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ROCK.OQ - Q2 2020 Gibraltar Industries Inc Earnings Call

EVENT DATE/TIME: AUGUST 05, 2020 / 1:00PM GMT

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PRESENTATION

Operator

Greetings, and welcome to the Quarter 2 2020 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. Please go ahead.

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

Good morning. Thank you, Irene. Good morning, everyone, and thank you for joining us today, and thank you for waiting for the call to begin. 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.

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.

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

Now I will turn the call over to Bill Bosway. Bill?

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

Thanks, Carolyn. Hey, good morning, everybody, and thank you for joining our call today. Sorry, we're a little late. With the storm to hitting the coast, there's a little bit of a challenge getting everybody on today. Let me start with I hope you and your families and friends and coworkers are keeping safe and healthy as our pandemic continues.

I will start today with an overview of the second quarter results and then give you an update on our execution plans. And then Tim will review our Q2 results. Then I'll come back with some thoughts on the rest of the year, including updates on some key strategic initiatives, and then we'll open the call for questions.

Let's turn to Slide 3, our Q2 overview. Before we share the results of the quarter, I do want to first thank our entire team and their families for their effort, dedication, resilience and frankly, resourcefulness since the pandemic began. I also want to thank our Board of Directors for their ongoing guidance and support.

It's been a difficult time for everybody and our families and friends, both mentally and physically, and everyone has been challenged through this pandemic. Everyone has a story, a specific challenge, and I continue to be amazed how well the team has responded. We talk a lot internally about how important each day is, how every day truly matters, both at home and at work, and importance of staying balanced, focusing on what we can control and doing it as well as we can. And I'm very confident in our team and our ability to keep moving forward.

As we discussed during last quarter's call, April was a challenging month, which did make it difficult to understand and predict the economic impact of the pandemic in the quarter, particularly for our residential building products and industrial businesses. However, we started to see positive end market demand develop in early May, which then continued into June as consumers spent more time nesting at home and working on repair and remodel projects. As well, our renewable business continued to make good progress in a solid renewable energy market. And I think collectively, these two trends really helped us offset -- more than offset slowdowns in other end markets.

Early on, as the pandemic unfolded, we made two key decisions: first, we implemented our pandemic operating protocols, which we continue to execute and adapt as the pandemic moves into a next phase; and second, we kept our team intact. We transitioned two manufacturing lines to make masks and sanitizer and then provided PPE to our team and their families. Keeping our team together along with our pandemic operating protocols, I think, has allowed us to respond quickly to much of the changing demand, support our customers in a timely manner and do so while improving operating performance at the same time.

As a result, our Q2 revenue increased 8.8% over last year, adjusted EPS up 15%, and our backlog increased 14% to $277 million. Furthermore, we delivered operating margin improvement of 200 basis points on a GAAP basis and 130 basis points on an adjusted basis.

So let's turn to Slide 4. I've shown this before, but we executed our operating playbook in the second quarter, and we remain very focused on executing our plans moving forward. I think the current phase of the pandemic requires ongoing discipline and diligence. And we will continue to support CDC mandates, all our customer-requested protocols, our facility reconfigurations and zoning to maintain social distancing, our shift management approaches, temperature checks, sanitization protocols, employee tracking and follow-up as well as visitor policies. We will also continue our internal communication cadence across the organization, share and implement a lot of best practices that we've learned during this time and adapt accordingly.

We've been fortunate to be in a position of readiness as our customers have requested or needed support. In hindsight, I think having our team intact has given us the opportunity to grow with customers and respond a bit better what others may not have been able to do so. That being said, as the pandemic continues to spread, our top priority still remains our people, keeping our teams safe as we can and staying disciplined and diligent, executing our protocols and processes and finally, our communications across the organization. We're going to continue to operate our facilities and offices as we have been, and then we'll reassess this approach later in the year or early next year.

Now let's turn to Slide 5, and we'll have Tim review the consolidated financial results.

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

Thanks, Bill, and good morning, everyone. I'll take us through our consolidated and segment results. As Bill mentioned, our April results were initially impacted by the economic disruption caused by the pandemic, followed by sequential increases in the markets served by our Residential Products and Renewable Energy & Conservation businesses as we moved through the quarter.

Consolidated revenues increased 8.8%. 1.6% was organic growth and strength in our Renewable Energy & Conservation and Residential Products segment offset the decline in our Industrial & Infrastructure segment. We also generated 7.2% growth from our recent acquisitions of Apeks Supercritical, which was completed in the third quarter of 2019; and Thermo Energy solutions and Delta Separations, which were completed in the first quarter of 2020.

