REFINITIV STREETEVENTS

EDITED TRANSCRIPT

ROCK.OQ - Q3 2021 Gibraltar Industries Inc Earnings Call

EVENT DATE/TIME: OCTOBER 27, 2021 / 1:00PM GMT

CORPORATE PARTICIPANTS

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

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

CONFERENCE CALL PARTICIPANTS

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

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

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

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

Carolyn M. Capaccio *LHA Investor Relations - SVP*

PRESENTATION

Operator

Greetings, and welcome to the Gibraltar Earnings Conference Call. (Operator Instructions) As a reminder, this conference is being recorded. I would now like to turn the conference over to your host, Carolyn Capaccio of LHA Investor Relations. Please go ahead.

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

Thank you, operator. Good morning, everyone, and thank you for joining us today. With me on the call 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 year-to-date 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 invited 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*

Hey, good morning, everybody, and thank you for joining today's call. Let's start this morning with an overview of the third quarter results, and then we'll spend a few minutes discussing the ongoing market environment. We continue to manage through. And Tim is going to provide a financial review of the quarter, and then I'll give you an update on our 2021 priorities and our guidance revision for the year. Then we'll open up the call for your questions.

So with that, let's turn to Slide 3, titled Q3 results. Consistent with our experience in both the first and second quarter and with our expectations going into the third quarter, revenue remained healthy and grew 24.5%, 3.9% of which was organic and 20.6% from acquisitions. Growth was driven by additional price increases, participation gains and steady end market demand as the momentum from the first half of the year carried into the third quarter. Customer backlog at quarter end, driven by new order activity reached $385 million, increasing 10% on a pro forma basis. Our backlog represents a record level for the third quarter and supports a robust demand trend as we enter the fourth quarter.

Adjusted net income decreased $2.1 million or 6.5% to $30.2 million or $0.91 per share as inflation across material, transportation and labor further accelerated above our expectations in the quarter. Sequentially, adjusted net income per share improved 13.8% or $0.11 per share, driven by strong focus on material productivity, execution of additional price actions and implementing more 80/20 and lean quote-to-cash initiatives.

Now before I dive deeper into the broader operating environment, I want to provide an update on 2 important initiatives and investments. First, the integration of TerraSmart, which after 9 months, is making really good progress. Organizationally, we have integrated our leadership across sales, marketing, supply chain, finance and human resources, with leaders contributed from both of our businesses. The team is doing a fantastic job as it builds and strengthens our systems and processes, which makes it easier for us to scale the business and support growth and also integrate more seamlessly across the total business.

And on top of this work, the team is also trying to do their day job executing in a very strong demand environment while helping our customers manage through the impacts of solar panel supply challenges and significant inflation.

Operating margin for the business has improved sequentially since the first quarter, and the team has navigated relatively well through project management disruptions as our customers deal with inconsistent supply of key components for their projects. Also want to comment on another key initiative, the upgrading of our operating systems and digital capability. These investments are critical to delivering additional value and service levels to our customers and our suppliers as well. We believe we can create more value beyond what we actually make by effectively simplifying and automating more intelligent business processes with our partners. We also believe our systems will help facilitate additional 80/20 and lean quote-to-cash initiatives and accelerated productivity margin improvement as a result. Both our renewables and residential business groups are engaged in upgrading their operating systems and digital simplification activities are in play across Gibraltar as we launch brand and a variety of customer initiatives.

Now let's turn to Slide 4 to discuss inflation in the broader operating environment. The current environment, along with general supply challenges, has probably been one of the most dynamic situations, most of us have ever experienced. The magnitude of change, the speed at which it has happened and its broad reach covering materials, transportation, labor and about every other operating cost we manage. Effectively, we've had 52 consecutive weeks, 4 straight quarters of accelerating cost increases in the third quarter.

And for the third quarter, we did not anticipate another significant increase in broad-based inflation, as shown on this slide. But this is the environment we're in, and we have to keep our focus on the things we can control. First, we have to keep executing our price plans. We have a well-defined and effective price management process in place with our customers to help govern the review and approval of price actions, and we did execute additional price actions during the third quarter. The challenge in this environment is keeping pace with the daily acceleration of input costs, trying to close the price cost gap on a moving target. As inflation stabilizes, we do expect to see margins recover as our price actions better align with input costs.

