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EDITED TRANSCRIPT

ROCK - Q4 2012 Gibraltar Earnings Conference Call

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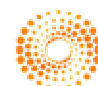

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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the Gibraltar Industries fourth quarter 2012 earnings conference call. At this time all participants are in a listen-only mode. We will be conducting a question-and-answer session towards the end of the conference call. I would like to turn the call over to your host for today, Mr. David Calusdian from the investor relations firm, Sharon Merrill. Please proceed.

David Calusdian - *Sharon Merrill - IR*

Good morning, everyone, and thank you for joining us. If you've 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 at Gibraltar1.com. During the prepared remarks today Management will be referring to presentation slides that summarize the Company's fourth quarter performance. These slides are also posted on the website. Please turn to slide 2 in the presentation.

Gibraltar's Earnings Release and this morning's slide presentation both contain adjusted non-GAAP financial measures. Reconciliations of GAAP to adjusted measures have been appended to the Earnings Release. Additionally the Company's remarks 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.

On our call this morning are Gibraltar's Chairman and CEO, Brian Lipke; Henning Kornbrekke, President and Chief Operating Officer; and its CFO, Ken Smith. At this point I'll turn the call over to Brian.

Brian Lipke - *Gibraltar Industries Inc - Chairman & CEO*

Thank you, David. Good morning, everyone. We appreciate you joining us on the call today. I will begin as usual with a brief overview and then turn the call over to Henning and Ken for detailed comments on our results. Then I'll close our prepared remarks with some observations about the Business outlook. Then, of course, following that we'll open the call to any questions that any of you might have.

Clearly 2012 was a better year for Gibraltar than 2011. It was our second consecutive year of accelerating earnings growth. That was in spite of the historically low levels of demand in our traditional core markets. We are going to be referring to slide 3 in our presentation now. We concluded 2012 with strong year-over-year profit improvement in the fourth quarter and for the full year. Again, that was achieved without the benefit of any meaningful change in order volumes as we felt only modest improvement in some of our end markets. Earnings growth was driven primarily by

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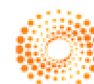

initiatives we've undertaken during the past two years to strengthen the performance of our business, which positions us well entering 2013. With that backdrop we're optimistic about our prospects for growth on both the top and bottom lines and another year of improved results in 2013.

That optimism stems from the contribution to both sales and earnings that we'll be receiving from the Q4 2012 acquisitions, the lower interest expense, which will incur in 2013 as a result of our successful bond offering in January this year, and the West Coast integration cost of being substantially behind us. In addition, the brightening end-market outlook for some of our products, which should be most prevalent in the second, third and fourth quarters of this year as the improving demand picture starts to impact Gibraltar, further solidifies our optimism about our prospects for another year of improved performance in 2013. In addition, we have substantial manufacturing capacity in our existing operations throughout all of our product categories, which provides further upside sales and earnings potential as the eventual improvement in our industrial and commercial and end markets develops. With that I'll turn the call over to Henning.

Henning Kornbrekke - *Gibraltar Industries Inc - President & COO*

Thanks, Brian. Turning now to slide number 4, I'll begin by focusing on our revenue for the fourth quarter. As a reminder, we're currently generating roughly 40% of our total sales in the residential building market, 10% in the low rise commercial building markets, 40% in the industrial markets and 10% in the infrastructure market. Many of our industrial products are also indirectly serving the building market, which is showing strong indications of solid growth in 2013. As we expected, Gibraltar's net sales for the fourth quarter of 2012 were equivalent with quarter four last year at $172.6 million.

Sluggish economic conditions continued through the second half of 2012, perhaps attributable to worries about the fiscal cliff and tax increases for individuals which likely contributed to the negative GDP in the US during the fourth quarter. Full-year sales were $790.1 million, up 3%, and, in spite of the market economic challenges, gross margin was 19% with a favorable pickup in material costs of 2 percentage points year-over-year. West Coast cost of integration was approximately 1.5 percentage points on gross margins.

Looking at our market specifically, there were pockets of both strength and weakness in North America in the fourth quarter and full year, and an ongoing recessionary environment in Europe where 7% of our sales come from. Our infrastructure price business continued to perform well in the fourth quarter and entered the fourth quarter with a solid backlog. Its Q4 2012 was the third consecutive quarter in which sales and profits exceeded those of the comparable period in 2011, again driven by a good mix. Full-year sales were up approximately 20%. With the currently high level of cording activity for bridge and highway products coupled with our recent acquisition in this market, which expands our product offering and provides additional opportunity for growth, we believe that we've entered 2013 with strong momentum in this part of the business. With federal transportation funding in place for nearly the next two years, we're seeing higher levels of activity related to large, longer term projects.

