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CORPORATE PARTICIPANTS

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

William T. Bosway *Gibraltar Industries, Inc. - Chairman of the Board, President & CEO*

CONFERENCE CALL PARTICIPANTS

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

Julio Alberto Romero *Sidoti & Company, LLC - Equity 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 Industries Third Quarter 2023 Financial Results Conference Call. (Operator Instructions) As a reminder, this conference is being recorded. It is now my pleasure to introduce your host, Carolyn Capaccio with LHA. You may begin.

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

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

The press release that was issued this morning as well as the slide presentation that management will use during the call are both available in the Investors section of the company's website, gibraltar1.com. 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 results. These statements are not guarantees of future performance and the company's actual results may differ materially from the anticipated events, performance or results expressed or implied by these forward-looking statements. Gibraltar advises you to read the risk factors detailed in its SEC filings, which can also be accessed through the company's website. Now I'll turn the call over to Bill Bosway. Bill?

William T. Bosway - *Gibraltar Industries, Inc. - Chairman of the Board, President & CEO*

Thanks, Carolyn. Good morning, everyone, and thank you for joining today's call. I'll start with an overview of the third quarter results, and Tim is going to take you through our financial performance, and then I'll walk you through our updated 2023 outlook. Then we'll open the call for your questions.

So let's start by turning to Slide 3, titled third quarter results. Titled as third quarter results -- third quarter 2023 results. Our focus on driving quality of earnings in 2023 continues to pay off in our delivery of higher profitability and strong cash flow generation. We executed well in the quarter, continuing our momentum from the first half of the year. We continue to experience solid end market demand, and we also expanded our market participation, particularly across our residential and infrastructure businesses.

In both our renewables and agtech businesses, we did experience some delays in start dates of contracted and active projects, and those projects have since begun or shifted to either the fourth quarter or into early 2024. As well during the quarter, on an adjusted basis, we increased operating income 19%, EPS 23% and free cash flow increased to 23% of net sales. We continue to accelerate our 80/20 initiatives across product lines and operations and also optimize our supply chain management with market price actions. Our improvement in operating margin and working capital continue to drive solid cash generation performance.

In all, our results to date reflect achieving the expectations we set at the beginning of the year -- modest growth, improved profitability, and improved cash flow . We expect our momentum to continue in the fourth quarter and support strong full year performance in 2023. As a result, we are changing our guidance for 2023. We are narrowing our net sales outlook and raising our outlook for both profitability and EPS, which we will review shortly.

Now let's turn to Slide 4 for an update on the solar market. Our demand pipeline in renewables is very active and bookings continue to grow as the industry continues to navigate through 3 basic issues, module supply, permitting delays and clarity on the final rules governing IRA tax benefits. First, let's start with module supply. It is improving as additional module suppliers are having more consistent success importing through the UFLPA process. And this is encouraging. And yet we need to see additional progress as we close out 2023 and move into 2024. Also related to module supply, the Department of Commerce issued its final ruling in August on its AD/CVD investigation. The DOC final report indicated 3 of the 8 module suppliers were found not to be circumventing and as a result, are able to export to the U.S. without duty.

The report also confirmed that module suppliers using non-China wafer supply are also not subject to duty. The DOC also implemented the administration's tariff waiver, which is in effect until early 2024, and may be reevaluated at that time. Because of the administration's waiver, the DOC investigation results are a little less concerning relative to the UFLPA importation process. Secondly, delays in obtaining permits for projects remains an issue. Although customers find permitting a challenge in the near term, they are confident the situation will continue to improve as local government agencies ramp capacity to improve the approval process for permit applications.

And finally, customers are anxiously awaiting final guidelines from the Department of Treasury on how to secure additional tax incentives under inflation -- under the Inflation Reduction Act. Tax credits directly affect project economics and returns, and we are seeing some customers with projects in process pause and/or defer additional projects until they have a clear understanding of how to realize the incremental tax benefits. We expect the industry to work through these challenges. And as they ease or improve, our customers will be in a better position to execute current demand, and really properly plan to support robust demand pipelines expected going forward. With that, I'll turn it over to Tim for a review of our results.