As Bill noted, backlog at the end of the quarter was $277 million, up 14% from the prior year and 7% from the previous quarter, driven primarily by our Renewable Energy & Conservation and to a lesser extent, our Infrastructure business. Consolidated GAAP operating income was up 30.1% and adjusted operating income increased 20.6% in the second quarter. Second quarter 2020 operating income included $1.2 million of net direct investments in the safety and financial security of our people directly related to COVID-19.

Consolidated GAAP and adjusted EPS grew 36.1% and 15.1%, respectively. The improvement from last year was the result of organic growth and continued execution in our core Renewable Energy & Conservation and Residential Products businesses, marked margin expansion in the Industrial & Infrastructure Products as well as product and service mix, better price/material cost management and ongoing benefits from operational excellence initiatives.

Now let's review each of our three reporting segments starting with Slide 6, the Renewable Energy & Conservation segment. Segment revenue increased 29.3% with organic growth of 4.2% and 25.1% growth from the acquisitions of Apeks Supercritical, Thermo Energy solutions and Delta Separations. Organic growth was driven primarily by strong demand in the renewable energy market. The cannabis growing and processing markets were down in the second quarter as the pandemic caused some issues with access to capital for our customers in these markets and as the industry continues to mature and adjust to regulations.

Strong margin expansion in the core business was driven by volume leverage, strong execution, continuing productivity improvements and the mix of product and services, which was partially offset by softer demand for cannabis growing solutions. The margin expansion in our core operations was offset by losses generated from our recent acquisitions, due mainly to the weak demand in the cannabis processing market. And while there have been a few integration challenges, integration overall is expected to be completed on time to deliver targeted returns.

Second quarter 2019 operating income included $2.3 million in incremental costs incurred in the field to improve durability and ensure performance of our solar tracker. We entered Q3 with strong backlog across the segment, up 15% from the prior year as we gained further participation and see strong customer demand. Backlog from renewables is up 25% from the prior year quarter from continued strong end market demand, and growing and processing is up 7%, driven by our recent acquisitions.

Let's move to Slide 7, our Residential Products segment. Residential Products segment revenues increased 7% from last year, a result of strong repair and remodel activity as homeowners began to "nest" during the pandemic as well as participation gains with key partners. Adjusted operating margin increased 400 basis points, a result of consistent execution, better price/material cost management, continued benefits from 80/20 simplification initiatives and volume leverage.

Let's move to Slide 8 to review our Industrial & Infrastructure Products segment. Segment revenues decreased 14.4%, driven by lower demand for core industrial products during the pandemic. The infrastructure business was comparable to last year's quarter, and its backlog grew modestly. Adjusted operating margin was up 490 basis points through continued strong execution, producing sizable industrial margin expansion, better price/material cost management, favorable mix and continued execution on 80/20 initiatives.

And now let's move to Slide 9 titled Strong Balance Sheet Provides Resilience, Supports Growth to discuss our liquidity position. We generated $36 million of cash from operations during the second quarter, driven by higher net income and reduced investment in working capital. During the quarter, we sold the Tour24 business, a multi-family service offering in our Residential Products segment, for $2 million and invested $2.4 million in CapEx. At June 30 and as of today, our revolver remains undrawn.

Given $121 million in cash on the balance sheet and an undrawn $400 million revolving credit facility, we've got solid liquidity to weather the economic impacts of the COVID-19 pandemic while continuing to invest in operational excellence, growth and the development of our organization. We've resumed active M&A discussions and continue to remain laser-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 move to Slide 10 titled Outlook. Our confidence is building but uncertainty remains. I'd like to comment on trends we are seeing in our markets and businesses, effectively really up through the end of this past month, July.

Let's start with our Renewable Energy & Conservation segment. Our renewable energy business continues to see good momentum in a growing end market, and sales and backlog for the business are very solid. We continue to invest in our solar business and recently launched Sunflower, our second-generation tracker solution, and also acquired intellectual property supporting our solar canopy business.

In our growing business, our largest segment, vegetables and produce continues to see solid momentum and growing backlog. I think the addition of Thermo Energy Systems, a leader in this market, has been very positive for us, and our integration plan is on schedule as well. Our second-largest segment in our growing business is the cannabis segment. And during the quarter, the market slowed as customers paused to assess the situation. But we expect the market to improve in the second half based on recent project bidding and order activity.