Revenues from our industrial markets were down 3% in the fourth quarter with a full year in North American unit volume growth rate of approximately 2%, but offset by lower pricing of 1%. Sales of metal grating products with various industrial markets, including energy production and architectural applications, were down 3% full year, largely driven by lower pricing, unit volume was flat with the prior year. All of the product categories experienced single-digit growth. Europe was down 16% in the quarter and down 16% full year, driven by the ongoing general weakness in Europe and the European automotive market, in particular, to which we supply components for filters. As improvements in end markets materialize, particularly our indirect sales into non residential construction revenue should grow at a faster rate.

Let's turn now to where 50% of our business directly related to residential and commercial low rise buildings, including repair and remodel. US housing starts are up, prices are rising on sales of existing homes, and for-sale housing inventory is down, all boosting confidence in the home building industry generally. Our customers in the wholesale and retail channels mirror these statistics, and in the case improved end market activity as 2013 unfolds. Demand for our products we sell to the homebuilder market is directly related to the actual construction activity, which usually starts slowly and then accelerates into the spring. In addition, our building products typically don't get purchased and installed until six to nine months after housing start is recorded. We expect a similar lag relative to the upturn in the market, so demand for our products will increase as the year unfolds.

The published industry reports for repair remodel suggest that, although consumers remain biased towards caution and price sensitivity, that there is a greater level of willingness to invest in home improvement as well as pent-up demand related to deferred maintenance over the past five years.

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LIRA indicates double-digit growth and the major national retailers are reporting stronger order volumes in every region of the country. However, roofing a large part of our specific market participation is forecasted to be flat in 2013, resulting in an expected growth rate in repair and remodel for Gibraltar of 2% to 5% in 2013. Approximately 24% of our business is repair and remodel. Constraints in inventory throughout the supply chain have throttled demand, a major reason why sales in our building products businesses were essentially flat in the fourth quarter. Fourth quarter sales also reflected the elimination of marginal and obsolete product lines within our business units.

Looking ahead, the near-term building products growth driver for us will be increased activity as building plans become actual projects and generate orders for our distributors who will in turn gain confidence and sustainability of the homebuilding recovery. This didn't fully materialize in 2012, but given the favorable underlying trends that I just outlined, we think it will in 2013. In addition, given the new product lines we've acquired, the breadth of our existing product lines and our strong marketing programs, coupled with our customer service initiatives, should generate increased sustainable sales as end market activity picks up in the quarters ahead. We expect new residential and all nonresidential buildings to grow at a double-digit rate in 2013, which represents approximately 26% of our business.

Let's turn now to the bottom line as summarized on slide number 5. As we have relentlessly indicated, our strategy has been to position the businesses to be the low cost supplier with excellent customer service to be competitive in all market situations and to continually improve. These objectives brought a focus in 2012 to restructure and integrate our West Coast building products businesses, which had been severely impacted by the market downturn. This process, which entailed combining the four separate West Coast businesses with similar products and market characteristics into a single entity that can better serve our customers, is largely complete. As I mentioned, one of the headwinds we faced in sales this quarter was the accumulative effect of SKU rationalization, particularly in our West Coast businesses.

Gross margins in our West Coast operations are expected to deliver improvements throughout the year ahead. Most importantly, with the West Coast integration well underway and 97% of the restructuring costs behind us, we're entering 2013 with retail and wholesale delivery platforms substantially improved and capable of supporting significant growth in sales and returns in the western part of the country. Adjusted for acquisitions during the past four years, we're operating 17 fewer facilities and 660,000 fewer square feet, with another 325,000 square feet coming offline later this year, than we did at the beginning of 2009 resulting in 20% growth in sales per square foot during the period on the West Coast. Both manufacturing and utilization to be approximately 65% for 2013. At 85% utilization, our sales would the $1.1 billion based on current pricing. This demonstrates that our plant consolidations have substantially reduced our costs without significantly reducing our overall manufacturing capability.

Summing up, with markets improving, broader product lines, improved cost positions, excellent customer service and the full engagement of the West Coast consolidation and integration project in place and demonstrating monthly improvements, we expect to accelerate our sales and margin growth and improve Gibraltar's financial performance in 2013. With that, I'll turn the call over to Ken.

Ken Smith - *Gibraltar Industries Inc - CFO*

Thanks, Henning, and good morning. Now let's turn to slide number 6, entitled Year-Over-Year Performance. The P&L information on this slide and subsequent slides represent adjusted measures from continuing operations and is reconciled to US GAAP results and supplemental schedules in the earnings' press release.

