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PRESENTATION

Operator

Good morning, ladies and gentlemen, and welcome to Gibraltar Industries Third Quarter 2020 Conference Call. (Operator Instructions) As a reminder, this conference is being recorded. I would now like to turn the conference over to your host, Ms. Carolyn Capaccio of LHA. Ma'am, please go ahead.

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

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

The earnings press release that was issued this morning as well as the slide presentation that management will use during the call are both available on the Investor info section of the company's website, gibraltar1.com. As noted on Slide 2 of the presentation, the earnings press release and slide presentation contain forward-looking statements with respect to future financial results. These statements are not guarantees of future performance and the company's actual results may differ materially from the anticipated events, performance or results expressed or implied by these forward-looking statements. Gibraltar advises you to read the risk factors detailed in its SEC filings, which can also be accessed through the company's website.

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

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

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

Good morning, everybody, and thank you for joining our call today. I hope everyone is doing as well as it can be and remain safe and healthy. Let's begin today with an overview of the third quarter, and then Tim is going to provide more in-depth review of our Q3 results, and then I'll wrap up with an update on our 3 strategic pillars and some thoughts on the rest of the year, and then we'll open the call for your questions.

So if we can, let's turn to Slide 3, Q3 overview. We delivered solid performance as we execute our plans. We continue to invest in our business and really work on improving our positions in the markets we serve. Revenue increased 10.2%, driven really by solid organic growth in our renewable energy and residential products as well as growth from acquisitions made in our growing and processing business.

GAAP EPS improved 36% to $1.02, and adjusted EPS improved 11.6% to $1.06. We also continue to make operating margin progress with GAAP margin up 280 basis points and adjusted operating margin up 40 basis points. I'm pleased with our revenue and operating margin performance, particularly despite the continued market slowdown we discussed last quarter, impacting our processing business, the cannabis portion of our growing business and our core industrial business. I guess the good news is that consumer demand for cannabis- and hemp-based products remains healthy. And I think with the processing equipment market stabilized in the second half of 2020 as well as with the improvement in bid and award activity for the cannabis growing solutions business. We expect a much better performance in 2021 and beyond.

And I'll let Tim provide more commentary regarding Q3 results during his review of the businesses.

Also during the quarter, our backlog increased to $304 million. It's up 26% driven by, again, strength in our renewable energy and conservation group. Along with increased backlog, we experienced strong revenue growth within renewable energy, the result of good progress by the team, particularly at our fixed tilt and canopy racking solutions as well as in our electrical balance systems business. All of which have experienced year-to-date growth greater than 25%.

As a reminder, we intentionally paused sales of our tracker solution over the last 12 months. So generally, overall revenue and backlog growth this year in renewables really reflects a tremendous effort by our team. We also -- we are also excited to have launched our new tracker solution, Sunflower 2, at the end of last quarter and which we started to see generate backlog in Q3 and should convert to revenue in 2021.

The strength in our conservation business is driven by really positive order activity in our fruits and vegetables business as well as increased activity in the cannabis growing business. So our position in the market is much stronger than it was just 9 months ago, adding thermal energy systems to the portfolio earlier this year, really is a significant step toward building a leadership position in North American market. And with good progress to date integrating this business, I'm really looking forward to seeing the group progress in 2021.

We also recently completed a $27 million acquisition of Architectural Mailboxes. It's a complementary addition to our mail and package solutions business. This is really an exciting addition for us that provides an entry into new segments and adds capability and create some synergy across digital marketing, innovation and engineering as well as supply chain. Architectural full year sales are anticipated to be around $26 million this year or in 2020.

Over the last 9 months, I'd say our investments in the business have been meaningful, very targeted, and I think are beginning to generate some positive results. We are delivering more consistent execution. I think we're building stronger positions with our customers. And we continue to make ongoing investments in systems and technology, people and probably most importantly stay laser-focused on creating the safest work environment we can for our folks.