Second, we have to execute additional 80/20 and lean quote-to-cash initiatives which will help us optimize operating profit dollars and improve margin. Our renewables, Agtech and residential teams have been very active with manufacturing, field operations and businesses on improvements. And we have also been developing automation solutions to be piloted in a few of our facilities.

Third, we must remain incredibly responsive and flexible for customers, which we recently demonstrated in the aftermath of Hurricane Ida. Our ability to respond continues to result in new business opportunities and participation gains in each of our businesses. And finally, and really, most importantly, we and our entire team have to maintain the safest workplace possible for each other. And the team has done a very good job since the beginning of the pandemic, helping each other make this a reality. Our active cases of COVID have remained very low over the last 18 months, and we will remain diligent with our operating protocols to help maintain this environment going forward.

We're going to continue to fight with everything we have to perform well in what I believe to be a very unique and challenging environment. I'm very proud of everyone on our team. The team has really been unrelenting and embracing and tackling our challenges, and it continues to bring passion intensity for the task at hand.

Now with that, let me turn it over to Tim for a more detailed review of our results. Tim?

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

Thanks, Bill, and good morning, everyone. I'll take you through our consolidated and segment results starting on Slide 5. And as a reminder, my discussion will cover results from continuing operations.

Consolidated revenue increased 24.5% to $369.4 million. Organic revenue growth of 3.9% was driven by pricing and market demand in the renewable and infrastructure segments and participation gains primarily in residential. We generated 20.6% growth from the 2020 acquisitions of TerraSmart and Architectural Mailboxes. Total backlog at quarter end approximated $385 million, up over 10% from third quarter 2020 on a pro forma basis, driven by continued end market demand across our businesses. Adjusted operating income decreased 2.6% in the third quarter with adjusted EPS down 7.1%. The decrease related to materials, transportation and labor inflation curve steepening more sharply and the supply chain becoming more difficult during the quarter across the businesses. This was partially offset by price increases at the revenue line, continued execution across the business segments, the TerraSmart acquisition, margin expansion in the legacy renewables business and 80/20 productivity initiatives. We continue to work with suppliers to manage materials and transportation procurement and with customers to manage pricing and expect margins to recover as inflation moderates.

Now let's review each segment starting with Slide 6, the Renewables segment. Segment revenue increased 85.5%, driven by the TerraSmart acquisition. On a pro forma basis, including the TerraSmart transaction, revenues grew 19% with growth in both the legacy and TerraSmart businesses. Demand in the quarter reflected order strength across all product lines, fixed tilt, tracker, canopy and eBOS. This strength offset intensified market headwinds from steel and transportation inflation, along with solar panel and other supply chain disruptions.

Bookings grew over 30% in the quarter, driving backlog up over 80% to a record $184 million, and that backlog has increased almost 15% on a pro forma basis. Segment adjusted operating income increased 62.6%, while adjusted operating margin contracted 150 basis points, a much smaller year-over-year decrease in margin than in the second quarter. The legacy business delivered adjusted operating margin improvement from last year, driven by 80/20 productivity, lean enterprise quote-to-cash initiatives, price cost management and product and business mix benefits.

TerraSmart margin expansion continued to accelerate sequentially despite impacts from project management and field operation inefficiencies that were amplified by supply chain inconsistencies for solar panels and other key components that have been plaguing the industry, along with price cost alignment. Our integration of TerraSmart remains on track with activities in organization, process development, information systems, supply chain and in-sourcing gaining momentum per plan.

Let's move to Slide 7 to review our residential segment. Segment revenues increased 13.1%, our fifth consecutive quarter of double-digit growth, driven by solid demand amid seasonal strength, increased pricing to combat continued material and transportation cost inflation, participation gains in the building accessories business and demand related to the impact of Hurricane Ida.