For both renewables and growing businesses, as it relates to this pandemic, we're also closely monitoring state and local pandemic-related mandates that could impact our existing or future project schedules.

Our processing business is still dealing with a soft market, although we started to see more activity in June than early in the quarter. And the market is dealing with the pandemic and its impact on customers' access to capital for equipment purchases. And the market is also resetting itself as the industry continues to adjust to regulations and consolidate and mature. We expect the market to continue to recover in the second half and really build momentum as we move into 2021. We're executing our integration plan with Apeks Supercritical and Delta Separations. And I think we'll be ready to move forward with strength and speed as the market recovers.

In our Residential Building Products business, the market remains healthy as customer weekly point-of-sale results indicate ongoing demand for our products. As mentioned earlier, consumers working from home and/or nesting continue to execute repair and remodel projects, which we believe will continue at some level going forward.

Our direct-to-homeowner business, which experienced a significant slowdown going into April, really saw a strong recovery in May and June as our dealers were able to adapt their sales process to meet homeowner requirements for an in-person interaction at the home. Demand in this business remains steady. And as with our other project-based businesses, we are monitoring state and local pandemic-related mandates that could impact existing or future installations of these products.

Our industrial business will continue to experience a slow market during the second half, particularly for core products. We do expect our architectural and perimeter security project business to remain -- to be more active as long as state and/or local regulations allow project sites to remain open. Our infrastructure business should remain steady, particularly if we have more clarity on state and federal infrastructure spending planned in the second half.

To summarize, as we see things today, we are confident our second half will be stronger than our first half. But I do remain concerned with the current state of the pandemic, the impact of the next round of government stimulus and the economic impact both may have in the coming months, not just on the overall economy but also our markets and customers. I think we all learned in the second quarter how swiftly things can change in this kind of environment. And so as a result, we've decided our quantitative guidance will remain suspended, and we'll revisit this obviously in the next 3 months.

Let's go to Slide 11. I want to talk a little bit about our pillars. Our long-term goals remain the same: accelerate growth, improve profitability, utilize assets more effectively and deliver higher return on invested capital. And I think we continued to do that during the quarter. We're focused on our operating pillars, as a reminder, business system, portfolio management, organization development. And we have actually continued to invest in all three so far throughout the year.

In our Business System, we continue to work on the business, invest in improved earnings and fund critical growth and profitability initiatives. We've also implemented or continued new operating protocols for today's environment. We've implemented business continuity protocols for today, I think, as well as for tomorrow. We've made key investments in our digital and IT processes and tools. SAP implementations are on track. CRM initiatives in a few of our businesses and a variety of e-commerce investments to support a few of our platforms. And then we've just had really intense focus on monthly execution and then try and find ways to accelerate additional 80/20 initiatives.

From a Portfolio Management perspective, our effort remains focused on asset optimization and then integrating our recent acquisitions as we planned and then continuing discussions with companies to build out our platforms for our strategy. And finally, organizationally, really, our main focus has been to keep our team safe, healthy and intact and be in a position to execute and respond to customers better than anyone in our markets and also continue adding and top-grading talent across the organization, which brings even more or broader perspective, diversity of thought, experience and competency to the team.

I'd say although this year has been challenging, and I think it will continue to be, I do believe we're in a good position with a healthy balance sheet to keep investing in our strategy and deliver better performance in the second half of this year as well as over the next 24 to 36 months. I think the flexibility and adaptability we are building into our business and our focus on execution are really helping us support our markets and customers and still deliver improved growth, profitability, asset optimization and stronger return on invested capital.

As I opened with today, I just want to reiterate how proud I am of our team and how grateful I am for their ongoing support, dedication to each other as well as the company, the communities we operate in, our customers and, of course, our shareholders.

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

QUESTIONS AND ANSWERS

Operator

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

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

Trying to unpack what was a very good quarter in a lot of ways. So the two areas I want to focus on are, first, just going to be the renewable segment and growing. I guess that's how you'll be categorizing it. So renewable in your slide deck, you said up 16% year-over-year. Is that correct? Just so I can make sure I'm tracking that correctly.

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

Yes. We had -- organically, we were up, and it was driven by the Renewable Energy. So we gave that growth number.

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

Okay. Now because you have a lot of acquisitions in the growing earlier this year, can you just highlight what the mix is, again, of where we are in the kind of run rate for that segment in terms of what's renewable and growing? If you could just reset that for us given all the acquisitions.

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

Yes. Ken, we expect it to run about half and half. It's not quite there yet but it should drift to that direction.

