how TerraSmart fits into the picture, do we see that same seasonality to profits in the future, too or was there more to the integration costs that we don't have to worry about lower profitability in the first half and then a pickup in the second?

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

Well, I think the seasonality and profitability may not change dramatically, but I think the overall absolute level for each portion of the year will go up and that will come through the integration and the synergy work that we're doing. So, Q1 is always going to be seasonally less -- lower margins just because of volume in Q1 due to weather and all that good stuff is going to be less than it would be in your summer months and so forth, but the ability to move up margins in each quarter relative to where they historically been is absolutely our intent.

Walter Scott Liptak - *Seaport Research Partners - MD & Senior Industrials Analyst*

And where do we think the planned margins can get to?

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

So, when we talked in -- so when TerraSmart came out of 2020, I'm going to hopefully get this right, about $147 million in sales, and I think they ran 10% -- 13%, 14%.

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

I think it was more around 12%, Bill. We said the combined business was around 12%.

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

Yes. That's right. Sorry. So that's the starting part, Walt, starting point. And then we said, in the next 5 years, the business will reach $750 million. This is kind of all organic, $700-plus million and 15-plus percent operating income. And we're quite confident that we'll get there and hopefully, will be a little bit ahead of schedule sooner than we thought, but that we have a clear path to. And then I think some of the additional work that I just mentioned earlier, just some things that we'll be able to secure that or maybe take it up a little bit better as well or a little bit more as we figure a few things out. But that's the plan, and we feel good about that.

Walter Scott Liptak - *Seaport Research Partners - MD & Senior Industrials Analyst*

And then just one on the backlog for renewables. The 54% growth, is there an organic backlog that you can talk about?

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

So, we say pro forma, well, actually, I think that 54%, Tim, is pro forma for the renewable...

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

Renewables business, correct. Yes.

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

And what that means simply is that is the organic number, if you will, for the 2 businesses. So, if I took last year's actual backlog for each business and this year's backlog for each business, it's up 54%. They both have contributed and both have backlog coming in. So, it's a very robust demand profile for the business right now. And it's, frankly, pretty consistent with what we saw in the first quarter as well. So, the first half for renewables has been very good on organic backlog, and frankly, organic sales. It's just -- it's a very busy, busy environment right now for renewables.

Walter Scott Liptak - *Seaport Research Partners - MD & Senior Industrials Analyst*

And so it sounds like based on the way you answered other questions too, and I've been talking about it, but it's not demand that there's any problem with, there's not any kind of trends with supply chain or price costs that are impacting demand. It's -- the demand environment is fine.

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

The only exception that, I would say, in residential, where we had some availability issues with material in Q -- early in Q2, aluminum, specifically in resin. That impacted demand a little bit. But in general, the rest of residential, the renewables, agtech, we haven't really had a big impacts on demand because of supply chain stuff. We've had a couple of events. I mean, Tim mentioned in his comments, we had one of our bigger produce

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projects in the quarter get moved, because we had a 11 week delay in glass. And that's just -- it happened, but it's not -- that was a unique event that we think we -- hopefully, we're through, but it was just -- it wasn't a supplier couldn't get the glass to us and it was a demand issue. It just -- we literally didn't have labor at the port to pick the container off the ship and put it on a truck. And it took 11 weeks to figure that out. And you think, that's crazy. Well, these labor shortages around the country are real. And so we had a couple of events like that. But in general, Walt, yes, you're right. We -- it's not been a demand issue.

Operator

There are no further questions at this time. I would like to turn the floor back over to Mr. Bill Bosway for any closing comments.

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

Well, thanks again, everybody, for joining us today. We do have a busy investor marketing schedule for Q3, including the Jefferies Industrial Conference tomorrow and then the Seaport Global Summer Conference on August 24 as well as some other marketing dates, and we're looking forward to reporting our progress in the third quarter earnings release and keep your calendar open. We're planning on a Shareholder Day or Investor Day in November, hopefully, in person in New York. Stay tuned on that. So, thank you. Have a great day. And everyone, take care and stay safe. Bye-bye.

Operator

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

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