Organic revenue grew 9% and the acquired architectural Mailboxes business contributed 4% growth, with integration of this business on track. Segment adjusted operating margin income was down $3 million or 9.2%, and adjusted operating margin of 17.2% improved 60 basis points sequentially, despite inflation and supply chain disruptions accelerating further in the quarter as key performance actions we have taken begin to positively impact margin performance. Specifically, the implementation of additional price increases and executing key 80/20 in-sourcing initiatives to mitigate the cost and delivery risks associated with imported product. We continue to expect that as inflation moderates, the alignment between pricing and cost will improve and operating margin will recover. In the near term, we'll continue to maximize operating profit dollars through further alignment of selling prices with input costs, execution and 80/20 productivity initiatives.

Let's move to Slide 8 to review our Agtech segment. Segment revenue decreased 15.5%, impacted by temporary delays in produce project schedules due to imported glass for roofing systems being held for extended time at U.S. ports and continued Canadian permitting delays related to water rights. In the cannabis business, revenue was impacted by project delays related to state licensing and permit approvals, which are delayed, along with the continued challenges with financing for these customers.

Despite the above headwinds, the commercial greenhouse business delivered solid sequential growth on strong demand. Segment adjusted operating income decreased 57.6% from last year, and operating margin increased on a sequential basis, driven by expansion in the commercial greenhouse business, 80/20 productivity and lean enterprise initiatives to help effectively scale the business. Operating margin for the quarter was impacted by overall lower sequential sales due to schedule slippage and the acceleration of inflation and continued supply chain disruptions in the quarter. We continue to expect the benefits of our efforts to improve efficiencies and productivity to accelerate sequential margin improvement during the remainder of the year. Agtech order backlog is improving from the second quarter, up 22% year-to-date with a pipeline of expected new orders in all of this -- all 3 businesses --- produce, cannabis and commercial remaining strong. We expect this pipeline to support momentum through the fourth quarter and into 2022.

Let's move to Slide 9 to review our infrastructure segment. Segment revenue increased 11.3% with solid demand for both fabricated and nonfabricated products and improving state D.O.T. and project funding, driven by the overall economic recovery. Non fabricated demand was somewhat held back by raw material constraints caused by Hurricane Ida's damage to key suppliers in the industry. Backlog at quarter end increased 29% to $49 million, with new customer orders up 66% during the quarter, reflecting the strength across the business and end markets.

Segment adjusted operating margin declined to 8.8% due to product line mix, rubber supply issues, production inefficiencies related to expanding fabrication capacity and price/cost alignment. 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, continue to reduce lead times.

Let's move to Slide 10 to discuss our liquidity position. We used $27 million of cash from continuing operations in the quarter, driven by lower net income during a seasonally strong quarter, marked by inflation and the tactical decision at certain of our businesses to build inventory to guard against supply shortages. Accounts receivable increased due to the timing of revenues during the quarter. The net impact of these investments was an increase of 5 days in our working capital. During the quarter, we drew $27 million on our revolver to fund the working capital requirements. At September 30, we had $334 million available on our revolver, cash on hand of $14 million, and our net leverage was slightly less than 0.5 turn. We continue to expect to repay the outstanding balance on our revolver prior to year-end using cash flow generated from operations.

While we've made a short-term investment in working capital, our operating model is highly cash flow generative with relatively modest capital expenditures. We have ample liquidity to invest in operational excellence, organic and inorganic growth initiatives and organizational development. We remain active in 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*

Yes. Sorry, everybody. Let's turn to Slide 11. I want to talk about our 3 strategic pillars: our business system, portfolio management and organization development. All 3 remain foundational in supporting the ongoing transformation of the business and really the 4 priorities of our business in 2021 continue to move forward. And I want to talk about each of those.

So let's start with number one, scale the renewables and Agtech businesses. The renewable legacy business delivered year-over-year improvement in both revenue and margin in the quarter, further advancing its leadership position in the industry. The business continues to deliver good results and be a positive outlier in the solar racking market. The TerraSmart business, as I discussed earlier, is making good progress in its organization integration, the building and the scaling of its processes and systems, and revenue and margin performance have improved sequentially since the start of 2021. The Agtech business is demonstrating the sequential improvement we anticipated, and we expect both revenue growth and margin to improve further in the fourth quarter.

