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Q4 2018 Gibraltar Industries Inc Earnings Call

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## CORPORATE PARTICIPANTS

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**Timothy F. Murphy** *Gibraltar Industries, Inc. - Senior VP & Chief Financial Officer*  
**Jeffrey J. Watorek** *Gibraltar Industries, Inc. - VP, Treasurer & Secretary*

## CONFERENCE CALL PARTICIPANTS

**Daniel Moore** *CJS Securities, Inc. - Director of Research*  
**Julio Romero** *Sidoti & Company, LLC - Equity Analyst*  
**Walter Liptak** *Seaport Global Securities LLC, Research Division - MD & Senior Industrials Analyst*  
**Dora Gonzalez** *Sharon Merrill Associates, Inc. - Senior Associate*

## PRESENTATION

### Operator

Good day, ladies and gentlemen, and welcome to the Gibraltar Industries Fourth-Quarter and Full-Year 2018 Earnings Conference Call. Today's call is being recorded and webcasted. My name is Donna, and I will be your conference coordinator today. (Operator Instructions)

I will now turn the call over to Dora Gonzalez from the company's Investor Relations firm, Sharon Merrill Associates. Thank you, please proceed.

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### **Dora Gonzalez** *Sharon Merrill Associates, Inc. - Senior Associate*

Good morning, everyone and thank you for joining us. If you have not received a copy of the earnings press release that was issued this morning, you can find it in the Investor Info section of the Gibraltar website, [gibraltar1.com](http://gibraltar1.com). During the prepared remarks today, management will be referring to presentation slides that summarize the company's fourth quarter and full year performance. These slides also are posted to the company's website.

Please turn to Slide 2 in the presentation. The company's earnings press release and slide presentation contain forward-looking statements about future financial results. The company's actual results may differ materially from the anticipated events, performance or results expressed or implied by these forward-looking statements. Gibraltar advises you to read the risk factors detailed in its SEC filings, which can also be accessed through the company's website. Additionally, Gibraltar's earnings press release and remarks this morning contain adjusted financial measures. Reconciliations of GAAP to adjusted financial measures have been appended to the earnings release and slides.

On our call this morning are Gibraltar's Vice Chairman, Frank Heard; President and Chief Executive Officer, Bill Bosway; and Chief Financial Officer, Tim Murphy.

Tim is under the weather today and has lost his voice. So Vice President and Treasurer Jeff Watorek will be providing the financial and segment update. Tim will be available during the Q&A.

At this point, I will turn the call over to Frank. And please turn to Slide 3.

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### **Frank Heard** *Gibraltar Industries, Inc. - Vice Chairman*

Thanks Dora. Good morning, everyone, and thank you for joining us on our call today. Our agenda starts with an update on the fourth quarter financial results as well as strategic achievements in our transformation in 2018.

After that, Jeff will discuss our segments in more detail. Then it will be my distinct pleasure to turn the call over to our new President and CEO, Bill Bosway, who will discuss our progress on our four pillars and provide an outlook for 2019.

I'd like to take the time now to officially welcome Bill to his new role at Gibraltar. Bill brings significant experience leading complex businesses at Fortune 500 global industrial companies and a deep expertise in driving organic innovation, accelerated by strategic



acquisitions. And he shares our view on the need for continued operational excellence, and he's the ideal selection to take Gibraltar into its next phase of profitable growth.

We're very excited to have Bill on board and welcome Bill.

With that, I'll get right into the fourth quarter results. We closed the fourth year of our transformation of Gibraltar delivering fourth quarter revenues in line with our expectations and earnings that exceeded our guidance.

By executing on our 4-pillar strategy, we recovered increased material costs, benefitted from higher-margin innovative products and drove growth in the Industrial and Infrastructure segment.

Financially, our fourth-quarter revenues of \$241 million were in line with our guidance range, though lower than -- year-over-year as we faced challenging comparisons in the Residential and Renewable Energy & Conservation segments.

