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PRESENTATION

Operator

Greetings and welcome to Gibraltar Industries' third-quarter 2024 financial results conference call. (Operator Instructions) As a reminder, this conference is being recorded.

I would now like to turn the conference over to your host, Carolyn Capaccio with Alliance Advisors IR. Thank you. You may begin.

Carolyn Capaccio - *Alliance Advisors IR - Investor Relations*

Thanks, Rob. Good morning, everyone, and thank you for joining us today. With me on the call is Bill Bosway, Gibraltar Industries' Chairman, President, and Chief Executive Officer; and Joe Lovechio, Gibraltar's Chief Financial Officer.

The earnings press release that was issued this morning as well as a slide presentation that management will use during the call are both available in the investors section of the company's website, gibraltar1.com. Gibraltar's earnings press release and remarks contain non-GAAP financial measures. Tables of reconciliation of GAAP to adjusted financial measures can be found in the earnings press release that was issued today.

Further, please note that adjusted results exclude the net sales and operating results of the Japan Renewables business that was sold on December 1, 2023. Also 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 guaranteed the future performance and the company's actual results may differ materially from these anticipated events, performance, or results expressed or implied by these forward-looking statements.

Gibraltar advises you to read the risk factors detailed in its SEC filings, which can also be accessed through the company's website.

Now I'll turn the call over to Bill Bosway. Bill?

William Bosway - *Gibraltar Industries Inc - Chairman of the Board, President, Chief Executive Officer*

Thanks, Carolyn. Good morning, everyone. And thank you for joining our call today.

First, this morning, we did issue a press release announcing that James Metcalf has joined the Board of Directors for Gibraltar. Jim brings significant experience to Gibraltar. given his successful tenure as both a public company Chief Executive Officer as well as a Board member and we are excited to have Jim join our team and be part of Gibraltar's future.

Secondly, I'd like to introduce Joe Lovechio, who joined our team in August as our new Chief Financial Officer. And Joe will present our financial results today. As we announced earlier this year, after 20 years with Gibraltar, Tim Murphy will retire in early 2025. Tim and Joe are working closely together to ensure a smooth transition. And as Joe continues to accelerate through his learning curve and spend time in the field with each of our businesses, Tim continues to lead a number of important initiatives across the organization we plan to complete prior to his retirement early next year.

So I will start with an overview of third-quarter results. And then Joe and I will provide both a financial and operating update and a closer look at what's happening in our markets. Then I will walk you through our 2024 outlook and then we'll open the call for your questions.

So let's turn to slide 3 titled third-quarter 2024 review. Our third-quarter results were within the revised range we announced on October 11. Consolidated net sales on an adjusted basis were down 6% with revenue in the renewables and residential businesses down in the quarter, partly offset by significant growth in agtech which was up 34%. On an adjusted basis, operating income decreased 13.6%, EBITDA 11.7%, and EPS 7% with the renewables business having a sizable impact on our overall margin performance.

In fact, during the quarter, excluding the renewables business, the rest of our portfolio performed relatively well and collectively delivered operating income improvement of 9.3% or 170 basis points, EBITDA improvement of 7.8% or 170 basis points, and EPS improvement of 18.2% while sales were down approximately 2%. We generated $65 million in operating cash flow and $59 million in free cash flow during the quarter as well.

Backlog for the quarter was down approximately 15% again driven by the solar industry challenges facing our renewables business, which I will discuss when I review the solar market situation. Agtech backlog was down slightly from last year's level, which is related to the timing of signing contracts before quarter end. But the number and value of customer approved projects in the pipeline for signature remains very robust.

Infrastructure backlog increased over last year and quoting activity also remains very active in this segment. Overall, while fighting through the ongoing solar industry challenges, we are managing the rest of the portfolio relatively well and we carry this momentum into the fourth quarter. If you consider the midpoint of our-full year guide and compare it with our year-to-date results, you'll see a plan in Q4 for us to deliver relatively flat sales and improve year-over-year margin performance, despite anticipated ongoing challenges continuing in the solar industry and with our renewables business.

So let's dive into the business segments and I'll hand it over to Joe.