Secondly, improving execution across Gibraltar through improved health and safety, our 80/20 productivity quote-to-cash lean initiatives and new product development. Safety performance continues to improve, and we are managing through the ongoing pandemic well with active cases currently less than 0.1% of our total workforce. The renewables, Agtech and residential businesses have all been very active with 80/20 and quote-to-cash lean initiatives as well as executing on identified supply chain and manufacturing synergies.

Third, managing accelerated inflation and supply chain challenges. In a relatively short period of time, this environment evolved from mainly a steel price issue in October of 2020 to becoming a much more broad-based material labor, transportation inflation and availability issue, all accelerated at incredible speed since the beginning of the year. Our team responded with expediency and has maintained a strong pace in the chase to catch a moving target. We have executed aggressive supply chain actions. We have implemented multiple price increases and additional 80/20 initiatives. Our actions taken in this environment, although we have not completely offset the substantial input cost increases will help us deliver a strong fourth quarter and a record full year performance in 2021. That being said, we need to keep focus on closing the gap, drive better alignment between our price and input cost and focus near-term on maximizing margin dollars.

And fourth, continuing to conduct business the right and responsible way in doing that every day. We are finalizing our first annual corporate responsibility report for issuance in the fourth quarter. We're also developing both long-term and interim performance targets supporting our CSR initiatives. For everyone on the phone today, if you've not already received an official invitation, I want to invite you to our Investor Day in New York City on November 17, just in a few weeks, which will be held in person and virtually. We are excited to host you and introduce our leadership team, learn more about our vision and strategy, provide insight about our businesses and the markets we participate in and also understand our key priorities going forward. So if you will, please mark your calendars.

Let's move to Slide 12 to discuss the outlook for 2021. So our demand continues to be solid across our business, and our EPS guidance revision reflects the current cost and supply chain environment, which we expect to remain as is through the fourth quarter. It also includes incremental costs for potential labor and productivity impacts associated with administering upcoming COVID mandates.

We continue to be well positioned with strong backlog, increasing customer orders, a healthy balance sheet and a continued focus on daily execution, acquisition integrations and strengthening our operating systems. Our revised full year guidance is as follows: consolidated revenue full year 2021 is expected to range between $1.31 and $1.35 billion. GAAP EPS from continuing operations is now expected to range from $2.45 and $2.56 compared to $2.53 in 2020. Adjusted EPS from continuing operations is expected to range between $2.95 and $3.06 compared to $2.73 in 2020. While we do not, as a matter of normal course, give quarterly guidance, given this is our third quarter call, we wanted to provide expectations for the fourth quarter 2021. GAAP EPS from continuing operations is expected to range between $0.48 and $0.60 compared to $0.53, and adjusted EPS from continuing operations is expected to range between $0.71 and $0.82 compared to $0.59.

For the fourth quarter, this represents adjusted EPS growth of 21% to 39%, driven by strong demand, slight moderation in steel inflation and more favorable alignment of pricing and throughput costs. For the full year, outlook reflects year-over-year revenue and adjusted EPS growth of 27% to 31% and 8% to 12%, respectively.

Again, I want to express my thanks to our entire team for embracing this environment, remaining resilient and bringing passion enthusiasm every day. I also want to thank our Board, our suppliers and our customers for their continued support and partnership as we collectively take on today's challenges and execute our new opportunities. And with that, we will open the call for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question is from Ken Zener with KeyBanc Capital Markets. Please proceed with your question.

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

Well, one of your parts, I guess, it doesn't seem to be a top line issue here. So as it relates to steel, I know, certainly, on the renewable side, we had talked about how you position your price contracts on a more limited term basis backwardly integrated to your suppliers, which was giving you very strong performance in the first half of the year. It seems as though most of your revision occurred based on the third quarter mix miss. And the fourth quarter is tightening up a lot. So could you maybe walk us through those different components? Because you said it first, it was steel, and now it's just a whole bunch of different things. But like in renewable, because I think what investors are going to be most focused on is your ability to kind of say when these margins, right, will be in other categories, people are talking about cost neutral. So do you see cost neutrality happening by the beginning of the year. And obviously, with your Analyst Day coming up, you'll -- you have a lot more venue to expand on this. But -- or is that too simple because glass is sitting somewhere in Long Beach?