Our GAAP earnings of \$0.40 and non-GAAP earnings of \$0.47 well exceeded our guidance. Non-GAAP earnings were up from \$0.41 last year. Our performance was driven by growth in our Industrial & Infrastructure segment, effective material cost management and the benefits from our 80/20 operational initiatives.

Please turn to Slide 4, entitled YEAR 4: Continued Progress. For the full year, for the fourth year in a row, we delivered on our promise of making more money at a higher rate of return with more efficient use of capital. Revenues of \$1 billion were in line with our guidance, while GAAP earnings of \$1.97 and non-GAAP earnings of \$2.14 exceeded our expectations.

During the year, we achieved 150 basis points of margin improvement from the 80/20 simplification initiatives; recovered a 100% of material cost inflation, demonstrating our team's ability as solid business operators; increased the percentage of higher margin innovative products, achieving organic growth through the commercialization of our perimeter security and solar tracker solutions; and further refined our portfolio to limit our downside risk and take advantage of rising tides in the Renewable Energy & Conservation segments; and further position the company for the next step in its transformation by reducing our debt and bringing on a new CEO with proven expertise in achieving organic and M&A growth.

As you'll hear from Bill later in the call, we entered 2019 with a strong operational discipline and a focus on markets with meaningful upside opportunities. And with that, I'll turn it over to our Treasurer, Jeff Watorek, who will provide Tim's financial update today. And as Dora mentioned in the introductions, Tim's a little under the weather, but is here in the room with us, and he will be available during the Q&A.

Jeff?

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**Jeffrey J. Watorek Gibraltar Industries, Inc. - VP, Treasurer & Secretary**

Thank you, Frank. And good morning, everyone. Let's move to Slide 5 in the presentation entitled Solid Consolidated Results. As expected, consolidated revenues decreased 7% from the prior year fourth quarter. Growth in the Industrial & Infrastructure segment was offset by difficult year-over-year comparisons in the Residential and Renewable Energy & Conservation segments as favorable weather extended the construction season into Q4 a year ago. On the bottom line, our consolidated GAAP earnings, which exceeded our guidance were down year-over-year, mainly due to the benefit we recognized from the Tax Cuts and Jobs Act in Q4 2017. When normalized for taxes, GAAP earnings per share were up \$0.01. Consolidated adjusted earnings, also above our guidance, benefitted from growth in the Industrial and Infrastructure segment, effective price material cost management and continued benefits from 80/20 simplification initiatives.

Note that corporate expenses in the fourth quarter were \$6.2 million compared with \$5.8 million in the fourth quarter of 2017, reflecting normalized performance-based compensation levels.

During the quarter, we announced the repayment of our Senior Subordinated 6.25% Notes, which were due February 1, 2021. The

repayment occurred on February 1, 2019, and we anticipate annualized savings of \$13 million in interest payments or \$0.22 of an increase to diluted earnings per share in 2019.

Now let's review each of our three reporting segments starting with Slide 6, the Residential Products segment. Revenues in the Residential segment decreased 3% as we anticipated due to a difficult year-over-year comparison as favorable weather and a higher level of storm-related activity extended the roofing season a year ago.

On the bottom line, operating margin declined due to unfavorable product mix and to a lesser extent, volume leverage. This was partially offset by benefits from the 80/20 simplification initiatives. Going into 2019, we expect a modest level of growth in this segment, driven by sustained levels of repair and remodeling activity. We also expect more favorable comparisons as the seasonal, normal roofing activity that we saw in 2018 should continue into 2019.

Turning to Slide 7, the Industrial & Infrastructure Products segment. Revenues were up 3% year over year in the quarter, driven by increased activity in the Infrastructure business. On the bottom line, operating margins benefited from a more favorable product mix, effective management of material cost to customer selling prices and the continued benefit from 80/20 simplification initiatives.

Looking ahead, we expect increased project activity in our Infrastructure business, and continued contributions from innovative products and ongoing 80/20 simplification activities.