We entered the fourth quarter with solid momentum with a very strong balance sheet, which supports the continued [funding] of many of our key initiatives. We are making progress, and I am excited with the opportunities that are still in front of us. As well, I am really truly grateful for everyone in our organization and how we've collectively navigated through this unique and ever-changing environment. So I do want to thank our entire team and their families for a couple of things: their resilience; obviously, their dedication and support for the business, but also for each other during this time.

So now let's turn to Slide 4, and Tim will review our consolidated financial results. Tim?

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

Thanks, Bill, and good morning, everyone. I'll take you through our consolidated and segment results. Consolidated revenue increased 10.2% as growth in the residential products and renewable energy and conservation segments offset the revenue decline in our industrial and infrastructure segment. Continued execution drove organic revenue growth of 2.1% in the residential and renewable energy businesses. We generated 8.1% growth from our third quarter 2019 acquisition of Apeks Supercritical, and our first quarter 2020 acquisitions of Thermo Energy Solutions and Delta Separations.

Backlog at quarter end was $304 million, up 26% from the prior year and 9% from the prior quarter, driven by continued end market demand in our renewable energy and conservation segment and, to a lesser extent, demand in the infrastructure business. Consolidated GAAP operating income was up 39.8%, and adjusted operating income increased 13.9% in the third quarter. Third quarter 2020 operating income included approximately $1 million of ongoing net direct investments in the safety and financial security of our people directly related to COVID 19.

Consolidated GAAP and adjusted EPS grew 36% and 11.6%, respectively. The increase was the result of organic growth and marked margin expansion in our residential products segment, product and services mix, effective price to material cost management and ongoing benefits from operational excellence initiatives.

Now let's review each of our 3 reporting segments, starting with Slide 5, the renewable energy and conservation segment. Segment revenue increased 9.8%. Organic growth in the renewables business was more than offset by an expected decline in our core conservation business due to the current year weakness in the cannabis and hemp markets, combined with tough comparisons in last year's third quarter, which saw strength in the cannabis end market, resulting in an organic decline of 10.8%.

Our recent acquisition of Apeks Supercritical, Thermo Energy Solutions and Delta Separations drove 20.6% growth. Continued strong demand in the renewable energy market for our fixed tilt and canopy solutions more than compensated for a substantial gap in tracker sales compared to the third quarter of 2019, resulting from our decision to pause on sales of our tracker product last year as we work through some field modifications. We recently relaunched our tracker and have begun to build backlog for this product.

The renewable energy business margin performance was solid in the quarter, driven by strong action, participation gains and product and service mix. Near-term market challenges negatively impacted margin in the core conservation business, particularly related to the cannabis and hemp markets. The acquisitions made in the conservation business delivered negative margins consistent with expectations, and these margins are expected to improve as we move forward with the integration of these businesses.

Backlog growth accelerated going into the fourth quarter and total segment backlog up 28% and both renewable energy and conservation businesses contributing roughly equally to the increase. Strong demand from our customers in the renewable energy business continues and demand for customers in our consolidation business is being driven by strength in the fruits and vegetables market and increasing activity in the cannabis market.

We anticipate continued strength in our renewables business and continued challenging comps in our core conservation business related to the timing of the cannabis projects during the remainder of the year. We believe we've hit bottom of the margin impact from our recent acquisitions and anticipate the operating margin profile in this segment to improve sequentially as we move through the remainder of the year.

Let's move to Slide 6 to review our residential products segment. Segment revenues increased 20.1% from last year, a result of continued strength in the repair and remodel markets as well as participation gains across our distribution channels. Adjusted operating margin increased 530 basis points, a result of consistent execution on higher volumes, continuing focus on 80/20 initiatives, supply chain optimization, process improvements, increasing organizational competency and effective price and material cost management.

Now let's move to Slide 7 to discuss our recent acquisition. As Bill mentioned, in early October we completed the acquisition of Architectural Mailboxes, a supplier of innovative, highly engineered USPS approved mailboxes and package delivery solutions for $27 million or roughly 1x annual revenue. This is a very complementary addition to our existing mail and package solutions business in our residential products segment. It broadens our product offering, strengthens our position in single-family home and mail package market, improves our digital marketing, engineering and supply chain capabilities. We're excited to have the Architectural team join ours and look forward to continuing to drive value for our customers in this space.