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

Yes. Now, it's a good question, Ken. I think it's still a relatively complex environment out there across supply chain. So what accelerated in Q3, obviously, as you hit on, which is much more than just steel. Steel itself, as you see from the numbers accelerate significantly. But if you look at steel, aluminum, polypropylene, those are the 3 big buys for us. Those were all -- those all accelerated 30 percentage points or greater from a market perspective. And then some of the things that we import, as you referenced, like glass, those container rates are now up 420%, and they accelerate another 185 percentage points in the quarter. So yes, it's pretty broad-based. I would say the labor piece of this is -- we got our arms around that in a much better way than Q2, but I'd say the broad inflation around materials continues to be a challenge. But as it relates to specifically to renewables, our core business, the legacy business, really delivered on top and bottom line. We improved year-over-year in this environment. So I think what the team has done and how they continue to operate is very effective in this pretty interesting environment. And where you see a little bit of the drag came from TerraSmart, which although improved sequentially, the big challenge with TerraSmart in the third quarter really is related to a lot of the supply chain disruptions. Our customers are having, particularly as it relates to panel supply and a few other things. And the reason that's more relevant for TerraSmart is because of the field operations approach we deploy, we're moving people around in a pretty interesting way to try to keep up with these changes where projects are moving day in, day out. And that's been amplified, I think, in the last 90 days by some of the supply chain issues that you read about every day. We'll overcome that. But again, even in that environment, they improved sequentially over Q2. So I did think the renewables business is operating very well given the environment, and I think we'll continue to do so going forward. But in terms of the overall environment, I think it's still -- we're anticipating it to remain very challenging as we go into Q4, as I mentioned. We are seeing some of the materials, particularly steel, stabilized over the last 2 or 3 weeks. That's maybe an initial indication of some things kind of starting to get less inflationary, but steel is the only one right now that has demonstrated that in the near term.

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

I appreciate those comments. For my follow-up, I guess I'll drill into the renewable, where you quote talked about project management and field operational efficiencies. Would you say most of the margin pressure then in renewable? While steel is there, you had your contracts, but it's really the project management, field operations side. So it's your equipment, it's your labor. It's not necessarily the steel that was the predominant margin pressure?

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

Correct. Yes, I think that's a fair assessment. We did, I think, a very good job managing through the additional increase in steel. The challenge has been more around, again, moving crews across different projects as they're getting disrupted from supply chain issues with things that we don't buy or control, but we end up having to modify schedules around the specific projects. That -- we deal with that on an ongoing basis. My only point to everybody is that got amplified further as specific to the renewables industry, I think if you've seen this, there's a couple of different issues going on with panels and that created a challenge in the quarter for field ops, just kind of navigating around those projects as customers had to change schedules themselves. And so when they act, we have to do that.

Operator

Our next question is from Dan Moore with CJS Securities. Inc.

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

Maybe I'll piggyback a bit on Ken's question and walk through the other 3 segments and talk about the margin pressure by segment, how much is related to raw materials and more timing versus really supply chain logistics and things which appear to be perhaps a little bit more open-ended in terms of when they'll be resolved?

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

Sure. So where would you like to start, Dan, in the particular segment, do you want to jump on or just...

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

I mean you can go resi and then down to Agtech and infrastructure spot, either any order is great.