Now turning to Slide 8, the Renewable Energy & Conservation segment. As anticipated, revenues decreased 15% as continued demand for our innovative tracker solution was more than offset by a difficult comparison resulting from an extended construction season last year due to favorable weather in the fourth quarter of 2017.

On the bottom line, volume and product mix, partially offset by ongoing benefits from 80/20 simplification initiatives and effective material cost to customer price management contributed to the decrease in fourth-quarter 2018 GAAP and adjusted operating margins.

We expect to continue to see strong market demand for our products and services in this segment with the continued adoption of the Renewable Energy and the expansion of legalized cannabis.

Please turn to Slide 9, Capturing the Opportunity. During the quarter, we generated \$51.6 million of cash from operations, primarily from seasonal balance sheet investment reductions. In January, we closed on a new \$400 million, 5-year revolving credit facility, which replaced a \$300 million revolving credit agreement, due to mature in December of 2020.

In addition to increasing our credit capacity by \$100 million, the new agreement includes a \$300 million accordion and provides enhanced flexibility for capital allocation. It also allowed the February 1, 2019, repayment of the \$210 million of 6.25% Notes that were outstanding at year-end. As a result, we are well positioned to execute on our acquisition strategy. As you know, our focus is on targets with EBITDA of \$25 million up to a \$100 million that would be material to our performance. Although, we consider smaller acquisitions that could benefit us from a technology standpoint as well.

At this point, I will turn it back to Frank. Frank?

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**Frank Heard *Gibraltar Industries, Inc.* - Vice Chairman**

Thank you, Jeff. The next step in Gibraltar's transformation is to enhance our focus [on growth] (added by the company after the call). We recently announced the appointment of Bill Bosway as President and Chief Executive Officer of Gibraltar to lead in this effort. In my new role as Vice Chairman of the Board, my main goal is to ensure a smooth and swift transition and to support Bill's onboarding at Gibraltar. I'll also work with the company on special projects as requested by the Board of Directors. I'd like to thank the Gibraltar team, our shareholders and customers for your trust and continued support throughout Gibraltar's ongoing transformation.

And with that, I'll turn it over to Bill. Please turn to Slide 10, 4 Pillars Driving Value Creation.

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

Thank you, Frank, for the warm welcome, and good morning, everybody. I'm joining Gibraltar at the beginning of year 5 of our transformation, with a lot of momentum that's been built around our existing 4-pillar strategy, and I think you're quite familiar with that. But as a reminder, our 80/20 simplification, efforts in innovation, portfolio management, and acquisitions have been -- have really driven the strategy to date. And I just want to let you know, we're going to continue working very hard on that. I'm particularly going to focus on 3 areas: first, accelerating our 80/20 operating cadence; secondly, driving growth through, really, the combination of trade focus, innovation and new products; and then third, identifying acquisition opportunities that strengthen our presence and relevance in the key markets that we serve.

Now before I discuss these three in a little more depth, I do want to comment on our portfolio management efforts. Our teams have done a good job, evaluating our product lines and customers as well as our end markets and as a result, we've been really good at allocating our leadership time and resources to bring the biggest impact to our platforms and our businesses, and this is going to continue.

As Frank highlighted earlier, the company is in now a good position to grow both our presence and relevance in our key rising-tide markets, like our Renewable Energy & Conservation markets. I'm particularly excited about our solar energy and greenhouse businesses as they participate in strong-end markets and offer us an opportunity to expand our role in serving these industries going forward.

So let's switch gears, let me talk a little bit more about accelerating our 80/20 operating cadence. In 2018, we advanced both in-lining and market-rate-of-demand replenishment initiatives, but also a number of outsourcing projects across each of our businesses. And as a result, we were able to achieve 120 basis point improvement during the fourth quarter, and as you saw earlier, 150 basis point improvement on a full year basis.

So clearly, we want to continue this momentum and while there's been significant progress, we're not done. And we're going to continue to drive productivity through reducing the complexity of our businesses as well as simplifying our product lines.