Based on current customer activities and taking into account the seasonal nature of this segment, we expect continued strength on both the top and bottom line during the remainder of the year in our residential products segment compared to the prior year quarter.

Let's move on to Slide 8 to review our industrial and infrastructure products segment. Segment revenues decreased 11.6%, driven by lower demand for core industrial products. The infrastructure business was down slightly as the pandemic affected spending on infrastructure products in certain end markets. Infrastructure backlog grew slightly. Adjusted operating margin was up 80 basis points through continued improvement in execution in the industrial business and effective price and material cost management.

Let's move to Slide 8 (sic) [Slide 9] to discuss our liquidity position. We continue to produce strong cash flows and $63 million of cash generated from operations during the third quarter, driven by higher earnings and reduced investment in working capital. Our strong operating cash flow, coupled with our modest capital expenditures, drove free cash flow of 18% of revenues during the quarter. At September 30 and as of today, our revolver remains undrawn. We ended the quarter with $180 million of cash on the balance sheet. And subsequent to quarter end, as we mentioned, we invested $27 million of cash in Architectural Mailboxes.

Given our strong cash position and our undrawn $400 million revolving credit facility, we continue to have ample liquidity to invest in operational excellence, growth initiatives and the development of our organization. We remain active in the M&A discussions and continue to remain focused on managing our working capital.

Now I'll turn the call back to Bill.

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

Thanks, Tim. Let's move to Slide 10 for a quick update on our 3 strategic pillars. First, let's talk about our business system. We continue to invest and optimize our operating playbook, really to try to keep this as agile and aggressive as possible in today's dynamic environment. We also remain very focused on maintaining the best and safest work environment for our team, executing consistently every day. Very focused on supporting our customers and supply chain and further building our digital systems capability.

In regard to portfolio management, after a temporary pause in Q2, I'd say discussions have accelerated across a robust pipeline of strategic assets that we believe will further strengthen our position in the markets we're in. As mentioned earlier, we did recently complete the acquisition of Architectural Mailboxes. I think that's a good example of building our presence and creating access to do market segments for mail and package business.

We're also making progress with our organization development initiative. Throughout 2020, we've actually added key positions. We've filled organization gaps and we've upgraded some talent as part of our development effort. And really through an initiative actually started in 2019, we launched our digital education initiatives requiring all Gibraltar employees, salary and hourly, to complete approximately 12 hours per year of online education across a really broad curriculum of topics. This requirement also includes our online cybersecurity education, which also started in 2019, and that's become even more important in today's work from home environment.

Let's move to Slide 11, and we'll discuss our outlook for the fourth quarter. Through the first 3 quarters, we've been able to deliver solid revenue and earnings growth relative to 2019. And I believe our market trends and our momentum remain positive. However, there is still a significant amount of uncertainty today. We have, obviously, the ongoing pandemic. We have next week's election. And I think -- and the potential impact of both on the economy and its recovery going forward.

So as a result, we'll offer a qualitative outlook for the rest of the year based on trends we're seeing today in our markets as well as with our businesses. So let me start with some thoughts about the renewable energy and conservation segment.

So as I mentioned earlier, we expect demand to continue in our renewable energy business, and we continue to grow and build our backlog accordingly. I think with momentum in our fixed tilt and canopy racking business and our electrical balance and system business and with the relaunch or the launch of Sunflower 2, we're expecting to see progress in Q4 as well as strength as we enter 2021.

Our conservation business continues to deal with an interesting set of market dynamics. The growing business should continue to see growth in fruits and vegetables backlog and revenue as we move forward. Significant investment in this market continues as does demand for greenhouse structures and growing solutions. And we expect Thermo Energy Systems to benefit accordingly. The cannabis market project bid and award activity increased in Q3, and we expect that to continue in the fourth quarter and into 2021. So -- and we are really well positioned to support this.