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

Okay. And then the customers on renewable, you're obviously bringing up backlog in this segment. And I do think as this segment outgrows your traditional segments, this is increasingly the key area for your business. So if we could go into -- Bill, since you're putting out this backlog, about 15% renewable and growing, have different growth rates, how should we think about this backlog as it relates to -- I don't want to say forward quarter or quarters conversion. But I mean it's -- obviously, you're putting it there for a reason. How should we think about that backlog translating to kind of growth rates that we see? And how has COVID impacted the conversion of that backlog versus what you would have expected traditionally?

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

Yes. I would say that versus -- the COVID impact on this has been not so much as it relates to the solar business or the renewable business. The backlog that we've generated continues to flow as we would typically see into sales. There's been some starts and stops with just permitting and things of that nature. But for the most part, it's flowed relatively consistent with what we've seen prior to the pandemic.

On the growing side, you have to break that down a little bit further. There's two markets, as we talked about, and really our largest is produce and -- which is vegetables and leafy greens and such, and that backlog continues to grow just like renewable does. And you'll start to see -- we got into that business at the beginning of the year with the acquisition of Thermo, coupled with a relatively small presence we had. So I think the -- based on order activity and backlog that's building now, that's going to translate into sales going into the second half and then it gives us decent momentum going into next year.

The area that has -- that slowed, it's a little harder to predict. Where I think COVID has been more impactful is the cannabis end market or the cannabis market for growing and processing. So as I mentioned earlier in the call, that market really paused, and we anticipated that. That happens to be where we have our -- two of our three acquisitions, which is the two processing ones. And I would consider that market a drag on our overall results. And as a result, our two businesses dragged along with it.

But at the same time, if you're looking for something positive, as we always do in a situation like this, this gave us a lot of time to work on integration and probably do it a little bit quicker than we could have done otherwise. So that's coupled with the fact that we're all remote. So we're doing a lot of the integration remotely, but we're able to get a good chunk of that done prior to COVID and then follow up with things virtually.

So I feel like we've worked really hard on the business, but we're waiting on the market to kind of step back up and recover accordingly. So the backlog has really been built around renewables. The growing piece associated [with] produce and less so on the cannabis side in the quarter.

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

Yes. And if I could ask just one more question. I'm in Northern California by your Santa Rosa -- one of your acquisitions. There's no real way for me to get a good sense without you commenting on it specifically. So that conversion related to the cannabis end market, is that -- you mentioned capital constraints. I mean is there some -- my understanding is consumption's up, just reading press articles. So...

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

It is.

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

So is it that people have spatial issues? Was it related to Northern California counties doing something related to manufacturing? Tesla obviously highlighted a lot of that concern in the past. Could you just give us a sense if it's -- if your view of that market's changed given what we've seen and the constraints you're facing? Sorry to delve into this deeply. It's just I can't get an answer and I don't think you communicated publicly, otherwise.

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

Yes. No, that's okay. No, the market's got a few things going on and one was the pandemic. So like in a lot of industries, people pause to figure out what was going to happen here. You've got a very immature market to start with, and you have a lot of small private companies that are in it. And as a result, when this pandemic hit, trying to understand -- remember early on, most of these companies were not deemed essential. So everyone was circling the wagons to see, make sure they preserve capital accordingly. And then a month or so later, then they were deemed essential.

So there's a lot of start, stopping going on because of the pandemic. And you have a lot of small companies across a variety of states trying to work through it. And each state was a little different in terms of what's essential and what's not. So that was very disruptive in the second quarter, and I think people circled the wagons and said, "Let's batten down the hatches until we figure out the landscape here." So that was item #1.

And you've got some ongoing regulatory things that are evolving, too, in the marketplace that will work itself out throughout the year. And I think that's another thing that the industry is trying to work through, and we knew that was coming as well. And so as a result of both of those, there's a bit of a resetting. So I think it's -- remember, for a lot of these small companies, banking has been a challenge and access to capital has been -- has not been a challenge up to this point because it's been moving so quickly. Now you put a stop on it because of this pandemic. It becomes a challenge pretty quickly. And we're starting to see that work itself out.

So I would consider the structure of the market okay. I think the -- there's a bit of pause, obviously, over the last 5, 6 months. And that's starting to work itself out, but it'll take a little more time. We started to see more activity in June, significantly more activity in June than what we saw earlier in the quarter. And I just think it will take some time for that to -- that resetting process to work itself out. And I think going into 2021, you'll see things running similar to the before.