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

Good morning, everyone. I'll take you through our consolidated and segment results, starting on Slide 5. Adjusted third quarter sales were flat at $390 million, timing shifts of the active projects in renewables and Agtech business as well as price management initiatives in the residential business were positively offset by revenue from recent acquisitions and market participation gains across the business. Backlog at quarter end was $375 million, up approximately 5% versus the third quarter of 2022. Demand and order flow remains strong heading into the fourth quarter. Adjusted operating income and adjusted EBITDA dollars increased 19% and 18%, respectively, in the third quarter with adjusted EPS up 23%.

Margin improvement in the quarter was driven by solid execution, additional 80/20 initiatives, productivity and price cost management. Weighted average shares outstanding decreased 3.4% from the third quarter of 2022, to 30.7 million shares in the third quarter of 2023, and there were no share repurchases in the quarter. Now let's review each segment, starting with Slide 6, the Renewables segment. Segment net sales decreased 4.2% as customer start dates of contracting and active projects were impacted by delays in both local permitting and final Inflation Reduction Act tax credit guidelines. The rate of decline is slowing compared to prior quarters as module availability continues to improve as the module importers climb up the UFLPA enforcement learning curve.

Bookings of new orders remain robust with year-over-year backlog growing 13.3%. And as Bill mentioned, some customers are waiting to sign contracts until Department of Treasury issues IRA tax credit guidance. Our pipeline remains really strong. As a reminder, our backlog consists only of signed contracts with deposits. We do not include purchase orders without a signed contract and deposit MSAs without specific work orders or verbal agreements with customers and our new bookings or backlog. Segment profitability again improved with adjusted operating and EBITDA margins of 16.7% and 18.9%, respectively, increasing 380 and 390 basis points from last year.

Our team executed well with supply chain productivity, field operations efficiency and solid price cost management. Assuming industry dynamics remain constant with improving module importation and continued delays in local permitting we expect relatively flat sales in the fourth quarter with net sales in the second half, accelerating from the first half.

Let's move to Slide 7 to review our Residential segment. Segment sales increased 5.6% from last year. Recent acquisitions added 8.8% growth and organic sales decreased 3.2%. Driven by prior quarter price adjustments in response to decreasing commodity prices and 80/20 initiatives we took to phase out less attractive product lines. Volumes built according to normal seasonality in the third quarter, and we benefited from increased participation with new and existing customers, and from having expanded into new regions. Both of our recent acquisitions are performing to our expectations.

Demand remains at normal levels in the fourth quarter with an expectation of normal seasonal inventory reductions at our customers, and we expect to continue to grow participation. Adjusted operating and EBITDA margin of 18.8% and 20.2%, respectively, expanded 200 and 220 basis points through increased volume, improved price cost alignment, implementation of additional 80/20 initiatives and favorable product line mix.

Quality Aluminum Products margin performance continues to improve towards Gibraltar levels as the integration continues. We expect continued year-over-year margin improvement in the fourth quarter through improved price management, increasing participation gains, mix and the contribution of the two acquisitions we made over the past year.

Let's move to Slide 8 to review our Agtech segment. Adjusted net sales decreased 26% as new product construction starts were delayed in the quarter. We began a large project, which continued to drive improving results beginning in September. New orders continued to accelerate in the quarter, driving backlog up 9.4% sequentially. On a year-over-year basis, backlog decreased as a few customers worked through project redesigns. We expect increasing activity to drive revenue acceleration in the fourth quarter.

Segment adjusted operating and EBITDA margins of 5.6% and 8.1%, respectively, decreased 510 and 540 basis points on lower volume as the timing of net sales shifted into the fourth quarter from the third quarter. Margins improved in September with project starts and are continuing into the fourth quarter, and we expect volumes for new project execution underway to drive improved results in the fourth quarter.

Let's move to Slide 9 to review our Infrastructure segment. Segment sales increased 22.5%, driven by solid end market demand and market participation gains. Backlog increased 6.2% year-over-year. Market activity remains strong, including from commercial customers and airports and the infrastructure bill continues to provide strong tailwinds. Our momentum continues into the fourth quarter, and we expect to leverage these strong trends by increasing market participation through the remainder of the year.