Our processing business and the processing equipment market has stabilized and is starting to improve with further recovery anticipated in Q4 and in 2021. The market has also continued to self-correct the supply demand imbalance for process equipment and the market for hemp processing continue to mature or continues to mature.

In our residential building products business, we expect solid demand in Q4 on a seasonally adjusted market basis as the new construction and repair and remodel markets remain active. We continue to focus on consistent execution, really serving our customers as best we can and finding opportunity to drive participation gains with them as well. We expect our industrial business to continue experiencing consistent demand for core products, and we remain very focused on execution and selling higher value-add product families to deliver the solid margin operating income dollars you see.

Our infrastructure business is expected to remain steady with solid growth in our fabricated products offsetting some of the slower demand in non-fabricated products. These are sealants and coatings, which are currently impacted by reduced investment in airport runways and structural maintenance. Project bidding activities rising and our backlog remains solid.

So in summary, barring a significant change to today's environment which is interesting in itself, we are confident we'll deliver solid fourth quarter performance compared to last year. And then we'll revisit the question on quantitative guidance again when we report our Q4 results.

So with that, let's open the call for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Your first question is from the line of Mr. Daniel Moore from CJS Securities.

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

I'll start with the renewables and conservation, specifically process equipment. It sounds like the market is stabilizing there and cannabis bidding activity increasing. How would you characterize activity in the processing side, maybe compared to pre-COVID levels? And you said you expect much better performance in general for the overall segment in '21 given the backlogs. Is double-digit growth achievable? I know you don't want to get into the guidance, but just how are we thinking about the type of growth rates that we might be able to see going forward when we get past this year and given the easy comps from early in the first half.

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

Yes. Well, so Dan, we like this marketplace because of inherent long runway we think it has. And I do think the industry itself as it's going through this correction and dealing with COVID will come back, and we'll see growth rates as we had hoped going into this year. And I think we've always said, this market seems to be growing high single-digit type of growth in the past, and we hope to see that return next year.

We got a little bit more of a, I think, market flush, if you will, that's going to happen in Q4 and a little bit into Q1, and then you'll start to see that return. A lot of that has a lot to do with the imbalance I mentioned earlier with the hemp market. Remember, the Farm Bill Act came about and made hemp [federally] legal and then you had a lot of people rushing into the space and artificially pumped up the market a bit. We saw that, and we knew that. It's just taking more time, I think, with COVID for that to rebalance because of access to capital and other things that a lot of the participants in the industry have dealt with the last 9 months.

So all that's kind of getting flushed, if you will. It's probably taking longer. It has taken longer than I think I anticipated. And from our understanding of what we've been working on with the market, I think you'll start to see that recovery in next year. And I think we hope to see the business start generating that type of growth we expected going into the year.

And I think the other aspect of that is, obviously, there's a margin drag that has come with the reduction in the market, which we've shared with you guys over the last 2 quarters, and hopefully, we'll start to see that turn. We should see that turn in a positive direction as well.

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

Very helpful. And along the same lines, backward looking, but I missed the revenue contribution from Apeks, Delta. What were those in the quarter? And what was organic growth in renewables and conservation?

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

So again, renewables was up and conservation was off the core business basically cannabis market, and that is down. When you combine, it was down in the 10% range. And then the acquisitions added 20%, and that's out to the 10%.

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

$20 million. Great.

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

Those are percentages. Sorry.

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

Okay. Got it. Got it. Yes, the cannabis is down 10% and added -- the acquisitions added 20%?

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

Basically. Right. Yes.

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

Got it. And then very interesting, Architectural Mailbox. What's the margin profile today? What's the opportunity set? And do you see a big opportunity in kind of residential parcel boxes reflecting the growth in e-commerce. Is that part of the thought process here?

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

Yes. Well, there's a couple of things. As I mentioned, we mentioned, hey, it's complementary to say, well, how is that? There's a core mailbox business that we've built out over time. And what architectural -- sorry, in the single-family world, they're really in that architectural design, very innovative type of mailbox. So that's a complement on, call that, single family.