So we don't feel a whole lot different about the market, and we're still positive about what we're trying to do and what we want to do. But like everybody else, we're working through it right now. And we're able to offset it, what's going on in this market, through some of the other things we're doing in the rest of our business and some of our other end markets. So it's a really kind of...

Operator

Our next question is from Daniel Moore of CJS Securities.

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

Just a clarification. I think you said twice, Bill, you're confident that H2 will be stronger than H1, top line, margins, EPS, all 3?

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

Yes.

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

Okay. That gives us some directional help. And then I want to focus on the margins. Start with residential, strongest margins we've seen in those businesses in quite some time. Maybe a little bit more detail into the jump in how sustainable or high teens to low 20s operating margins going forward.

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

So Dan, good question. If you recall, we came out of Q1 with, in residential, about 130 basis point improvement. And we talked a little bit in the last call about the work that we did in '19 and continue to do. And I -- so I guess my point there is I think we're starting to build some momentum in that segment to get us back to where we think we should be and beyond hopefully. So A, I do think our ability to continue to improve is very viable and doable. It's our expectation. I think the investments we made last year and continue to make now will help that.

We've put a new leader in place a year ago inside the organization. I think we've done a tremendous amount of work top-grading talent and adding key positions that we didn't have. So this is one of those stories where we had good end market demand that helped, obviously. But we also made investments throughout the last six months and all of last year that have put us in a position to operate much better than we could have otherwise.

So I'm excited about the segment. I think we've started to demonstrate to ourselves what we can do. It's what we thought we could do, and I think we're just getting started, so to speak. I would not tell you that we're going to improve 400 basis points every quarter forever. But the team has done a nice job. Obviously, the end demand has helped. We've had good mix. We've had good price/cost management. And recognize, too, this is all in the midst of having to also manage shifts much differently and our factories much differently, which isn't the most effective way, but we've been able to offset all the things associated with COVID and still bring things across the finish line.

I think the biggest thing also for us, and people may or may not recognize it, we did make this decision some time ago to keep our team intact. And when things moved and they moved quite quickly, we were able to respond. So I do think there's a participation gain going on here. We do know that for sure with a couple of our key partners. We're excited about that, and I think we're in a good position to continue down that path as well. So it's a combination of a lot of different things.

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

Helpful. And nothing unusual in terms of mix that would be difficult to sustain or not repeatable?

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

No, not really. I mean it's -- we've, within each of the residential businesses, I would say, been pretty solid in terms of mix year-over-year, quarter-over-quarter. With -- across the businesses, probably our -- we've talked in the past, our most challenged business in residential has been our more commodity-like business, which is building accessories or roofing accessories. And that is a business that has really turned things around, everything I've just talked about earlier, where we made a lot of changes.

Remember also that when we went into the quarter, we had a very difficult outlook for our direct-to-consumer product line. That's the Sunesta and Gutter Helmet products that we sell through dealers, but really it's a direct-to-consumer sale. And that did not look good going into April, and that turned around significantly in May and June. And that's a good margin business and that was helpful in the quarter as well. But we almost got back to last year's levels effectively in two months versus having three months because April was pretty much not very active.

So again, that team executed extraordinarily well to do what they did in two months relative to last year, which was done in three months. We feel really good about that. And I think the demand is still there going forward, probably not the pace that we saw in the last couple of months, but it's still pretty steady.

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

Helpful. And similar question for Industrial & Infrastructure. I think that jump was even more impressive given the top line headwinds. So again, was that mix away from industrial? Was it all 80/20, sustainability, et cetera? Any color there would be great.

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

Yes. I would say in industrial, it was really just pure execution. And the team continues to do well there. We've made some investments to help in some of the -- our core businesses within industrial with some CapEx. I think that's helpful, not huge but very helpful in terms of how the team has been able to execute.

Our perimeter security and our architectural businesses, which are higher margin within the overall industrial business, has helped as well. So I guess you could say that's a little bit of mix, but overall, I think it's just been a continuation of the work that the leadership team has done there starting in the last couple of years.

On the infrastructure side, same kind of story, really good team, putting in a lot of good processes, a lot of 80/20 work gone there. And I think as we -- as our manufactured product in that business continues to be relatively strong, we've been able to find ways to drive margins up with the way we execute from how we make it all the way through the whole bidding process. So just a lot of -- I'd say a lot of blocking and tackling, to be honest, not rocket science but just staying laser-focused on what we're doing and taking one day at a time and making every day matter.

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

Okay. Maybe one more, if I could sneak it in. Just expectations around working capital and cash generation as we look to the back half of the year.