So let me switch gears and talk a little bit about growth, and how we're going to go about generating that. We're going to drive that through really three things that are really interdependent on each other and that's trade focus, innovation and new product development. And all three are important for success. If I were to characterize this, I'd say the key to our success in this area is to make sure that our customers have real, authentic demand for our products and services. And what that really means is, we have to understand our customer challenges and their problems in a little more depth, we've got to solve these problems so we eliminate any chance that our customers can become indifferent towards what we do for them. And basically, this requires a better, more thorough understanding of our markets and our customers, but also being able to provide timely and innovative solutions through a strong new product and service development engine.

As it relates to trade focus, we actually have started deploying processes and tools to help our teams engage customers differently, really identify customer problems in a -- from a different perspective, but also to understand the broader industry challenges in front of us and our entire channel. We made our first key, I'd say, our first key resource investment recently by adding an experienced senior executive to lead this initiative in our Residential Products group. Now the scope of this role includes marketing, business development, trade focus and innovation, but also helping us build a team with the right competencies and providing the training education for the organization. So I'm really excited about this first investment. There'll be more to come in this area, and I'm looking forward to seeing good results in 2019.

And with regard to innovation and new products, we're also making good progress here. In 2018, patented products represented 11% of our revenues that's up from 7% in 2017 and up from 4% in 2014. So we have a little bit of momentum built there as well, but I think we have significant opportunity to grow our new product sales in a number of our businesses, and I think the teams are excited to have that opportunity.

In my past positions, I've been fortunate to -- I've had the opportunity to lead innovation efforts as well as new product development, but also sales, marketing and operations. And all of these functional areas will contribute to our ability to grow organically through



innovation and new products, but whether it's been launching new innovation centers, developing software electronics businesses or just reassessing rollout of new business models, it's been a tremendous learning experience, but also a significant challenge, but I'm looking forward to leveraging some of my experience and with our teams here in helping build out our capability in this area.

And then finally, I just want to touch on a third area of focus, which is acquisitions. During the fourth quarter, we continued the integration of SolarBos into our operations. I think with having electrical balance of systems, basically being part -- an important part -- of all solar projects, we're pretty excited about our cross-selling opportunities, but also SolarBos' growth prospects. As we get into 2019, particularly as we evolve our overall strategy, we'll continue to assess acquisition opportunities that create a stronger position for us in key markets. I'm really looking to drive more relevance and leadership in these spaces for us and obviously, deliver immediate and longer-term value for our shareholders.

We've got a pretty good pipeline that's been developed, and I'm looking forward to solidifying our plans over the next few quarters.

So if you will, let's turn to Slide 11, and let's talk a little bit about 2019 Guidance. We entered 2019 with good confidence in our end markets, and we expect to increase -- to deliver increased profits and a robust platform for organic growth, but at the same time, I am a bit cautious about the general economy, and I think everyone sees the variables out there in play, but also we have a little bit of a continued volatility in material cost. But with that, I feel like we stick to our plan, and it revolves around our pillars that are in place and the momentum that we have, we feel like -- we feel good about 2019.

We're going to accelerate our 80/20 operating cadence. We're going to execute our growth initiatives by strengthening our core competencies and trade-focus innovation in new product development. And, as I mentioned, we're going to build on our existing presence in key markets through acquisitions.

Now for the full year 2019, we expect sales in range of \$1.03 billion to \$1.05 billion. We expect GAAP EPS between \$1.95 and \$2.10 per diluted share that compares to \$1.96 in 2018 or between \$2.40 and \$2.55 on an adjusted basis, up from \$2.14 in 2018. For the first quarter in '19, we expect revenues between \$218 million and \$224 million that would put us up between 1% and 4% versus first quarter of 2018. We expect our consolidated GAAP EPS between \$0.14 and \$0.19 per diluted share or between \$0.27 and \$0.32 on an adjusted basis.