Joseph Lovechio - *Gibraltar Industries Inc - Chief Financial Officer*

Thanks, Bill, and good morning, everyone. I'm excited to be here with the Gibraltar team. I've been introduced to some of you and I look forward to working with all of you.

Let's start with residential on slide 4. Net sales for the residential segment decreased by $15.3 million or 6.7% driven by a residential market that continues to be soft, both for repair and new construction markets. Adjusted operating and EBITDA margins expanded 110 and 120 basis points respectively, driven by a healthy list of 80/20 initiatives, solid productivity improvements, effective supply chain, and price/cost management. We'll continue to drive participation across both geographic and market expansion initiatives and execute well in today's market environment.

William Bosway - *Gibraltar Industries Inc - Chairman of the Board, President, Chief Executive Officer*

So let's move to slide 5 and we'll take a look at the residential market as well as our expansion initiatives and our recent new product launches. Starting with the market, as we described in our pre-earnings release on October 11, the end market remains soft as reflected by our big box retail customer point of sales data as well as our industry data. Existing home sales continue to be slow in most markets. Home prices remain high. And interest rates, which have recently picked up, are keeping some potential home buyers on the sidelines.

Specific to the roofing market, US roofing shingle shipments decreased approximately 2%. When you exclude the Texas market, which was up 20% -- almost 21% of the quarter and represents approximately 20% of the US shingle market, the rest of the US was down 6%. Also impacting our revenue in the quarter, were delays in participation gain awards with customers. As mentioned in our last call, with a slower market, the transition to new suppliers can be impacted by the speed at which incumbent inventory is sold through the market. As an example, we were impacted by approximately $4 million during the quarter, but we expect this to correct itself over the next couple of quarters.

Nonetheless, we continue to pursue market expansion and are launching new locations during the current quarter and in Q1 2025. And they will provide presence in the Mountain West and Mid-Atlantic and West coast regions. We'll reveal these specific locations in the markets they serve once they are up and running.

On the new product front, we launched two new products in the third quarter and are set to launch our newly designed patented pipe boot flashing in the current quarter. Pipe boot flashings are typically fitted over a pipe or furnace exhaust vent located on your roof and the purpose is to create a watertight seal to prevent moisture leaking through your roof. This is a highly competitive offering that addresses over $100 million of addressable market in the US and we are very excited to bring it to the market.

Let's now shift over to renewables.

Joseph Lovechio - *Gibraltar Industries Inc - Chief Financial Officer*

So on slide 6, adjusted net sales for renewables decreased $17.5 million or 17.2%. And the business continues to be impacted by the ongoing effects of trade and regulatory dynamics. As a result, the pace and consistency of demand continues to be a challenge for the industry, but we expect demand to improve as the second DOC investigation comes to conclusion early in 2025.

Backlog was similarly impacted by these headwinds and was down approximately 24% in the third quarter. Adjusted operating and EBITDA margins decreased 1,040 and 970 basis points respectively as a result of lower volume trade and regulatory disruption in the launch and learning curve of our 1P tracker.

William Bosway - *Gibraltar Industries Inc - Chairman of the Board, President, Chief Executive Officer*

So guys, we have two slides, I want to share with you, on our renewal situation. Let's move to slide 7 and we'll go through the 1P tracker launch.

Our 1P tracker launch continues to gain traction across a widening range of customers. And since Q4 of 2023, we've booked over 340 megawatts across 64 different projects with 18 different customers. We're also engaged in designing or quoting over 100 -- 1.6 gigawatts of opportunities mostly for community and solar applications, both medium and small sizes -- sorry, medium, small, and large sizes.

Pictures in the right -- upper right-hand corner of the chart is recently -- a recently completed TerraTrak for Foxglove just under 100 megawatts in size. As well as shown in the bottom-right hand corner of the slide, we just started the first TerraTrak project on pile foundations for Enersys, a 3 megawatt field. So having a tracker solution available with either pile or screw foundations, opens up more geographic markets for us as foundation preferences vary by region, type of soil, or in some cases, general topography.

Our launch learning curve continues to accelerate with additional improvement coming with our supply chain as suppliers ramp volumes, improve on time delivery, and our internal process of scale to effectively support our field operations team and customers while we navigate through the current industry dynamics, which brings me to our next slide, an update on the US solar market. So let's turn to slide 8.