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

We expect modest improvements in working capital, I'd say. We've done a fair amount year-over-year. We'll continue to be a little bit better and continue to generate cash. Certainly, historically, if you look, second half of the year is really the stronger cash flow period for us, and we don't expect any change to that.

Operator

Next question is from Walter Liptak of Seaport Global.

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

Congratulations on the good quarter. I wanted to see if I could get you to talk a little bit about some of the residential trends in July. Yes, it sounds like the business continues to pick up. And I think in the past, there was concerns about labor issues, and I wonder if that's changed at all and how that might impact the second half.

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

Yes. So Walt, I'd say through July, each of our businesses within residential, we have four groups, if you will, continue to see similar demand profiles as they did coming out of the quarter or the second -- or the last 2/3 of the quarter for the second continued to, from a demand profile into -- through July, and we're monitoring that every week. So as I mentioned, we -- one thing is we get access to point-of-sale data from all our big box and even a lot of the wholesalers now week to week. So that's really point-of-sale data on our products that are actually selling.

So good news is there hasn't been much, if any, inventory build. That tells us that there is inherently demand at the consumer level, whether that's contractor or homeowner. And right now, it feels like that's going to continue. Will it continue at the pace that we saw at a couple of the businesses in June? Yes, you think through normal seasonality, that's going to slow down a bit, which I anticipate that will happen. But that's something we see every year. But right now, we feel pretty good about how Q3 is shaping up for the residential business.

In terms of labor, getting access to it, a lot of our business is repair and replace. And what we've seen in the second quarter, when you start thinking about that, it's interesting to note, it's a combination of homeowners in the case of like our mailboxes and so forth, which have been strong. And then when you get into our direct-to-consumer and you have awnings and gutters, that's a different set of installation folks. And then you get into our ventilation and roof and accessories, that's a different set of folks in terms of contractors.

So far, we have not seen that be a problem. Whether that ends up being one -- six months from now or three months from now, it's hard to say at this stage. I think there's a lot of things to think about over the next six months that I think everyone's got their mind on. One, you have the pandemic. We have a national election coming up. And along with that, you're going to have all kinds of noise around that on both sides of that. But right now, we're not seeing anything that says that we're going to see a dramatic shift one way or the other, at least in the immediate term. And we can probably see out as far as anybody else maybe a month or so, but that's kind of where we are right now.

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

Okay. Great. And switching over to Infrastructure & Industrial. The margins there were really good. And just a question about sustainability. Are those structural changes now that have happened? Are we at a new level of profitability?

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

Yes. This has been a long slog for the teams in both of those businesses over the last three years to kind of put themselves in a position and deliver what they've delivered, not just in Q2, but I think structurally, we've shifted up in terms of how we operate. Clearly, in infrastructure, we have a little more demand than we had a couple of years ago. So that's helpful.

And if we can continue to see that, I'm confident the team has the ability to continue on the pace it is. Again, we've made investments in that business with some key people and a lot of work has been done in the process. So I think the operating cadence of that business is better, and I think it's more sustainable than it would have been otherwise.

On the industrial side, it really is a tale of a couple of different stories, as we said. You get the core business, and that's more macroeconomic-driven in a lot of respects, and that's still the bulk of the business. And then you have perimeter security and architectural. That inherently is a more profitable business. And if we can mix that way more, that would be helpful. But -- and we're working that pretty hard.

But internally, in terms of how we operate, the team has, I think, really got a cadence as well. And they know how to operate really well in this environment, and I think that's showing up. If we can get some demand, which we're not really anticipating the market to recover in the next six months for core industrial, obviously, that's very helpful. But when you have that kind of reduction in demand and still deliver what they've done, clearly, they're able to do some things quite differently today than before.

So I would say, yes, we've made a shift in how well we operate. And we'd like to get some demand -- more demand on that business. They could really do some interesting things if we could get it for them. But unfortunately, the market is not cooperating as much as we like right now.

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

Okay. Great. And kind of along those lines, we've seen M&A in the -- more in the renewables and conservation segments. I wonder with the profitability coming up in Industrial & Infrastructure, if there's opportunities that you're looking at in that. Or are you going to stay kind of in these growthier parts of the business for M&A?

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

Yes. It's a good question. This entire pandemic and it's impacting so many different industries and how people are thinking and challenging paradigms and such. We'll see how things work out. I'd say right now, we remain focused on what we went into the pandemic with as it relates to acquisition targets. And we kept all of those discussions warm and hence, continued them. So I don't think there's a shift in our thought process from six months ago to today in terms of the end markets that we want to participate and grow and build our platforms in.