Both us and they have been working on trying to find the best solution for residential homes for package delivery. So there's some interesting things going on there that we think we can leverage as that end market continues. And of course, our core -- our existing business, we do a lot of cluster boxes and large lockers for both commercial and new neighborhoods where you're going to more centralized mail delivery.

So when you add it all up, it's interesting because we now have kind of 3 or 4 markets that this gives us a little more access to, and it just adds to the thought process around how to solve this home delivery thing in a way that I think a lot of people are looking for. So that's how it all fits.

And then the back side, there's some -- obviously, some interesting things that we can do together as we operate the business. So...

Operator

Your next question is from the line of Ken Zener from KeyBanc.

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

So I'm hoping you guys could be as transparent as possible because I don't want to interpret this quarter as a miss. But I think this is one of the concerns about investors is, clarity in the renewable because many of your investors come from the building products world and solar, hemp, vegetables. So let me just -- let me rephrase what you've said, I believe, so I can get some clarity.

The 20% growth that you had in renewable is from acquisitions. You said though hemp margins were negative. Were you referring to these acquisitions collectively, which would include the Canadian greenhouse? Or how should we think about parsing out your negative margins in hemp to start with.

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

Cross -- yes, that'd be processing -- the 2 in processing, which are Apeks and Delta serve that market that we're talking about that really has slowed significantly, and that's where the bulk of the negative margin drag has come from this year as it did in Q2 and Q3.

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

Right. And my recollection is you had $75 million at the time of acquired sales in the vegetable business and $46 million in ['17], so about 60 in those 2 businesses. Is that correct for sales?

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

That was trailing. Yes.

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

Yes.

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

So how should -- I added up the M&A line in renewable, and it looked like it's on track for about $80 million this year and your acquired sales were about $140 million. So it fell 40%. Obviously, timing, COVID, you couldn't control that. But is the hemp down like more than that 40%? I mean, is it down like 80% and the vegetables is okay? The reason I'm asking these questions is, is your core renewable, so legacy solar and greenhouse, are those margins up organically year-over-year? Because this is kind of central to the fact, are you facing COVID issues or are you facing execution issues? And that's got to be on investor's mind today. The question is what's going to grow at?

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

Let me parse it. Renewables, we had growth in revenue despite the fact that we created a headwind by stopping tracker last year, where we had decent tracker revenues in the third quarter. So the other components in that segment, which are the fixed tilt, the canopy and the electrical balance of systems. Bill pointed out in his comments, revenue growth of those pieces of the business were greater than 25% each. And so that...

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

Okay. So those categories grew 25 -- your organic in those categories grew 25% year-over-year.

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

It created cover. And so we generated growth from renewables in total. Margins are solid in renewables. And you go to core conservation. The core conservation business had a fair amount of cannabis in the third quarter of last year projects.

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

Yes, it was up -- yes.

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

And it's down this year. So cannabis market was tough at the beginning of the year from just getting any contracts raining down. So backlog decline creates a hole, and we're starting to see cannabis activity pick up in backlog build. So in that core business, there's a timing issue, but no real concerns. But that impacted margins negatively, missing that volume of revenue.

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

Is it fair to say then -- sorry to focus on this. I think it's just -- this is a great opportunity for you guys to expand investors' understanding of this nascent business. The conservative, which is both -- which is led by hemp in terms of the downside, but that would also be greenhouses and everything else, correct?

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

Yes. So when I talk about core conservation -- I'm talking about core conservation. I'm talking about the entire greenhouse business. But the driver of its performance this quarter is really the tough year-over-year cannabis markets. So there's always noise in every business. But that's -- if you're looking at what happened. And then the acquisitions in total generated decent sales -- they generated 20% sales growth. So they made up for some of the shortfall in the conservation business. But in total, no revenue. In fact, in total it's negative revenue.

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

Margin.

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

I'm sorry, negative -- correct, negative margin.