So let me just summarize, if you will, I think Gibraltar is -- in my limited time here it's a company with a lot of great people that are very enthusiastic about continuing on with our 4-pillar strategy and the momentum that has been created. And I'm very excited to be part of the team, but also lead the team. We've achieved a significant amount of progress over the past 4 years, and these -- this success has created even greater opportunities for us, I believe, going forward. Our four-pillar strategy, which is important to us, drives even more upside for us and helps minimize any downside risk. But also, with the recent repayment of our notes, we enter this year of our transformation with a strong platform to accelerate our growth, both organically and inorganically and create long-term value for our shareholders.

So I'll close by saying, I'm excited about 2019. I look forward to us making more money at a higher rate of return with a more efficient use of capital. And I look forward also to meeting each of you in person as we get on the road and have a chance to visit with you in the coming months.

So at this point, we'll open the call up for any questions that you may have.

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## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions) Our first question is coming from Dan Moore of CJS Securities.

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**Daniel Moore *CJS Securities, Inc. - Director of Research***

Tim, feel better, wherever you are. First question, in terms of the revenue guide, you gave pretty good color by end markets, but as we look at 2019, various puts and takes, is there any divestments, any material revenue that you may be exiting in the guide? Number 1. Number 2, kind of a range of implied growth for the Renewables and solar business? And a quick follow up or two.

**Timothy F. Murphy *Gibraltar Industries, Inc. - Senior VP & Chief Financial Officer***

Dan, so I'll try to answer that. I think, no, nothing significant in divestments. We always are going through our CLS, PLS, so that's an ongoing process. We will always either convert or exit products and customers as we go through the 80/20 process. When I think about growth, we're not getting any specific guide for each segment, but I would say that, if you look at roofing, which drives a lot of our Residential, most of the forecast that we see in talking to partners is that, that market's really consistent with what we saw in 2018. 2017 had that seasonal spike for storms, and we don't see any of that recurring. So we think '18 -- '19 looks a lot like '18 in [the Residential market] (revised by the company after the call). On the Industrial & Infrastructure market, I think two things: we think in Infrastructure, we're finally seeing a little bit of improvement there, certainly backlog is growing, pipeline has increased. It's been really bouncing along the bottom for quite some time. We did see a little growth in the third -- in the fourth quarter, and I think we expect modest growth there. Innovative products on the Industrial side will help drive growth also. And then when I think about Renewable & Conservation, should -- strong demand in both sides of the market, continued adoption of Renewable Energy and continued legalization of cannabis and other drivers of demand on the greenhouse side.

**Daniel Moore *CJS Securities, Inc. - Director of Research***

Helpful. Same -- Similar question in terms of the 80/20 opportunity and margin upside. How would you sort of rank order your businesses there in 2019 relative to what we saw on adjusted basis in '18?

**Timothy F. Murphy *Gibraltar Industries, Inc. - Senior VP & Chief Financial Officer***

Expect everybody to get better every year, and we've got projects already planned, projects that started in '18 that carryover and provide benefits in '19 so expectation is to get better.

**Daniel Moore *CJS Securities, Inc. - Director of Research***

Got it. Bill, obviously, it's still early, but is there anything you can, sort of, tell us about your approach to M&A that may or may not differ from Gibraltar's approach over the last several years? You mentioned Renewables, obviously, greenhouse as being a focus. What are the key solutions or product lines that you're most keen on expanding and exploring?

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

Yes. I wouldn't say there's a dramatically different approach relative to assessing our opportunities. I -- as I mentioned earlier, my main focus on the subject is really looking at the spaces we're in and how relevant we can become and how broad we can play, where we become the leader in that space.

So there's -- like I said earlier, a lot of opportunities have been identified. I think there's been a lot of good work done on spaces, and I think over the next few quarters, with the team we'll have a little better -- a little more clarity on what we might pursue, but I would not characterize it as being completely different or unique from what the team has been working on.

**Operator**

Our next question is coming from Julio Romero of Sidoti & Company.