Segment adjusted operating income increased 146% and adjusted operating EBITDA margins of 25.6% and 29.1%, respectively, improved 1,300 and 1,230 basis points. It's driven by strong execution and price cost alignment, 80/20 initiatives, additional productivity investments, supply chain efficiency and product line mix. The infrastructure team continues to execute very well, and we expect to report a strong year of growth and expanding profitability for the segment.

Let's move to Slide 10 to discuss our balance sheet and cash flow. At September 30, we had cash on hand of $86 million and $396 million available on our revolver. During the quarter, we generated $93 million of cash from operations through a combination of margin improvement and $43 million generated from reductions in working capital. We collected cash from accounts receivable and inventory reductions and benefited from increases in accounts payable and other liabilities. Inventory is getting closer to normal levels as in-stock positions and supply come into the balance.

As a result, our free cash flow generation during the third quarter was again exceptionally strong at 23% of sales. Free cash flow in the 9 months of the year benefited from approximately $84 million of reduction in investment in working capital reversing the prior 2 years' impact from the increased working capital investments we managed through the pandemic era supply chain challenges. We expect strong cash flow for the remainder of the year. There were no share repurchases in the quarter, and we paid down the outstanding balance on our revolver. Therefore, we ended the quarter with an unlevered balance sheet.

We'll continue to focus our capital allocation on organic growth, selective high-quality M&A and opportunistically returning value to shareholders through our share repurchase program. These investments will be funded through generated cash and supplement as needed by use of our revolver depending on the timing of any M&A or repurchases. Now I'll turn the call back to Bill.

William T. Bosway - *Gibraltar Industries, Inc. - Chairman of the Board, President & CEO*

Thanks, Tim. Let's move to Slide 11 to review our 2023 strategy and priorities. Our focus on 5 basic initiatives is driving solid performance, and we'll continue to do so as we finish 2023. First, focused on driving growth, quality of earnings and margin improvement and strong cash performance. Secondly, continue to execute 80/20 initiatives, to win more participation and drive service levels higher. Third, state the course with investments in our digital transformation to help scale our businesses with ability. Fourth, strengthen our organization with the addition of experience and competency and a structure that drives more focus, scalability and accountability. And fifth, conduct business in the right responsible way every day.

Now let's turn to Slide 12 and will review our revised 2023 guidance. Given our results to date, momentum heading into the fourth quarter, we are adjusting our guidance as follows: we are narrowing our consolidated net sales range to between $1.37 billion and $1.4 billion compared to $1.38 billion in 2022. We expect GAAP operating margin to be between 11.2% and 11.4% compared to 9.4% in 2022. And adjusted operating margin to be between 12.6% and 12.7% compared to 10.9% in 2022. We expect GAAP EPS to be between $3.51 and $3.71 compared to $2.56 in 2022, and adjusted EPS to be between $4.05 and $4.15 compared to $3.40 in 2022.

And finally, we expect free cash flow to exceed 14% of sales for the year. This compares to 6% in 2022 driven by higher margins and working capital performance. We expect to execute well in the fourth quarter and are relatively well positioned going into 2024. Our team continues to execute, remain focused, is really excited for what we do and how we do it, and they deserve all the credit for our results. And the team is also very proud we're able to raise our profitability and EPS guidance for the second time this year. So a big thank you to our team, and we look forward to delivering a strong finish to a good year. Now let's open the call and we'll take your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from the line of Dan Moore with CJS Securities.

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

Congrats on another really solid quarter. Maybe start with resi. As we kind of look beyond Q4, are you seeing any change in tone in the overall market up or down. And second, your performance and participation gains, obviously very impressive year-to-date. How do we think about that going forward? Does it create tough comps? Or conversely, is that momentum you've created kind of easier to continue to drive participation in share gains?