On January 15, we issued a press release announcing preliminary guidance on our fourth quarter 2012 and full-year 2012 results. In it we disclosed a range for adjusted EPS for Q4 and the full-year 2012 as well as adjusted EBITDA. These ranges were not affected by a subsequent impairment charge. The final adjusted EPS for Q4 and for the full-year 2012, being reported today, are at the top end of the ranges of adjusted results disclosed in the January 15 press release. Subsequent to issuing the press release as we were completing our audited results, we identified one change affecting the preliminary guidance, a $4.6 million impairment of purchased intangibles. The effect of this impairment was to lower our US GAAP EPS by $0.15 per share compared to the ranges disclosed in the January 15 press release.

Now on slide 6, I'll go down the fourth quarter columns. Revenues were down slightly, the net result of 3% lower revenue to industrial markets and residential markets. While revenues rose 1% for public infrastructure projects and 1% from the late fourth quarter acquisitions. Adjusted operating income grew significantly for the three-month period, rising to nearly $7 million from a loss of $4 million in Q4 of 2011, reflecting our improved

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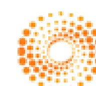

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gross profit and lower SG&A expense. Adjusted operating margin was up a comparable degree to 4% for Q4 2012 compared to a negative 2.5% for Q4 of 2011.

Although not shown on slide 7, the fourth quarter's adjusted gross margin was 19%, an increase of 240 basis points from the fourth quarter of 2011. The increase in the adjusted gross margin was primarily due to improved material margin and operating efficiencies across all our major businesses. We reduced SG&A expense as a percent of revenue in Q4 2012 by 400 basis points, as we redesigned our performance share equity award for 2012 to achieve less expense volatility in the quarter. So, translating these factors into their effect on adjusted EPS and bridging from last year's Q4 2011 adjusted loss of $0.17 per share to this year's $0.05 per share, here are the key improvements -- a $0.01 improvement from lower interest expense; $0.04 from improved efficiencies across all businesses, including our West Coast residential business; $0.05 improvement on the mix of products sold; and finally $0.12 of earnings increase came on the redesigned equity award for 2012.

Now going down the full year columns on slide 6, revenues grew 3%, a net result of a 4 percentage point increase due to acquisitions and for businesses we operated in both 12 month periods. They experienced a slight decrease in pricing with 1 percentage point of revenue. While total volume remained relatively unchanged, we did have volume increases in 2012 with products sold to public infrastructure and multi-family markets. They were met by small decreases in volume in residential repair and remodeling in industrial markets. Adjusted operating income increased 10% to $49.6 million for the full year. That was the net result of higher cost in consolidating our West Coast business being more than offset by profit increases from acquisitions plus our other operations improved efficiencies including realized cost savings.

Translating these factors into their effect on an adjusted EPS for the 12 months and bridging from last year's $0.50 to this year's $0.65 per share, the key improvements were -- a net $0.03 increase from improved efficiencies and cost reductions, despite the much higher cost on the West Coast reorganization; a $0.05 per share improvement on lower SG&A expenses in 2012, led by lower variable and equity comp costs in 2012; $0.02 improvement from lower interest expense; and finally a $0.05 improvement came from an effective tax rate that was nearly 5 percentage points lower in 2012.

Now turning to slide number 7, titled Net Income and EPS. My remarks on this page concern interest expense and income taxes. Regarding interest expense, it was lower in both time periods of 2012 compared to their prior-year periods, for two reasons. First, in 2011 we borrowed funds under our revolving credit facility to help finance two acquisitions and during 2012 we had no amounts outstanding on our revolver. Secondly, 2011 benefited from some interest income earned on a note receivable related to a 2008 divestiture and that note was fully paid off in late 2011. Regarding income taxes, we recognized lower effective tax rates in the 2012 time periods. The adjusted Q4 2012 tax rate was lower by 640 bps and the adjusted full-year tax rate was lowered by 460 bps. The rate reductions were led by discrete benefits in 2012, including the reversal of an uncertain tax position in Q3 2012 after the completion of a tax audit, plus lower nondeductible expenses in 2012.

Now turning to slide number 8, titled Low Leverage and Strong Liquidity. The upper left bar chart shows the gross debt position of the Company, unchanged for the last three year ends. As the upper right bar chart shows, our profitability increased during that time span. Our gross leverage and our net debt leverage came down substantially. The leverage statistics at the end of 2012 do not include the majority of pro forma EBITDA from the three acquisitions closed in late Q4 2012. If we were to include the full-year EBITDA on note for those three acquisitions on a pro forma basis, our gross leverage at the end of 2012 would have been 2.5 times.