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

Got you. Okay. So resi, if you think about our resi business, it's steel aluminum and resin, in particular, those all saw increases in the quarter again, and we -- there subsequently implemented more pricing associated with those increases. So that lag that we talked about on the material inflationary side with our pricing, cost alignment. It's just the chase continued in Q4. And that's the bulk of the pressure on the margins in the quarter was associated with that. Ability to get material into our facilities. I think we have our arms around our ability to manage through the labor piece of this is getting better than it was in Q2, but the material inflation challenges that happened during the quarter were just greater than we expected. And so we're reacting appropriately, but there is a process that, as we've talked in the past, that we follow to drive those price increases. So I think that's mainly the residential segment. If you look at the infrastructure segment, the big thing that hit us in the quarter was our supply of Neoprene, in particular, our rubber based products for nonfabricated business really got impacted by Hurricane IDA. And that really comes down to a facility there, which has been shut down for an extended period of time since and coming online now. Coming back online has really forced us to scramble to get offset that from other locations around the world, and that just took some time. So that kind of threw us off on the margin side during the quarter. I think that's more temporary in nature and that will correct itself. And the good news is that business has continued to have a strong top line. So as we get that piece squared away, I think you'll start to see things come back into line as we move into next year. And then when you think about Agtech, Tim mentioned earlier, we had some pretty interesting, I'll consider more onetime issues, and we mentioned glass that was held up in port for a lengthy period of time. There's a couple of different things going on with that supply chain as it relates to glass. Number one, we were held up. Number two, the price of ocean freight rates have gone up substantially. And I don't know how close you guys track those. But in the last 12 months, they've gone from roughly $3,800 a container to over $20,000 -- got over $20,000 for that same container during the quarter. So you got 2 things. You've got a little bit of a delay issue, and you've got this increasing cost on the freight rates. So what we've done during the quarter, which will show up as we move forward is we've been able to identify other suppliers, particularly in Europe. And that's a big deal for us because, a, shorter distance to travel to the rates as a result for ocean freight are significantly less. It doesn't mean they're not elevated versus where they were a year ago, but there are significantly less from what you're seeing coming from Asia. So we broaden our supply base that supply base wasn't available a year ago. And I think now we have another level -- another tool in the toolbox to deal with some of those type things that really impacted the renewables or the Agtech business during the quarter. And that's just one example, but that's a pretty big example because we do buy a lot of glass for building these large structures. So I'll stop there. I think that's -- we've been dealing some one-off things. I think we have some broad-based inflationary stuff in residential that we're continuing to execute our playbook around how to approach that. And in our infrastructure business will overcome this hurricane Ida impact on a portion or non-fabricated business, but those will clear themselves. It's just a timing issue more than anything else on that.

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

Very helpful. Appreciate that. And that was multiple parts, but if I'll sneak one more. Just in the cannabis extraction equipment. The market is evolving quickly, obviously, very dynamic. Just talk about your positioning of your products and solutions relative to alternative extraction methods. Are you where you want to be and you anticipate additional M&A to build out those capabilities?

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

Yes. We have a pretty broad offering today. There's really 3 approaches deployed in the marketplace today. We have 2 of those technologies on hand. So you might say that there's a third leg of the stool as it relates to the technology options required because as everyone -- as we talked in the past, what's required, the technology used to extract has a lot to do with what end product you're looking to actually create. And so we have 2 of those 3, I think, that are mainstream, and there's a third that is out there. And frankly, there's a force that we're working on, which I think might be interesting down the road as well. So you'll see us continue to broaden our technology capability in that area in general.

Operator

Our next question is with Walter Liptak with Seaport Global.

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

Well, with all the moving parts, I thought I'd try one around the guidance. And just ask about -- there's always a range. I guess, this time, it's a little bit different because it sounds like it's not a demand issue that would impact the range. But maybe you could talk a little bit about the difference between the low end and the high end of the revenue guidance. And it looks like there's $400,000 in sales. What would you have to see happen to hit the high end? What would keep you from doing that?

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

Yes. Well, I think the team is, I would say, feels better about the upper end of the guidance as we roll up today is versus the lower end, which is a good thing, but as we get into this quarter, what are the things that could throw us more in one direction or the other. If we have -- and we feel pretty good about it right now. But if we have some additional supply chain disruptions that our customers deal with in our project-based businesses, could that delay a project a week or 2 or move it from Q4 to Q1. We always deal with that, as I mentioned earlier, just trying to lock that down and work it as closely coupled with our customers day in, day out as we finish up the year. And so we're laser-focused on that. But that's always a challenge that we deal with, but it's probably a little bit more amplified now in this environment, as I talked earlier, and that would be one thing. I think the other thing that I mentioned in the in my remarks is we have these -- we have the updated COVID mandates that are heading our way. And so as we think about how to execute that, we built that into, but we're not exactly sure where that's going to land. So we've built some of that into the plan. And the reason we don't know exactly where that's going to land as we have a date that's out there, but we don't have clarity in terms of the requirements of what we have to do as it relates to testing. And we don't have enough time today to take you through all that. We'll do that in some follow-up calls. But we are -- we have been working on that for the last couple of months, and I think that's going to be an interesting set of variables that we'll deal with. And that will then roll into, obviously, next year, depending on what the mandate ends up finally being. So those are just 2 examples of some things that are in play during the quarter. But fundamentally, outside of that, I think the businesses feel good about the demand profile, and we have access to the materials we need. It's just a matter of executing as well as we can during the quarter.