William T. Bosway - *Gibraltar Industries, Inc. - Chairman of the Board, President & CEO*

Yes. So Dan, we haven't really seen a major shift. As you know, we've talked in the past, that we get visibility for the out sales from our big-box retailers in particular. And I think we continue to see the growth that we've been seeing all year. It's everything is adjusted, obviously, for the seasonality, it's back in the marketplace. So we feel like there's a relatively solid continuation of what we've been seeing going forward.

As it relates to participation, it's a combination of working with existing customers and again, a little bit bigger piece of the pie and some things that we're in today. It's also -- the other big push there is picking up new customers at we traditionally haven't had as much with. And I think we're hitting both of those pretty well, and I think that will carry us into 2024 with some decent momentum. So like I said, we're on a solid footing, I think entering the year. We're in the middle of putting our plans together as we speak. In fact, when we get the teams together all next week to get our first really hard look at 2024, but from a residential perspective, we feel pretty solid about going into next year.

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

And similar question and maybe a little bit more focus on the margin on Agtech. Maybe talk about, Tim, the opportunities you have and the cadence for continuing to improve margins as we look out and maybe kind of your expectations in terms of time frame getting back to this more low double-digit, low teens margins that we've seen previously?

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

Yes. So we had a project that we thought was going to start pretty much at the beginning of the second quarter. And it got delayed a few months. And so -- I'm sorry, beginning of the third quarter. And so it got delayed a few months ,it started off in September, running as expected. So we know heading into the fourth quarter, we've got more normalized volume. And so you should see margins begin to recover there.

And then there's a lot of stuff in the pipeline that we're pretty excited about, not in hand yet though. So hard to say when we'll know more over the course of the next few months to get ready for our plans here. But Dan, our plan, we don't really have fourth quarter or next year in front of us. But in general, our expectation is always grow top line, expand margins. That would be my expectation for each of the business, every year.

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

Helpful. And given the obviously strong free cash flow and liquidity position, maybe just talk about your priorities for capital allocation over the next several quarters? And specifically in this market, are you seeing more opportunities in the M&A funnel?

William T. Bosway - *Gibraltar Industries, Inc. - Chairman of the Board, President & CEO*

Yes. I think that maybe the M&A funnel will begin to open up a little bit more, although we made acquisitions, we made 2 in the last sort of or 14 months from here. So -- but I think, yes, it's active. We're always pretty active in that space, and we're really selective. So there's a combination of things that are available, things that make sense for us. But I think we'll continue to focus there. Certainly, when we can invest in safety or productivity internally, although that's not a huge use of capital. I don't see any real change to that. And then the share repurchase program when growth rate we use there.

I also remind everyone, right, this year's that we're outperforming on free cash flow, sort of making up, and I've tried to be very clear that a part of it is making up for that big investment in working capital we had to make in '21 and '22 as we deal with that supply chain. So I think we pulled -- I think I said $84 million of our cash flow was really pulling the investment that we made in working capital out. But our margin is much better than it was a year ago, and so that's going to obviously increase cash flow.

Operator

Our next question comes from the line of Walt Liptak with Seaport Global.

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

Good quarter. I want to ask of the Renewable segment, you called out a number of different issues. I wonder if you could do those in rank order. And if any of them got worse or if they're all getting better, just how things change during the quarter, like the permitting delays, you guys talked about that last quarter. I don't know how long it takes or how long we'll be talking about that as an issue. But I wonder if you can go through and rank and then if things get better or worse?

William T. Bosway - *Gibraltar Industries, Inc. - Chairman of the Board, President & CEO*

Yes. Well, I'd say the panel supply, the module supply is still a little bit of a challenge, but it's getting better literally month-to-month. So we continue to see progress. And we've seen that all year, and I think if you think about our business, it's you don't really sign contracts, if you will, if you have -- if you don't have a panel. So the fact that our backlog continues to grow, I think customers are getting more confident they can get their hands on panels. And that's just a function of the panel manufacturers having more consistent success in getting things through the UFLPA process. So that's getting better.

Permitting, I think, is holding with kind of where we said the last quarter. It's still an issue, and it's really down to the individual project. So it's hard to tell you when that starts to free up is, I think, put a few of these government offices behind the 8 ball trying to catch up. And that's what we hear from our customers, and they're working it every day and it's frustrating for them. So I'd say that's probably similar to what we saw last quarter. But that's probably the number 1 thing right now. So number 1 would be that.