The bottom half of slide 8 shows our liquidity position. Liquidity as of the end of the year continues to be quite adequate even after spending $41 million of cash during the fourth quarter of 2012 for the three acquisitions. The takeaways from slide 8 are -- the Company's financial position is in very solid shape and well able to support the Company's growth opportunities going forward.

Now to slide 9, reporting the results of our successful bond refinancing in Q1 of 2013. We issued press releases in mid January 2013 and again in mid February announcing the steps taken to refinance our 8% bond. Those steps have been fully executed and the refinancing was very successful. The maturity was extended to 2021 and the annual coupon decreased by 175 basis points, which will provide a nice improvement to the Company's 2013 earnings and cash flows.

Turning to slide 10, whose heading is 3 Acquisitions in Late Q4 2012. As previously noted, we acquired three businesses during the fourth quarter. Each is complementary to existing product lines and sales channels. The smallest acquisition, a line of premium brand exterior awnings and shade

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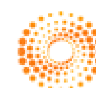

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products for the residential market, is a product offering that we had been buying and successfully reselling since early 2012 throughout the Southeast US and to our own dealer direct sales channel. Its future value is expected to increase based on its innovative new product development capability and it has several exciting new products to be launched this year. Our other two businesses are very complementary to existing Gibraltar product lines serving nonresidential markets. Both are expected to expand the breadth and depth of our geographic sales penetration in the US. We expect their value to increase, and initially through improved cost efficiencies and lower raw material costs.

Turning to slide 11, titled Revenues. This slide will help explain our 2013 revenue expectations. First, we've updated Gibraltar's exposures to end markets served. We've used the actual 2012 net sales for the Company and added, on a pro forma basis, the 2012 net sales for the three most recent acquisitions and compiled these three pie charts. The three most recent acquisitions had aggregate revenues in 2012 of $55 million. 20% of that serves the residential market. 30% of the $55 million serve public infrastructure and the balance of 50% serve industrial markets. Relative to the center pie chart, the three acquisitions increase our overall exposures of debt in the industrial markets.

The right half of the center pie chart shows a 50% exposure to residential and low rise commercial construction. As many of our products installed at personal residences are also installed in low rise commercial structures, such as professional buildings and retail centers. Product examples include interior corner bead, external rain dispersion, [flashing] and trims, attic and foundation ventilation as well as multi unit mailboxes. The two pie charts on the left side and on the right side of slide 11, represent deeper views as of what sub markets generate demand for our products. In 2013 our predominant end market exposure continues to be residential housing demand for both repair and remodeling activity followed by new housing.

Thinking about 2013 revenues going from the right side of this slide to the left side, we are expecting residential repair and remodeling to yield a 2% to 5% increase over 2012, as explained by Henning. Further, roofing shingle volume is expected to be equivalent in 2012. Although we do not sell roofing shingles, its demand correlates to our roof and attic ventilation products, which make up a substantial portion of our residential market participation. Concerning residential new construction, in the improving underlying demand trends, we expect our residential new construction exposure to yield a 10% to 15% increase in 2013 and this market exposure is -- we estimate -- we derive about 10% of our consolidated revenues. This is expected to be a quarterly ramp in orders, as our products typically would be shipped six to nine months after a permit is pulled to construct a new residence or multifamily dwelling.

Concerning low rise commercial construction, both new and repair and remodel, the architectural building index on nonresidential construction activity has increased every month since June 2012 and in January 2013 reached a reading of 54. We expect our market exposure to rise between 4% and 7% compared to 2012 for this end market exposure. Concerning our exposure to public infrastructure for bridges and elevated highways, backlog is a predictor of near-term revenues. We enter 2013 with a very solid backlog and an amount equivalent to backlog in January 2012. With a current seasonally high level cording activity we expect our revenues to grow organically this year by about 5%. In 2012 it did benefit from a few selected orders that we shipped on large projects such as the San Francisco-Oakland Bay Bridge and a Shell Oil drilling platform out in the Gulf of Mexico.

Concerning industrial demand, a composite of the various sub markets we serve, we do expect organic buying that is flat to 2012. It's weighed down by uneven recovery in North America, and we expect that Europe's continuing recession where we derive about 15% of our industrial demand and 7% of our consolidated sales. The above expectations bring us to a weighted average for 2013 revenue growth of 12% compared to 2012, which is a sum of 5% organic growth and 7% growth from completed acquisitions. Our internal plan does reflect a stronger second half and overall we are confident about the full year.

Now slide 12, Guidance. Starting with the first quarter of 2013, we expect the first quarter revenues to rise about 4%, which is a net result of a 7% revenue increase from completed acquisitions, while organic sales are likely to be lower by 3%. Organic revenues face an unfavorable comparison as Q1 2012 benefited from extremely warm weather in most parts of the country last winter and pulled forward demand, particularly for residential related products into the first quarter 2012.