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

Frank, congrats on your success over the last few years at Gibraltar, and congratulations to Bill as well on the new role.

**Frank Heard *Gibraltar Industries, Inc. - Vice Chairman***

Yes, thank you.



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

Thank you.

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

So I was hoping to drill down a little bit on the underlying Residential demand. I understand another industry player, not so much related to you guys, they talked about on their conference call, expecting lower roofing volumes for the entire industry year over year. So in speaking to your customers and speaking to ARMA, I was hoping for a little more color on the Residential side.

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**Timothy F. Murphy Gibraltar Industries, Inc. - Senior VP & Chief Financial Officer**

Yes. I think what we've heard for roofing from everything we've done, Julio, is plus or minus [3%] (corrected by the company after the call), which tells me effectively it's the same market that we faced this year. And then, I guess, depending on region -- so there'll be likely, usually when that happens, there will be also regions that are up and other regions that are down within that. And so it's mid-February, there's been bad weather in parts of January, so season's probably a little slow, but it's also the slowest part of the year. So I think everything we hear is that it's probably very similar to last year.

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

Understood. And I was hoping to ask about the expected revenue contribution from the new product innovations in 2019. I know you mentioned patented products were up to 11%, so what would be a forecast -- fair forecast there for 2019?

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**Timothy F. Murphy Gibraltar Industries, Inc. - Senior VP & Chief Financial Officer**

Yes, I mean, [the % is] (added by the company after the call) growing. We continue to grow tracker, perimeter security, and our electronic parcel locker, all factored into the growth. [They are] (added by the company after the call) all relatively small today relative to the consolidated Gibraltar, but in each of the last 3 years, obviously, been growing at a rate faster than the core, so we expect that to continue.

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**Operator**

Our next question is coming from Walter Liptak with Seaport Global securities.

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

Welcome aboard, Bill, it's good to have you on the team. I wonder if I could ask first about -- just to Bill about 80/20. And if I get an idea of -- 80/20 has been a really big part of what Frank Heard has brought to the company and really transformed it. And I wonder if you could tell us a little bit about your background and what you think of 80/20 so far at the company?

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

Frank and I are completely aligned on the necessity to have an 80/20 operating cadence to be institutionalized in this business, not just for the last 4 years, but an ongoing basis. So I kind of grew up in this world, my last 27 years, having an operations background myself and being engaged in 80/20 for the majority of my career. I'm a big believer, I think it's a much -- has application beyond our operations, per se, as people might perceive it to be, but it's very applicable across all the things that we do. So I'll reassure you, as well as our team that might be listening on the phone, this is going to be a continued focus for us. We're going to accelerate it, institutionalize it even more, and it's foundational for us to be able to grow because it gives us the ability to fund things like innovation and new products as well as investments in trade focus. So it's an absolute must for us going forward.

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

Okay. Sounds great. Kind of along those lines, I wonder if you could talk a little bit about the liquidity slide? And the strategic purpose for the new credit facility? I mean, the numbers keep, kind of, stepping up and they did last year. What's the thought behind continuing to increase that?

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**Timothy F. Murphy Gibraltar Industries, Inc. - Senior VP & Chief Financial Officer**

Well, I'll talk to that. So we decided, from a tactical perspective, we can take out the bonds with cash on hand and save \$13 million annualized interest, about \$0.22 this year. And obviously, we're not earning 6.25% on the cash that sits in the bank. So it just seemed



like a good use of the money in the short term. When we did that, obviously, we spent some of our dry powder, and so we wanted to arrange the ability to move quickly in transactions, because one of our advantages sometimes is our certainty to close, when we're pursuing targets. And so, we were able to redo the credit facility that was due to expire in December of 2020. So we would have been doing it by the end of this year anyway, and we had to amend it to allow the repayment of the bonds. So we rolled all of that into one transaction, upsized it a little bit to continue to provide us with the dry powder needed. And we put the accordion in so that net-net, we would have, with the accordion, about the same availability as we had when we had the bonds sitting out there. So I view it almost as very little change to the capital structure other than the fact that it's lower cost right now.