What's crept into the equation is the third item, which is the IRA incremental tax benefits or the additional tax benefits that you can get from the IRA. And that's really Department of Treasury finalizing the rules. And so what's really clear today is prior to the IRA, you had a certain investment tax credit and now in order to maintain the same level, you have to do a couple of things, and that's very clear. That's a prevailing wage and apprenticeship program, and people are moving in that direction. So that allows you to maintain your tax credit.

To get the incremental ones above that, that's when you start getting into a couple of other things, like local manufacturing made in America, et cetera. And we're -- I think the industry is still waiting for the final rules of actually what that means and how to keep scoring all that good stuff. From treasury, and that will give you the extra benefits on top -- expected and I thought treasury -- I think treasury even thought would be out sooner, and that's probably coming late this year or early in Q1 is the latest we've heard from the industry. So number 1 is permitting, number 2 is IRA incremental tax credit opportunity just being delayed. And number 3 is module supply. That's how I would rank them today.

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

Okay. Great. You broke up a little bit as we were talking, I think I got most of it. And so as we're thinking about that IRA and the final ruling specifically, should we have an expectation that at some point, maybe going to the spring construction season that the IRA rulings are behind us and some of that benefit from the IRA showing up in terms of more orders in the industry getting that kind of feed.

William T. Bosway - *Gibraltar Industries, Inc. - Chairman of the Board, President & CEO*

Yes, I think that's a fair assessment. As soon as you get clarity there, what that does for everybody that's investing is boost your returns on that investment because you get the incremental benefit. So if you think about that really helps deal with some of the inflationary issues that the industry has dealt with the last couple of years. It offsets that can keep plowing ground. But you have a lot of customers right now that I think we're in a bit of a holding pattern because they felt like that was coming.

So go ahead with the project and then some of them pause because they just don't quite have the clarity. And they don't want to actually miss out on the opportunity. And so that's where you get a little bit of delay. But if those things come into play as has been somewhat communicated to the industry early next year, January, February, that's going to make a difference, obviously, going into the construction season in Q2, 3 and 4 for renewables as an industry for sure and for us.

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

Okay. Great. And then maybe the last one for me on renewables is just the thought, a lot has changed in the last couple of years, I guess, returns for community solar. You had the supply chain issues, you had the rising inflation, labor costs, rising interest rates. And now you have offsets like with the IRA benefits that will happen. Are these -- how has the return changed do you think on community solar projects? Is it better or worse?

William T. Bosway - *Gibraltar Industries, Inc. - Chairman of the Board, President & CEO*

Yes. I don't -- first of all, whether it's community or utility, I think it's the same question, so I'll try to answer this in the best way that covers both. But the levers that you would pull if you're investing had to do with, okay, how do you negotiate the right PPA. So the power agreement that you're discussing and at what level can you get that? And I think developers, in particular, have worked that pretty hard. And so as inflation has come into the fray, they've been able to get higher price points on their PPAs.

And that's effectively, what this all means at the end of the day as the price of energy, any type of energy has gone up. It's all relative, solar has been able to go up with it in terms of the cost of that generation. So it's going to be passed on to consumers, but that's happening regardless of how you're generating the energy.

So they have a relief valve there. To offset the other inflationary things you just talked about, now that IRA kicks in, and that's where those incremental tax benefits can make a big difference. So those two levers on the plus side really do kind of neutralize the cost issues on the negative side. And as a result, I think that's why you continue to see interest -- new interest into the industry and demand continue to stay where it is and continue to grow. So I feel like the economics are -- and listen project to project, it could swing a bit, but in general, the folks who have been in this business for a long time understand that -- (technical difficulty), people are continuing to move forward.

I would say on the other side of that, so that's the kind of return side, where it's got more challenging and frustrating for folks is just navigating through some of the administrative things, whether it's importation process or permitting process. And I do think that is easing and will get better. So those are the 2 buckets that I think about relative to the experience that a lot of our customers have had.