Adjusted earnings and profits for the first quarter are expected to be similar to Q1 of 2012. While we gain from an increased efficiency from our reorganized West Coast operations and our latest completed acquisitions, those improvements are matched by the effects of lower pricing in certain product categories and lower organic volume from residential products compared to last year. One last point on our expected Q1 2013

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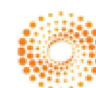

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P&L results, the adjusted earnings will exclude $7 million of transaction fees related to redeeming the 8% bonds; we are writing off the remaining balance of deferred financing costs plus the call premiums.

Now switching to our guidance on the full-year 2013. We expect full-year revenue and EPS improvement. We expect organic revenue growth of approximating 5 percentage points plus the 7% on acquisitions. It could be seasonal and should be a likely seasonal variation by quarter, of course. Our internal plan, again, does reflect the second-half weighted recovery. We expect that adjusted gross margin for the full-year 2013 to be above 20% based on the revenue assumptions I've outlined, including low volatility of raw material costs and the operational improvement of our West Coast residential business.

Regarding our SG&A expense, for the full-year 2013 we expect it to be slightly lower than 13% of revenue, while including $7 million of incremental SG&A dollars for the three acquisitions made in late Q4 2012. Our other expected financial results for the full-year 2013 include -- adjusted net interest expense in the range of $15.5 million and adjusted effective income tax rate approximating 37%, CapEx spending ranging between $21 million and $22 million, and free cash flow approximating 4% of revenues. Based on these collective expectations, we expect to report adjusted earnings per share from continuing operations to be much improved versus 2012. With that, I'll turn the call back over to Brian for his concluding remarks.

Brian Lipke - *Gibraltar Industries Inc - Chairman & CEO*

Thank you, Ken. We believe that Gibraltar is well positioned for a year of top-line growth in 2013. The trends we're seeing in our businesses generally mirror the optimism in the latest industry reports. First and foremost among these trends is the increase in residential new construction activity. We're encouraged by the growth this past year in single and multi-family housing starts. The recent decline in housing inventory also bodes well for 2013 as do the increasing levels of bridge and highway construction activity and the improvement in repair and remodel that Henning and Ken both described. We've seen only a modest overall impact from these dynamics at this early point in the year. But, we believe that we will see a greater impact as the year unfolds especially in quarters two, three and four, particularly as wholesalers' and retailers' order rates pull through improved orders from us and provide them confidence to increase their inventory levels.

Most importantly, the work we've done over the past five years, and are continuing to do to improve our underlying operations and expand margins in every part of the business, should enable us to leverage even modest levels of end market growth into a stronger profitability. As summarized on slide 13, our confidence in Gibraltar's outlook for another year of bottom-line growth in 2013 is based on four key factors. The first is end-market growth. We're becoming increasingly optimistic about the sustainability of the positive trends we currently see developing. As a result, we expect the leverage we have on a lower cost structure to result in expanded margins and improved profitability. Second, we'll no longer be incurring the major restructuring charges and depressed margins related to our West Coast integration that we incurred during 2012. Third, the three acquisitions purchased in the late fourth quarter of 2012 funded from our existing cash are expected to be accretive in 2013. And fourth, we have the benefit of lower interest expense in 2013 as a result of a very successful bond refinancing we completed in Q1 2013.

Reflecting our strong balance sheet, positive cash position and improved liquidity, acquisition driven growth will continue to be one of our strategic priorities. Over the past five years we've rationalized and refocused Gibraltar's business portfolio and product lines through a series of thoughtful and well-timed divestitures and acquisitions. Our plan is to continue to use portfolio management to drive continued performance enhancements. Summing up, we delivered much stronger financial results in 2012 than we did in 2011. And we look forward to extending this record of improvement in 2013 compared to 2012. That concludes our prepared remarks. At this point we'll open the call to any questions that any of you may have. Operator, you can open the call line.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

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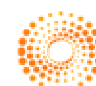

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Robert Kelly, Sidoti & Company.

Robert Kelly - *Sidoti & Company - Analyst*

Good morning. Question on the organic growth discussion, pretty much okay with a lot of the category growth assumptions you put out there. Just the R&R part for res, we've seen a lot of fits and starts and disappointment as far as that. What gives you confidence that 2013 is going to be the year where we finally see growth in the replace/remodel portion of your business?