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

Okay. All right. Great. Since I've got you, let me just ask a couple on CapEx that's stepping up a little -- you guys don't spend very much money at all on CapEx, but it is stepping up. I wonder what the reason behind that is? And 2019 tax rate, if you can give us some idea of what that'll look like?

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**Timothy F. Murphy Gibraltar Industries, Inc. - Senior VP & Chief Financial Officer**

Yes, so CapEx, if you remember last year, we projected almost 20 [million] (added by the company after the call) and I -- we didn't spend it. So there's some carryover projects and in-lining -- there's some equipment upgrades around some new products that we've put in the budget. So other than that, really just sort of the normal run rate. When I look at taxes, we benefited in '18 from some deductions around stock comp under the new accounting rules. When you issue stock at a lower price and you take that expense through your P&L for GAAP, when it vests at a higher price, you get to that record that difference as a tax benefit. And we don't really see -- we did get a fair benefit almost -- it's not quite 300 basis points, but it was in the 200-plus basis points last year, we don't expect that to recur. So we think about 27% on the adjusted basis, and we're a little bit above 28% on GAAP. And the 28% on GAAP, the difference really relates to the inability to deduct executive comp over \$1 million. The performance-based exclusions don't apply to us anymore, so we'll face a higher GAAP rate.

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

Okay. All right. And then just a last one, really quick. Any -- I wonder if there's anything you could provide about 2019 and the cannabis outlook? I think like customers that you're talking to regionally, where the spend is? What kind of a year is it? And if it's not going to be good year, when does it start to get good? And then also on Infrastructure, any big programs? I'm thinking along the lines of your perimeter security business or anything incremental there?

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**Timothy F. Murphy Gibraltar Industries, Inc. - Senior VP & Chief Financial Officer**

So let me start with cannabis. We expect a better year this year than we had last year. We had some project delays last year. Certainly, pipeline and demand are up. Given that it's a new industry, what we find is the state passes the law that legalizes it, and then they put in all the regulations to allow it to get legalized, and then they issue licenses, and then when somebody goes to actually break ground sometimes there's zoning issues. So there's just -- there's a sort of a longer cycle time to get the project started. So we have contracts at hand where we're waiting for permits. And so we were a little delayed last year, those should go this year. Hopefully, we'll continue to build backlog in that space, and we'll see. But certainly, end market demand is there, more and more states are [legalizing it] (added by the company after the call). -- We're based in New York. New York has a Democratic house senate and Governor and they're openly stating that it's going to be recreational-legal here sometime this year. Now when the actual product starts getting grown for a recreational basis in New York, I wouldn't expect that to happen this year, just given all that -- the timeline that I talked about, but still is a strong market. That's going to provide most of the growth in the greenhouse side of the business over the next 5 years, is our expectation. On perimeter security, the team continues to get specified with various customers, pipeline's growing, backlog's growing, so we're happy with that, it would be nice, like with any business, if we could grow it quicker, we'd be happier, but it's showing solid growth.

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**Operator**

Our next question is a follow up coming from Dan Moore of CJS Securities.

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**Daniel Moore CJS Securities, Inc. - Director of Research**

I was going to ask about the CapEx as well ticking higher. So I think my follow ups have been covered, but I appreciate it.

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**Timothy F. Murphy *Gibraltar Industries, Inc. - Senior VP & Chief Financial Officer***

Sure.

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**Operator**

At this time, we have come to the end of the Q&A session. I will turn the conference back over to Mr. Bosway for any closing or additional comments.

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

So I just want to thank everyone again for joining us today, and again, I want to reiterate how excited I am to be here at Gibraltar, and I'm looking forward to capitalizing on our many opportunities and look forward to updating you on our progress in the quarters ahead. So thanks again.

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**Operator**

Thank you. Ladies and gentlemen, thank you for your participation in today's conference. You may now disconnect. And have a wonderful day.

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