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

Okay. Fair enough on those. I guess for my follow-up on TerraSmart, you mentioned that improved sequentially. How much for cost ran through? Like where would have profits been if you didn't have to, I guess, move these crews around because of supply delays?

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

Yes. Well, we would have made -- and I think, operationally, the team actually when you're in this kind of business, you have change orders that occur all the time and the flow of when those -- for projects that you're working on or that have been completed. And sometimes those changeovers don't actually flow through until the following quarter. But if you look at the ones associated with Q3 that will pick up in Q4, the team really actually performed better than what we're showing. But I think inherently, we would have crossed into the double-digit margin level as we had expected going into the quarter. And as we talked earlier in the year, TerraSmart margin accelerates in the second half of the year because that's the busiest time of the year, and that's -- we're working 7 days a week right now. So that's an important piece of the business as we flow into the second half of the year. And we expected our margins to cross into double-digit as historically has been the case. So we were a little short on that because of timing of some of these change orders, but dealing with the whipsaw effect of some of the supply chain issues. The team responded very well, but I think you would have seen us more in double-digit in Q3, and that obviously would continue into Q4. So that's always been our plan this year. And I do think we'll continue to make progress. So it's not where we thought we'd be, but we continue to make positive steps forward sequentially and just a little bit less than we would have liked in this environment.

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

Okay. Does TerraSmart have a better line of sight to supply chain for the fourth quarter? Or is there still variability in that where you can get supply chain disruptions?

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

Yes. Good question. For us, the way that we try to manage that is every active project, which we're doing -- we have about 300-plus projects that are always in flight. It's really getting down to understanding every day, every week, with each project, how that project and the folks that are driving their supply chain to support their project are dealing with some of these issues. So it takes a lot of time and effort to make sure that their panels are coming in, and other key components are coming in. So the overall project doesn't have to move. And so that's -- our line of sight is based on our ability to go talk to them, which I think is pretty good. And our plan in the fourth quarter is based on what we know as of today and how our customers feel about that. So a lot of customers know what they have on hand, and it's coming in, and they feel pretty good about that. And there's always a bucket that has a little less in today's environment, they could be a little less confident because oftentimes, they don't learn until the day before or even a week before what's actually going to happen with some of the supplies. So it's just being meticulous and diligent with every one of these projects, and that's the mode the team has been in, frankly, in the -- from the second quarter onward.

Operator

Our next question is with Julio Romero with Sidoti & Company. Please proceed with your question.

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

So on the Agtech business, I wanted to dig a little more into the Thermo business integration. What are the challenges that you're seeing specific to Thermo? And did you see sequential volume growth in Thermo in the quarter?

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

Yes. So from a challenge perspective, I think we've made a lot of progress on our integration. We've talked a lot about that in the past. We are finally allowed to step foot into Canada. So that's been helpful. But I think the team has done a pretty good job, feels really good about where we are relative to that aspect of things that we're working on. We're starting to see the produce business accelerate from a growth perspective. Backlog is continuing to build. And there's a lot of activity ongoing right now in the pipeline, rather large opportunities, both in Canada and the U.S. So yes, we feel pretty good about how that's coming together. I would say the same is true for our legacy business in Agtech, which for those that -- as a reminder, that's everything from horticulture to the botanical gardens to retail a lot of interesting things going on there. That's performed quite well. It is performing well and delivering. And there's a lot of interesting things that will carry us into 2022 that are materializing or have materialized into the backlog as well. So net-net, I think outside of some pretty big disruptions on executing some projects for each of those businesses. The outlook is -- continue to come together quite well as expected. And I think you'll see us improve again in Q4 sequentially, as we've been talking about. We're still targeting to reach double-digit margins in the quarter. And if we can avoid some of the big supply chain issues that we absorbed in Q3, then I think we have a really good shot at making that a reality. So we've not lost focus on what the with the prices in Q4 for that business. So you'll see us make another step forward in improvement.