Henning Kornbrekke - *Gibraltar Industries Inc - President & COO*

I think as we outlined, our repair and remodel is in two segments. One is roofing. We did about 24% of our business as repair/remodeling directly related to roofing. As I said earlier, that's probably going to be flat in the sense that the roofing manufacturing are indicating in 2013. The other portion of the business, both repair and remodeling new is expected to both grow at double-digit rates. We see that starting to happen in our business. Our word from our customers is, they are starting to move more aggressively than they have in the past. We have very strong conviction that as we go through the rest of this year, that both the new building construction and repair and remodeling, not roofing related, will continue to grow at the double-digit rate.

Brian Lipke - *Gibraltar Industries Inc - Chairman & CEO*

Robert, I think some of it is due to the fact that there's been a lot of deferred maintenance driven by a lack of consumer confidence in what's going on in the economy overall. Some of the deferred maintenance simply has to get done and I think that's a factor in it. I also think that consumer confidence, while going over a bumpy road with all of the shenanigans going down in Washington DC. But, I think with the job picture improving, people are getting more confident that the economy is going to sustain improving levels of unemployment and those with a job are more comfortable that their jobs will be in place making them more confident and willing to spend money on some of these deferred projects.

Robert Kelly - *Sidoti & Company - Analyst*

I understand the theory of the pent-up demand. I guess are your customers starting to see the orders flow through? I mean is there more -- are you seeing orders for your R&R products in res starting to pick up here in January? Just trying to get a sense of what you're hearing from your customers?

Henning Kornbrekke - *Gibraltar Industries Inc - President & COO*

Yes, we have not seen the pick up in the early part of the first quarter, but we are starting to see when we talk to our business units and they're talking to their customers, we are starting to see more activity as we move further out. Also recognize, most of our repair and remodel products are not associated with large projects but rather small and mid-sized projects, which are going to start to move faster than the larger projects. Those I think are going to take a bit longer to be fully seeded and for people to get comfortable to do.

Brian Lipke - *Gibraltar Industries Inc - Chairman & CEO*

I think we're going to see the increase in demand in two tranches. First, many of our wholesale and retail customers are very tightly focused on working capital and inventory levels within their own business. So what we'll see first is not an increase in their inventory, or increase in sales because they are building inventory, but simply an increase because their sales volume is going up, which will result in more of our sales being pulled through their stores. I think once they get confident that the demand level is going to increase, that we'll then start to see, or start to benefit from, some inventory build up to correspond to the higher levels of demand that will be developing as the year unfolds.

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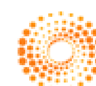

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Robert Kelly - *Sidoti & Company - Analyst*

Okay, thanks. That's helpful. Two questions on M&A and the West Coast consolidation. First off, the businesses that you acquired in 4Q, what's the acquisition integration expense that you're expecting for 2013? Then, as far as the West Coast consolidation, I think you said it was -- the costs were 97% behind you. Are we still expecting a plus 100 basis point benefit to the gross margin in '13, assuming flat volumes?

Henning Kornbrekke - *Gibraltar Industries Inc - President & COO*

Yes, we said 97%, and I had put it out there because there's probably some small expenses we might incur but they're only going to be small. Most of it is really completed in terms of expense and in terms of debt related to the integration of the acquisitions. Those expenses in '13 are almost -- they're very small, almost non-existent, I would say, as we go through the year.

Robert Kelly - *Sidoti & Company - Analyst*

Okay.

Ken Smith - *Gibraltar Industries Inc - CFO*

We will have some purchase accounting write ups like on finished goods inventory and backlog. I've excluded those from our adjusted expectations that we talked about in the script.

Robert Kelly - *Sidoti & Company - Analyst*

Great. Just as far as with West Coast being behind you, is the math still 100 basis points of the gross margin, assuming flat the volumes in '13? You had said that during 3Q.

Henning Kornbrekke - *Gibraltar Industries Inc - President & COO*

Yes.

Robert Kelly - *Sidoti & Company - Analyst*

One final one, it's more of a longer-term question. You put in your public investor presentations some of the longer-term financial goals, $1 billion in revenue, adjusted operating margin 10%, EBITDA 13%. If we assume that you are a 30% incremental margin company, and we are able to hit those targets over the next couple of years, isn't that operating margin kind of light with the mix of acquisitions you've done? Should we be updating our thoughts about the longer-term profit targets for Gibraltar?

Henning Kornbrekke - *Gibraltar Industries Inc - President & COO*

I think there are two ways of looking at it. I think Brian had touched on one, but we're constantly looking at the mix of businesses that we have. We intend to actively, continually improve the mix of business that we have. If you take the current portfolio that we currently have and the fact we've done this as early as -- as late as yesterday actually, and you project it forward, we can hit the numbers that we have talked about in the road show. With the current business mix we have, as we go forward, and as we come out of the backend of 2013, it will be, I think, very evident.