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

Okay. Great. I appreciate that answer. And then just one for me on residential. You talked about how you're going to have normal seasonality, where I guess your box stores bring down inventory levels. I wonder if you could maybe help us gauge that? Like is this going to be a bigger than normal inventory correction because of -- we're coming to an end of the supply chain inventory buildup? Or has that happened already because some of your customers may have to work so hard this year to reduce their inventories.

William T. Bosway - *Gibraltar Industries, Inc. - Chairman of the Board, President & CEO*

Yes. No, I think it actually happened last year same time. This year is just a reflection of what you typically would see in a normal demand environment -- supply and demand environment. So our point isn't that, hey, this is a correction because everyone's overloaded. Our point is construction cycle starts to slow this time of the year. And people traditionally have always slowed down here and they'll start to ramp up towards the end of Q1 to get ready for the construction cycle next year.

So we're just back to normal seasonality, but the real correction occurred a year ago. That's when we started to see it. If you recall, when supply chain started getting better and commodities came down, people really started to flush out in the channel. That started really Q3 last year, Q4 and Q1. So this year, we're back to what we would consider to be normal prior to the pandemic.

If you go back and look at the data historically, that's what you would see actually. Pretty normal seasonality play in the residential business over the last really 50 years.

Operator

Our next question comes from the line of Julio Romero with Sidoti.

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

I guess my question is, can you stay-- on renewables, can you talk about your efforts, the efforts that you've made to make the renewable segment less volume dependent. And one way for further improvement operationally to that hand.

William T. Bosway - *Gibraltar Industries, Inc. - Chairman of the Board, President & CEO*

Yes. It's a good question. We've talked about this a lot in the last year so, we made the decision a couple of years ago when things really started to push demand down in an industry to take advantage of this opportunity to figure out how to scale your business in a much different way such that you can -- you have more levers to drive the profitability of this business. And then when volume comes back, you should be in a better position at to convert it at a higher rate.

It's pretty common sensical stuff, obviously. But ultimately, for us, when you think about a quote-to-cash process is everything we do from making sure that business systems are tied together in a much tighter way than they had been in the past from estimating all the way through release to fab, to install in the field.

And tightening out that was a big effort for us, and that's where I talked earlier about, hey, keeping our investments going into digitizing our businesses, this is really critical in our construction-oriented businesses like renewables because we weren't as tied there, therefore, we weren't as scalable. And if you're not scalable with good systems, you have a chance of making more mistakes in the construction business where you're doing 400, 500 fields a year.

So we've really tightened up. The team has done a fantastic job of bringing the systems in, tying them together such that we're much more scalable and we're less mistake driven on these construction projects. And that's really critical #1, because you can't afford to do that.

Secondly, when you have this type of business, you also have to be very much linked in with supply chain and manufacturing. I know it sounds very common sensical but think about the project that may have been quoted in January of 1 year and finalized in January of the next year. So making sure you don't get out of whack with in an inflationary environment such that it really impacts your P&L tightening up that quote process, tightening up when you release the fab, so you lock down the actual input costs you have more today than it was before. So we don't have near as much exposure.

Thirdly, it's really product lines and how you mix fails and the impact of that has on margins. So if you recall, our portfolio is pretty broad. We have we have an eBOS solution that has been growing quite well. We have fixed-tilt. We have tracker. We have a new tracker that was launched 1.5 years ago that really started to take off. So you mix well on your margins and on your product lines as you drive your cost reduction and these new products are being very impactful for us.

And then thirdly or lastly, when you think about in the field, so we like the fact that we install a lot of things because it opens up another revenue and profit stream for us, but it is construction. And so just like buttoning up inside your 4 walls with estimating and manufacturing, et cetera, you've got to be world-class in the field as well, and you got to be efficient and so forth.

So we've done a lot of work in all 4 buckets, and we've done it in an environment where volumes have been down. And so my point to everybody is, if at the end of the day, you believe or feel like the only lever you have is volume to drive your margin, then that's a tough position to be in. We feel like we're -- we have multiple levers, but now cool in a much more effective way than we did before. So it's really those 4 buckets over the last 2 years that we worked really hard on to be in today's position.