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

Could you quantify that negative margin? I mean, is it like mid-single digits? Or is it like low double digits? And the reason I ask, just as you guys ponder that is, if you have, for example, minus -- if you have low single digit margins, it means your actual margins in your renewable organically were basically flat to up. And I think that's -- it's hard to understand the magnitude of these obvious COVID-induced declines in the conservation business, that's all.

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

Yes. I mean, I guess what I would say is that acquisitions drove the majority of the revenue decline. And then the next piece of it is the piece in conservation. The quarter...

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

I'll move on. All right. Fair enough. I do appreciate it.

Residential, 20%. How much pull -- I mean, I know you guys are -- your 4Q guidance, my guess, my last question, I'll back it out here. I do appreciate the details you offered. Your slide, Slide 11, 4Q outlook. I don't know I heard you guys, I wasn't sure how to exactly interpret this. Are you saying sales are up? If I say sales are up, whatever, core, 3%. Should I have that 3% sales growth, be 37% renewable because this is percent of fourth quarter revenue? Or is this kind of -- I just didn't know how to interpret it when you said renewable at 37% of revenue. Is that for the fourth quarter basically?

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

I'm just looking at slides now.

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

Is that for the full year?

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

No. That's sort of trailing. It's a -- that's just, hey, you're just trying to give people a relative weighting of these 3 segments on our portfolio.

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

Let me -- I just want to clarify something for you as well. Maybe you know this, but -- and for the audience, hemp and cannabis are 2 distinctly different drivers of market stuff we talked about today. So hemp is really processing -- impacts the processing aspects of our business. Not the growing because people grow hemp outside. So our core growing business or conservation business, whether it's cannabis or -- that's going to be cannabis that's grown inside in a greenhouse.

The hemp and cannabis market that is also impactful to processing equipment, but that's really where we've seen a big reduction or in the marketplace a slowdown as it related to hemp in processing. Does that make sense?

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

It does.

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

And so there are 2 things that are impacting the processing market. One is the hemp maturation process because there was the Farm Bill Act that was approved. And so we had a lot of people running into that space. That's balancing itself out. The second piece of the processing business or second impact of the processing business has been around COVID. And that's all the processors having access to capital, whether they're processing cannabis or hemp.

So those 2 things that are hitting, and that's my point, they're -- we're flushing through that this year. It took a little bit longer than we thought to flush out because I think COVID has extended that a bit. And that's where Apeks and Delta Separations, that's 100% of where their business is focused, processing hemp and cannabis.

So 2 impacts on processing. Those are the 2 acquisitions that were directly impacted by it that's flushing itself out. That's the stabilization we're starting to see. That will start to pick back up next year.

Cannabis for growing is really just associated with hemp -- COVID upfront where people have -- everything slowed down, getting access to permits and all that. And that's kind of started to work itself out in those projects. The bid activity and the projects we started to see increase throughout the quarter. And so we think that's recovering at a little faster pace from an end market perspective.

And that particular piece of our business last year was at record levels. So you got a little bit of a comp thing and you've got a market recovery thing happening on the growing side as it relates to cannabis. Is that helpful?

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

Yes, it is. And I think these type of detailed explanations are very helpful to you guys.

Operator

Your next question is from the line of Julio Romero from Sidoti & Company.

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

So on the resi business, I think you mentioned in your prepared remarks you expect a better top line and bottom line year-over-year. I guess, would you expect the margins to be up in the same range that you've seen in the last 2 quarters because you've seen very good strength year-over-year in the second and third quarter. So is that fair? That 300, 400 basis point for 4Q of ’19.

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

Yes. I think we're going to be up on both top and bottom line year-over-year. It is seasonally adjusted obviously versus -- we won't be sequentially because of the seasonality of the business, but I think we've been -- each quarter been performing a little bit better than the previous year. And I would expect that to continue in the fourth quarter.

What is that really going to look like? It's -- I think it will be better. I can't give you a number now only because if you thought Q3 or Q2 is a little bit unique in trying to understand some things. We're in the middle of a pretty crazy time right now, too. But we're pretty confident that we're going to get through the fourth quarter with better performance. So I hope to see, as you described, better performance for sure on top and bottom line.