Operator

Our next question is from Julio Romero of Sidoti & Co.

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

Hope you all are well. So I wanted to start on the solar business. I think we've seen increased sentiment in the space. So I was hoping you could talk about maybe the current market tailwinds you're seeing as well as what maybe Gibraltar is uniquely doing in that area.

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

Yes. So the market itself, we see as continue to be quite solid. And that's -- again, mainly community solar is where we're well positioned and a leader. And so I think I've said it through some calls as well as through our last earnings discussion, where we're starting to see more [progress] ourselves is our ability to respond even quicker and understand what those opportunities are even better. So that's the implementation of our CRM system that we rolled out about maybe nine months ago.

And so I think the visibility and access to more of the opportunities, our ability to respond quickly, which has been, I think, something that we've been pretty good at but making that even much more of a weapon for us, I think, has helped us gain some participation. So we've got a good market. We're gaining some participation.

And I think thirdly, we've got things like our canopy business, which we don't talk a ton about, but it's a really good business for us. We acquired some IP this year that we think will be a nice differentiator for that business going forward, and that will help that even grow faster.

So there's a lot of things going on across the solar business that we like. And I think -- I'm excited about where we're heading and I'm excited how we're operating. We're executing better and the growth is there. And I think the margin improvement will continue to come. And some of the investments we've made in technology, whether it be the Sunflower, the second-generation tracker for us, which we're now just starting to sell and pull orders in on after a pause, as everyone knows, or the canopy IP that we've acquired with a partner, I think, is going to really help us go forward. So yes, I would say that's how I'd summarize it.

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

Okay. And can you give us any additional clarity on the integration challenges that you may be seeing on the cannabis side? I know you mentioned some softness in the overall market. But I think earlier, in response to Ken's question, you talked about some -- accelerating some integration initiatives because of the end market slowdown. So could you just maybe help me square away those two statements? And has anything changed relative to what maybe was originally thought?

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

Yes. So I think there's a -- first and foremost, there's a market that has slowed. We all, I think, understand that. From an integration perspective, remember, on the processing side of the businesses, the integration really is the front end. It wasn't necessarily a back end where we had planned consolidating facilities and all that. These aren't large companies to start with, but it really was about combining the front end, and that's where we've done a lot of our work.

So having a leadership team coming together with two different organizations. We just launched a common ERP system for both of these now on the same ERP system. We've launched a new CRM system that both are on. So it's those kinds of blocking and tackling things that we had planned to do that we were able to accelerate and pull forward. It would have been easier to do those things if we could physically get on planes and go see each other, and that's where I think some of the inefficiencies are more -- you'll find more of it.

But we effectively have been able to bring forward some things as the market has slowed, as I just mentioned. It's just been it's been a lot easier to do if we didn't have a pandemic, I guess, is the point from an integration perspective. So that's where my comments come from.

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

Okay. That's really helpful. I appreciate that. And I guess just on the residential side. I think you talked about roofing products rebounding as well as the gutters and awnings business. How about the postal and parcel business? Can you maybe talk about the run rate for those products as you exited the quarter?

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

Yes. I'd say all four businesses contributed nicely to the growth rate you see. It's pretty consistent for the segment across each of the four businesses. I think the two that started out slow in the quarter we talked about was the direct-to-consumer awnings (and) gutter business. That one really picked up second two months. And then ventilation started out slow and then it accelerated significantly in May and June.

The postal business and our roofing accessories business were pretty solid throughout the entire quarter. And I would suggest a lot of this nesting that we see, that we will continue to see as people were finishing up their home improvement projects, whether it's painting or out in the yard or what have you, mailboxes and the flow-through of that demand, particularly through big box because they were open, continue to stay strong during that time. So people, we start to see replacing mailboxes or upgrading mailboxes.

So I would say roofing accessories and postal and parcel have been consistently solid. And I think we continue to see that through July, and hopefully, it will continue through the quarter. But yes, they've had a pretty good run like roof and accessories.

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

Helpful. And then just my last one is, could you give us what percentage of sales, either for the residential segment or your company overall, went through the home centers in 2Q?

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

I don't...

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

It's not something we disclose, but I would say residential is certainly significant, right? The two -- the largest sales channel in residential is home center and then wholesale, and we have a smaller direct-to-consumer business in there. Some of the mailboxes go through a different distribution channel. But it's...