So as some of these headwinds ease on this industry and the volume starts to come back, yes, we should be in a better position to convert accordingly than we would have been 2 years ago. So that's a long answer to your question, but it's a pretty short answer relative to all the work that's actually been done, but that's how we characterize it for you.

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

That makes sense. Second question I have is have permitting delays abated at all? And what are you hearing from your customers in terms of where the local government offices are ramping up capacity to alleviate the permitting bottleneck.

William T. Bosway - *Gibraltar Industries, Inc. - Chairman of the Board, President & CEO*

Yes. I would say it's still -- it's probably similar to what it was last quarter. And when you think about our customers are doing projects all over the country. So it really comes down to that each experience they're having based on where the field is that they're working on. So it's hard for me to give you a specific answer across each project. But what I would tell you in general is it's the #1 challenge right now for our customers.

I think the only the positive in that is they don't feel like that's a structural issue that is a big change. It's just a ramp of capacity issue. And I think they're optimistic that's going to get it's going to continue to improve, but it really comes down to each local municipality that you're working with to get the permitting in the first place. And that's where it gets -- it's case by case.

It's real, and it has been, and it needs to get better. I don't think preventing people from signing new projects with us or setting contracts and give us deposits. It's just a frustration, I think they have as to when they can actually get started because you can imagine you're trying to line up what you need to line up to actually go to work, right? And so when you get pushed to 30 days or 60 days or what have you, it's more of a frustration than it is a structural issue with that hey, it's not like the UFLPA was, and it's not like waiting for the IRA tax incentives to be finalized. Those are structural things that when they flip that will be very positive. This is, frankly, a localized capacity issue that's got to ramp up. And I think that it will happen. And our customers feel like the near-term issue.

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

On Agtech, where are we on the $30 million produce project you signed last quarter? And secondly, any preliminary thoughts as to how big Phase 2 can be?

William T. Bosway - *Gibraltar Industries, Inc. - Chairman of the Board, President & CEO*

I'm sorry, the last part of that, any preliminary -- can you repeat that?

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

As to how big -- any preliminary to as to how big Phase 2 can be?

William T. Bosway - *Gibraltar Industries, Inc. - Chairman of the Board, President & CEO*

Yes. So sorry. Yes. So we -- that was the project that Tim referenced, we thought would start at the beginning of the quarter, it started in September. So that's off and running. If you recall, it's a $30 million project, I believe. And so you'll start -- you'll see that start to read through in Q4, and they really started to accelerate in September. But it just pushed. And again, that can happen.

Phase 2 will probably be a little bit bigger than Phase 1. It's actually the seventh phase of a very large complex that we built the entirety of over the last 5 years. But this is really -- not to confuse everybody. This is the last 2 phases. And I think the second phase is probably going to be anywhere from $10 million to $20 million bigger than the phase that we just started.

And I think we'll have that come -- we'll start working on that halfway through next year and hopefully get that across the finish line. It's not an issue of not hitting the business we have. It's just a matter of the timing when it enters in our books. And that will be the second half of next year, we'll see that some time.

What's been exciting about this business is, yes, we had this project that's kicked in. But subsequent to last quarter, we started to see the backlog build on other projects as we started the fourth quarter. So we're -- we like what we're seeing. We like what we see evolving, and we'll talk more about that next earnings release as we go through kind of some of these developments that we've been working on.

Operator

Mr. Bosway, it appears we have no further questions at this time. I'd like to turn the floor back over to you for closing comments.

William T. Bosway - *Gibraltar Industries, Inc. - Chairman of the Board, President & CEO*

Okay. Thank you. And thank you, everyone, today for joining us. We're coming up. We expect to present in November at the UBS Industrials Conference. As well as the BofA Clean Energy Conference. And in January, at the CGS Winter Conference in addition to some other marketing activities. So we look forward to updating you on our progress when we report our full year results. I want to thank you again. Have a great day. Thank you very much.

Operator

Ladies and gentlemen, this does conclude today's teleconference. You may disconnect your lines at this time. Thank you for your participation, and have a wonderful day.