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

Got it. Staying on that segment, I mean, on the Architectural Mailbox acquisition, I think you mentioned it's more of a single-family offering than the cluster boxes that you traditionally offer. Is that sold through the same channels as your legacy mailbox offering?

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

Yes. Yes. They -- I would say, Architectural, there's a lot of overlap in terms of where we sell-through, and I would say there's a good online presence for them as well. So it just -- if you think about distribution channels, it gives us a little more breadth across all of those, and there are multiple channels between big box, small box, online, so on and so forth. And then we talked earlier about the various product lines it brings, which effectively helps you get to additional subsegments within the customer -- the customer base, which we haven't really been in. So that's very helpful for us.

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

Yes. And I guess my last one is, is your total mailbox offering, does that now make up like about 1/5 of your total resi segment? And would there be more tuck-in acquisitions to target in the pipeline?

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

As it relates to mail and package or residential?

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

Parcel and post, yes.

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

Not in the near term. I think what we have now is a pretty strong foundation to go after some of the problem sets or opportunities that are out there, whether it's home delivery or in the multifamily world. There's home delivery there as well. There are different solution sets there. I think they bring a strong engineering organization that helps us strengthen our engineering organization. They bring some good marketing as well. And so I think collectively, we're going to -- it'll help us focus a little bit more on some of the organic opportunities that might exist. But we'll keep our eyes open, but there's nothing obvious right now in that space that we would add.

Operator

Your next question is from the line of Walter Liptak from Seaport.

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

I wanted to go back to the previous discussion and maybe just to ask the question about organic growth. What was the organic growth in the -- or decline in the renewable and conservation business?

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

So -- to come back in the organic renewable and conservation, renewables were up, conservation was down, and that combined was a little over 10%. I think it's 10.8%.

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

10.8% organic or 10.8% all in?

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

10.8% organic because we've got almost 10% growth in the segment, and that difference is the impact of the acquisitions.

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

Okay. Great. And then on the backlog, I wonder if you can talk a little bit about -- you said the composition of the backlog was split, the growth in backlog from the fruits and veggies, greenhouse and the solar. I wonder if you could talk a little bit about the solar part of it. How much of that is Sunflower 2? And how much of it is a traditional fixed tilt?

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

So, Walt, both sides of the businesses had backlog growing 28% plus, which is kind of cool. And you kind of mentioned fruits and vegetables. That's good end markets and very active things going on in the marketplace there. So we're excited about that. And that's really going to show up in 2021.

In the solar side, the majority of that backlog growth is still in our core business, community solar. It's still heavily oriented towards fixed tilt and canopy. And our electrical balance of systems business. And then with the launch of Sunflower 2 towards the end of Q2, our backlog is starting to build in our tracker solution. So I would say the majority of it, gosh, probably 80% on the solar side is -- 75% or so is still our core business, and the tracker just starting to pick up.

So we relaunched it. Now we're obviously in discussions with a variety of projects. And as they come across, it gets put in the backlog. We don't put anything in the backlog until it's a signed agreement, legal document. So we started to see that build, get some projects across the finish line in Q3, and I think that will continue. We'll have a better -- we'll have a better 2021 because these sales will actually show up in 2021.

But the backlog is building, but it's still a smaller piece of the total right now, which is good and bad in the sense -- I really like the fact that what it tells you is the marketplace really does need more than one solution, particularly in the community space where we've made our mark. We have 3 solutions that we're proving that are of great demand. And so as I said before, we'll give us another arrow in the quiver going into 2021. But yes, it's starting to build.

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

Okay. That sounds great. Yes. And I realized it was the second -- late second quarter launch and at Sunflower 2. But it sounds like you did get some orders commensurate with the...

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

Yes, we do. We have projects that came across the finish line in Q3 and a lot of active bidding going on as we speak. And given the conversion time frame being anywhere from 9 to 12 months once the project is done. So before you see it, it will start to take off.

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

Okay. Great. And on the fruits and veggies side, it sound like that ships later in the year. That will be 2021. Is that -- can that start shipping in the first quarter? Or is that...