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

Yes, I would add one other thing, too. So Julio, when you look at this business, it's interesting. I mentioned earlier that we've been making a lot of investments in our ability for e-commerce. So when we start tracking sales through our traditional channels, it's always been big box and residential building products -- residential wholesale -- sorry, building product wholesalers that really support the Residential Products business, right? And that's kind of been the easy way to look at it. And really, depending on the products for whatever reason, the market is structured where it's heavy through one and other products that's heavy through the other between those two channels.

Now what we're also seeing during this time is the online portion of sales for all of our products that traditionally have gone through those two channels is becoming even more prevalent than in just a year or so ago. And there are different online paths of distribution. There's BOPIS. There's BOSS. There's DTC. There's all kinds of things where we're working with these wholesalers or big box folks. And we may be helping them go direct in different ways, and it was not imagined just a couple of years ago.

So keeping score, I guess, is my point. It gets a little more complicated and that's really accelerating. The good news is we've invested well to deal with these various channel developments. And I think that's part of the reason why we've been able to drive our participation up a bit over the last year or two because we've made some of these investments. And we've got more to do. Don't get me wrong, but there's -- it's a really interesting time right now as we see these distribution channels evolve. And technology is obviously helping that happen versus the traditional way that these products have been going to market.

Operator

We have a follow-up question from Daniel Moore.

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

Just housekeeping. Tim, tax rate in the back half of the year expected still in the kind of mid-20s? And any CapEx expectations for the remainder of the year and maybe preliminary thoughts for 2021 in terms of potential projects, et cetera?

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

Yes. I would say that tax rate be probably just a little bit higher than it was last year in the second half. But yes, so that mid-20s range is good.

The CapEx remainder of the year, I mean, if you look at the run rate that we've had, it's going to modestly increase in the second half, yes. One of the things we're doing is improving the ventilation and the air movement in all of our factories to make it more comfortable for our employees who are working with masks on generally. So we'll spend some money on that. And then I think normal levels of spend. And early to ask about 2021, but I don't see anything different than what I would look at today, but still a lot of time to go before we get there.

Operator

We have a follow-up question from Ken Zener.

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

Thank you, gentlemen, for your patience. It will be short, hopefully. It's a question for renewables EBIT composition, specifically because your second half '19 had good comp. So your margin last year in the second quarter was 12.6%, and I believe, though, if I'm not mistaken, you had about 200 basis point drag in there from the tractor costs. So my question is, for the second quarter 2020, can we assume -- given that you had organic growth and you had those tractor costs last year, is it reasonable to assume that the organic side of your renewable was up year-over-year, which would imply a flat to maybe negative margin on the M&A given that it's a large chunk of your sales? That's a question, the assumption that I want you to respond to.

And then when -- if that's the case, when do you think the M&A side, recognizing there's a lot -- the Canadian business, you're investing a lot of capital there. You talked about the weed stuff with -- but is it -- when would it be realistic to assume that M&A side goes to breakeven or positive margin? Is that something we really should expect in the second half to occur, let's say, in 2021, realistically? It's just that you have such good margins in the second half of '19 in that segment. I don't want people to be surprised about the composition of the EBIT.

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

Okay. So Tim, I'll let you take your shot. I can comment. Then I'll make a...

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

Yes. Ken, yes, we called out that we had negative margin from the acquisition, the group of acquisitions in the quarter. And that organically, our organic businesses had improved. And I think if you look back, to your point, we've had pretty good results there for four quarters now in this core business, and we don't see any reason why that won't continue.

On the acquisitions, we expect them to improve as we move through the year. It's a little early to call exactly where they'll be but better than they were in the second quarter, certainly. I don't think we see any scenario where it's -- we're seeing increases in activity, but we think it will take a couple of quarters maybe for those businesses sometime in 2021 to get back to where we think they ultimately belong.

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

Ken, the other thing I would add to that is it's relatively simple. Our Thermo business, which is fruits and vegetables in the growing side, is making money. And really, our issue is around the processing market. And as the processing market comes back, which is really cannabis, as we talk to that market starts to recover, we'll recover [nice] with that. The core business, that is operating quite well. So that's the story.

Operator

We have reached the end of our question-and-answer session. I would like to turn the floor back over to Bill Bosway for concluding comments.

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

Wanted to just say thanks again for joining us. Appreciate everyone's interest in the company. We look forward to obviously talking with you on some upcoming virtual conferences and some non-deal roadshows scheduled in a couple of weeks. And we'll give you an update, obviously, as we -- on our third quarter call as well. So have a great day, and again, thanks for joining us.

Operator

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