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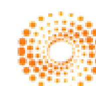

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Brian Lipke - *Gibraltar Industries Inc - Chairman & CEO*

I think that's the positive news, because the better news is, as we continue to use portfolio management, we should be able to, Robert, as you're projecting, create a business model that could yield higher than that 10% operating margin. But as Henning pointed out as we hit the targeted margin performance of each of the businesses that we have today, we believe we're fully capable of getting to a 10% operating margin at or around that $1 billion of sales. I think we'll be proving that to you as the year unfolds.

Robert Kelly - *Sidoti & Company - Analyst*

Right, my point was more that you should do that very easily, just based on where you are today without even the benefit of the acquisitions in the mix yet.

Henning Kornbrekke - *Gibraltar Industries Inc - President & COO*

I don't know if anything's easy in this world we live in today.

Robert Kelly - *Sidoti & Company - Analyst*

Fair enough.

Henning Kornbrekke - *Gibraltar Industries Inc - President & COO*

We understand.

Robert Kelly - *Sidoti & Company - Analyst*

It's been a long down turn.

Brian Lipke - *Gibraltar Industries Inc - Chairman & CEO*

We're always cautious, Robert, because it seems that the analyst community pulls for us and gets a little bit more aggressive with that. So, we're always a little bit more conservative and we'd rather let our results do the talking as opposed to creating overly high expectations.

Robert Kelly - *Sidoti & Company - Analyst*

Great. Thanks for your answers.

Operator

Ken Zener, KeyBanc Capital Markets.

Ken Zener - *KeyBanc Capital Markets - Analyst*

Good morning. The $0.65 in 2012 included how much cost tied to the West Coast integration that will not be there in 2013?

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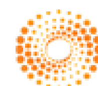

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Ken Smith - *Gibraltar Industries Inc - CFO*

Approximately $8 million.

Ken Zener - *KeyBanc Capital Markets - Analyst*

Weighted more towards equally 1Q, 2Q and 3Q, is that the right way to think about it? Just as a refresher.

Ken Smith - *Gibraltar Industries Inc - CFO*

Yes.

Ken Zener - *KeyBanc Capital Markets - Analyst*

And that's going to be largely in the gross margin correct? Or would that be in your SG&A level, which is still base $27.5 million a quarter, if that's correct plus the $7 million over four quarters?

Ken Smith - *Gibraltar Industries Inc - CFO*

It is mostly the West Coast improvement will largely be influence on the gross margin.

Ken Zener - *KeyBanc Capital Markets - Analyst*

On the gross. The SG&A increase is $7 million tied to these acquisitions, is that additive? That's obviously an annual number, but you've talked about SG&A being between $27 million and $28 million on your old legacy business, is that still the right baseline to be operating from?

Henning Kornbrekke - *Gibraltar Industries Inc - President & COO*

Yes, the official cost and SG&A is not going to change the ratio of sales to SG&A. In fact, as I think Ken outlined, their SG&A as a percent of sales is actually coming down.

Ken Zener - *KeyBanc Capital Markets - Analyst*

Right, I guess on the dollar basis though per quarter is it -- in the past you guys have talked to $27 million, $28 million excluding equity.

Ken Smith - *Gibraltar Industries Inc - CFO*

It's Ken. I would say for 2013 it's going to be closer to $26 million a quarter plus the acquisitions.

Henning Kornbrekke - *Gibraltar Industries Inc - President & COO*

Right.

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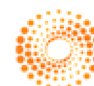

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Ken Zener - *KeyBanc Capital Markets - Analyst*

Okay, so you guys took that down. I guess the strength that you had in fourth quarter relative to what you guys talked about in the third quarter, which seemed a more like 17%. Can you talk about the comment -- you highlighted the word efficiency and cost, did the 4Q come in better in terms of your fixed operating leverage? Or was it that costs that you expected to incur didn't? Could you just talk about the exact dynamic in fourth quarter that led to your strong gross margin?

Henning Kornbrekke - *Gibraltar Industries Inc - President & COO*

For the most part the fourth quarter did come in stronger. If we just look at the gross margins in fourth quarter, we were 19% versus 16.6% in the prior year quarter. Again, most of the efficiencies, the ones we're talking about will show up in the cost of sales and be represented in gross margin. You can see we had a nice pickup in gross margin in the fourth quarter.

Ken Zener - *KeyBanc Capital Markets - Analyst*

Right. Okay, then last question, the acquisitions, $55 million in sales. I believe in the press release it said $7 million in EBIT or operating, is that correct?