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

It will be a mix. We've got -- yes, we have projects that been entering the backlog throughout the year, and you'll see stuff flow starting in Q4, Q1, Q2. It's just -- the idea behind building that backlog, what's really relevant about it, I know it sounds obvious, but it gives us this constant cadence across each of the quarters as you build it up, and that's what we're trying to do across both businesses. So we take the lumpiness out of -- as best we can. But I think you'll start seeing fruits and vegetables as well as cannabis. Those -- they flow as easily as you have access to put them in the ground. So if you have good weather, it doesn't matter if it's in December, if it's in June. They can flow out there. So this year is disrupted a little bit because of permitting and crews being available and all that good stuff, and it's been a bit of a challenge moving schedules around, and that's a little bit of our challenge this year with -- a lot of businesses are going through that. But I think you'll -- we'll get a steady flow going as the backlog continues to build for both sides of the business.

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

Okay. Great. And then we haven't talked about industrial yet, but in that business, the margins look great. Looks like there's much of a recovery happening yet. What do you think about the timing? Is there a funnel where you can say, okay, maybe this will be first half or second half of 2021 where the revenues start to recover on easy comps?

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

Yes. I think the second half will be -- we'll see -- it show up more in the second half than the first. But -- and the reason I say that, one, I think it's hard to understand what's going to happen with the economy, depending on some results that we get in the next few weeks on the election and so forth. But the other thing that we've been working hard on is really pushing our perimeter security initiative and our architectural initiative. And this year, it's really hard to say how much of that's been impacted with -- again, these are project-based kind of things that are going out there. And we're hoping to get more clarity and more consistency and being able to execute those projects in the field, not us to be able to make them but our customers to be able to execute them. And I think it's going to take some time for that to work itself out as we deal with the pandemic, and everyone kind of gets back to some level of normalcy. And that's why I say the second half is probably more reflective of something that would be more positive on the top line than it would be the first half.

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

Okay. Fair enough. And then the last one for me is just, did you provide any details about the M&A mailbox, acquisition, sales, EBITDA, kind of accretion or purchase price, et cetera?

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

Yes. We said so we paid just under $27 million for it, and its sales for 2020 should hit a similar number, 26s, 26 -- plus somewhere around there. So effectively kind of onetime sales was the price and that's the sales level. I think the margin profile is similar to what we have today.

Operator

Your last question is from the line of Mr. Daniel Moore from CJS Securities.

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

Just remind us where you expect margins on the processing side to get to once the market does recover? And what do you see as a reasonable time frame?

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

Yes. Dan, when we acquired the business, obviously, we believe it's accretive to Gibraltar. So we're going to be moving towards, I think, mid-teens is what we've said in the past, and I think that's very reasonable to get there, and we'll obviously try to drive it up over that over time. And I think we'll start to see us getting back to that level towards the end of next year, second half next year. It depends on -- I'm hoping the market as we've seen to stabilize starts to turn for -- starts to see more positive activity as we come out of Q4. And it will come down to that.

The integration work that we've done has gone really well. We've brought the teams together. We have now one team. We've implemented the common ERP system, common CRMs. So we did all the hard work. It's just I think when the market returns then we'll be in a really good position. And hopefully, the margins will flow as we expect. I think that's what the industry margins look like from the work that we've done, and I fully expect us to get there. And I'm hoping that we see that towards the second half of 2021. Maybe we'll see that in 2021, second half.

Operator

I am showing no further questions at this time. I would now like to turn over the conference back to Mr. Bill Bosway.

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

Well, again, thanks for joining us. We'll be participating in Baird's 2020 Global Industrial Conference that's coming up. And hopefully, we'll get a chance to spend some more time with you there, and as well as our follow-up calls that we have scheduled. So stay safe, have a great day, and we'll talk to you soon. Don't forget to vote. Thank you.

Operator

Ladies and gentlemen, this concludes today's conference. Thank you for your participation, and have a wonderful day. You may all disconnect.