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

Got it. But just to clarify, you did see the sequential volume in 3Q yes.

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

Let me -- actually, we were off a little bit or it because of...

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

I'm sorry -- yes, sorry, Julio, backlog or growth?

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

Just on revenue growth.

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

Revenue -- sorry. Go ahead, Tim.

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

Yes, we were off a little bit on revenue, not because of demand, but because of the ability to actually move projects forward because of supply chain disruptions. So the demand is there. But if we can't get product, we can't do the build and glass delays create a lag in revenue there.

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

Yes. Julio, sorry, I apologize. The port issue that we dealt with was specific to produce, the demand there, the projects there, backlogs there, but it just pushed us into this quarter, but the produce business, the momentum is -- remains positive and continues to pick up. So we're excited about that in produce.

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

Okay. And I guess just for my follow-up, on the guidance, I guess, the change to your free cash flow guidance to now 4% of sales for the year. So the sales guidance doesn't change. So I guess the implication that the decrease for the free cash flow guide is just a function of lower net income or is Thermo? Is there any changes related to Thermo integration playing a role in the free cash flow as well?

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

Yes. So in general, we're going to make less money, right? That's not Thermo specific. It's a little bit across the businesses from our original plan. And so that impacts it. And then really, when you look at where we've increased our investment in working capital, it's really in the residential and the renewables business. We expect to claw some of that back in the fourth quarter. I don't think there was anything -- any significant investment in Agtech or infrastructure. It was really in resi and renewables. And I expect those to get -- that will reduce the investment in the quarter, but I don't think we'll get back to the days that we had at the beginning of the year quite yet. And then part of that is just dollars because of inventory cost being so much higher and the effect that has on revenue, just the amount of dollars sitting in inventory and AR is higher.

Operator

Our next question is from Ken Zener with KeyBanc Capital Markets. Please proceed with your question.

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

Could you talk about residential in terms of the lagged or comp effect versus last year when you guys kept your operations functioning, I think, more than your competitors, which led to market share gains based upon your being there. Can you talk about how that's kind of settled out now that we're comping some of those supply benefits you had last year? How are those relationships expanding? Because that was obviously one of the big segments that benefited from your -- the 80/20 initiatives, the whole duration of those in terms of distribution customers, how has that kind of played out in terms of regional market share within the supply companies that you're serving?

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

Yes. It's actually played out quite well. We saw again in Q3. As everyone continue to deal with supply chain issues or availability of material, we were able to respond and pick up some additional business during the quarter in a couple of different regions. I mentioned hurricane Ida. That was -- our ability to respond to that is very helpful, but it's also because we're well positioned in that part of the country, but we've also been able to expand in some other regions, particularly the West Coast, where we were able to respond to demand and deliver and where others could not either get access to material or just couldn't respond. So I think -- I would suggest we've become a better partner through demonstrating some abilities over the last year or so in the residential business, and I think it continues to pay off for us. So I mentioned earlier, we -- being able to respond to this environment is an advantage. So having access to material is one aspect of that. And then being flexible with some of the unique things that have been ongoing for a lot of our customers. We've just been in a better position to be able to respond accordingly. So I feel good about the position we're in and the expansion we've made in total as well as in some of the unique geographies that historically we were not in as well as we needed to be.

Operator

It appears that there are no further questions at this time. So I would like to turn the floor back over to Mr. Bosway for closing remarks.

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

Well, again, thanks, everybody, for joining us today. We look forward to seeing all of you in person or virtually at our Investor Day in New York here on November 17th. And we'll also be attending investor conferences in both December and January. I want to wish everyone a safe and happy rest of 2021 and look forward to reporting our progress in the fourth quarter earnings release. So thank you, and have a great day.

Operator

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