Ken Smith - *Gibraltar Industries Inc - CFO*

No, it was not. You quoted the correct revenue number, but the $7 million was EBITDA.

Ken Zener - *KeyBanc Capital Markets - Analyst*

Oh, that was EBITDA. Got it. How much purchase accounting are you expecting related to those acquisitions in 2013, that, I assume, more front-end loaded, that we will not see in 2014?

Ken Smith - *Gibraltar Industries Inc - CFO*

It could be approaching about $700,000 to $900,000.

Ken Zener - *KeyBanc Capital Markets - Analyst*

Is that kind of spread equally in -- I guess, not really. Would it be mostly 1Q and 2Q?

Ken Smith - *Gibraltar Industries Inc - CFO*

Yes it is.

Ken Zener - *KeyBanc Capital Markets - Analyst*

Thank you very much.

Ken Smith - *Gibraltar Industries Inc - CFO*

I've also not taken this into consideration in the adjusted measures that we cited during our remarks.

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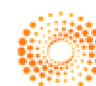

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Henning Kornbrekke - *Gibraltar Industries Inc - President & COO*

Right.

Ken Zener - *KeyBanc Capital Markets - Analyst*

Oh, so it's already excluded from your 2013?

Ken Smith - *Gibraltar Industries Inc - CFO*

Yes it is.

Ken Zener - *KeyBanc Capital Markets - Analyst*

So, it won't comp'ed easy in the first part of '14 is what you're saying?

Henning Kornbrekke - *Gibraltar Industries Inc - President & COO*

2014?

Ken Zener - *KeyBanc Capital Markets - Analyst*

It's not in your -- the numbers that you're giving us for the 1Q 13?

Ken Smith - *Gibraltar Industries Inc - CFO*

Correct.

Ken Zener - *KeyBanc Capital Markets - Analyst*

Okay.

Ken Smith - *Gibraltar Industries Inc - CFO*

And it would not be in the first quarter '14.

Ken Zener - *KeyBanc Capital Markets - Analyst*

Right. Thank you.

Operator

(Operator Instructions)

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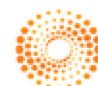

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Yilma Abebe, JPMorgan.

Yilma Abebe - *JPMorgan - Analyst*

Thank you. Good morning. One quick one for me, a bit of a financial and a policy question. Your current liquidity looks ample to me given the expected cash generation, cash balance and then availability on ABL. How do you think about liquidity through the cycle? Should we expect to continue to see this level of liquidity going forward, especially in the context of your long-term targets, which is a lot bigger Company than you are currently?

Henning Kornbrekke - *Gibraltar Industries Inc - President & COO*

Yes, we're projecting liquidity to increase going forward. As we -- I know we looked yesterday at 2013, and our liquidity increasing as we went through the fourth quarter.

Ken Smith - *Gibraltar Industries Inc - CFO*

That's correct. As we have stated about our capital deployment and business strategy, acquisitions play a prominent role in the Company's future and we would certainly probably tap into that liquidity for strategic tuck-ins, for sure. But absent those, we would expect improving and increasing liquidity in 2013.

Brian Lipke - *Gibraltar Industries Inc - Chairman & CEO*

I think one of the keys to our strategy going forward is that we're focused on cash flow generation. While we do intend to be active in the acquisition arena, we're hoping that we'll be able to fund a greater percentage of our acquisitions out of cash that we're generating as opposed to debt. As we did in the fourth quarter, using $41 million of our cash to make the three acquisitions. From an overall leverage standpoint, these levels that we're currently at today are relatively conservative. We may move them upwards into the 3.5 leverage range, but would hope that if we do move up in that range that through positive cash flow generation that we'd be able to bring that down.

Our current outlook from a leverage perspective is to maintain a conservative posture. I think today we're in a very conservative position and might, if certain acquisition potentials come along, move it up into the 3 range. But then would hope to bring it down after that through good cash flow generation.

Henning Kornbrekke - *Gibraltar Industries Inc - President & COO*

Yes, we'll always try to balance it as we've indicated.

Yilma Abebe - *JPMorgan - Analyst*

Thank you, that's all I had.

Operator

It appears we have no further questions at this time. I would now like to pass the floor back to Brian Lipke for closing comments.

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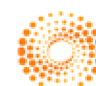

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Brian Lipke - *Gibraltar Industries Inc - Chairman & CEO*

Thank you all for joining us on the call today. Thanks for your questions. We're continuing to work hard to create shareholder value, and we look forward to talking with you in about three months. Thank you.

Operator

Ladies and gentlemen, thank you very much for your participation in today's conference call. You may now disconnect. Have a wonderful day.

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