Today, I want to talk specifically to the active AD/CVD investigations. First, if you recall in conjunction with the first Department of Commerce AD/CVD investigation, the administration issued a Presidential Proclamation allowing solar panels to enter the US duty free for a period of two years.

This proclamation expired on June 3, 2024, and the industry was effectively given six months or until December 3, 2024, to install panels that were imported while the proclamation was in effect or be charged with additional duties as determined by the outcome of the first DOC investigation, which calls for both anti-dumping and countervailing duties.

Additionally, this August, the American Alliance for Solar Manufacturing Trade Committee filed critical circumstances allegations with the US Department of Commerce regarding surging solar imports during the two-year Presidential Proclamation from Chinese-based companies working through Vietnam and Thailand, two of the five countries found to be attempting to avoid duties during the first DOC investigation.

A critical circumstances finding can result in retroactive duties being imposed on panels that entered the country up to 90 days before the preliminary determinations were made in the first DOC investigation and the industry is still awaiting the outcome of this process.

Secondly, a second AD/CVD complaint was filed in April of this year alleging illegal trade practices by Cambodia, Malaysia, Thailand, and Vietnam asking the Department of Commerce and the US International Trade Commission to apply new tariffs both for anti-dumping and countervailing duties to imported solar cells and modules imported from these countries.

Department of Commerce made a preliminary determination for the anti-dumping on October 1 and final determinations are expected by December 16. For countervailing duties, Department of Commerce made a preliminary determination on July 18 and a final determination on October 1. The US International Trade Commission made preliminary determinations for anti-dumping on June 10, and a final determination is expected January 30. For countervailing duties, a preliminary determination was also made on June 10, and a final determination is expected November 15.

Finally, issuance of orders for the anti-dumping investigations are expected February 6, 2025, and for the countervailing duty investigations, November 22, 2024. So as you might expect, right now, solar developers continue to deal with these pretty big unknowns and moving targets, installation mandates, investigation outcomes, critical circumstances rulings, accurate module cost availability, and administrative requirements that come with all the above.

These trade issues intended to protect the most -- the domestic solar industry are serving to pull focus and make the business environment much more complex. And frankly, than it needs to be. That being said, once the industry gets past the December 3, 2024, deadline and understands the final rulings from the second AD/CVD investigation, which is due in Q1 2025, we expect customers will turn to a more normal business cadence and pace.

In the interim, we will continue to support customers, accelerate TerraTrak launch further, and to stay focused on optimizing our profitability and operating performance. With that, let's move on to agtech.

Joseph Lovechio - *Gibraltar Industries Inc - Chief Financial Officer*

So moving to slide 9, agtech adjusted net sales increased $10.6 million, up 34%, driven by the acceleration of project starts in our produce segment where we have designed and constructed growing facilities for strawberries and lettuce production. Third-quarter backlog decreased 3%, which is related to the timing of anticipated project bookings for which design work has been completed.

Segment adjusted operating and EBITDA margins expanded 450 and 410 basis points respectively driven by volume, solid project management execution, favorable product mix shift, and 80/20 initiatives. We expect margins to continue to improve through the end of the year.

William Bosway - *Gibraltar Industries Inc - Chairman of the Board, President, Chief Executive Officer*

Let's move to slide 10. As expected, momentum in the agtech business is accelerating as new projects, particularly in our produce business, have started and are in process. We expect this momentum to continue as we secure additional projects in both '24 and 2025.

And consumer demand for locally grown, high-quality fresh fruits and vegetables continues to drive investment in grow capacity, which is really needed to keep pace with requirements from both food retailers and food service providers. And I'll tell you what the most exciting thing is about this industry for both today and its future, it is effectively sold out. And the produce grown in these facilities in North America represents only 2% to 3% of the total produce grown, whether grown indoor or outdoor in North America.

So the industry has significant growth runway in its future. And obviously, we're very excited to be part of it. Let me give you two current project examples on the left. We are just completing the fifth phase of seven phases with Boemberry Farms which grow strawberries. Boemberry is effectively the largest CEA strawberry facility in the world, spanning 120 acres and designed to grow 12.5 million pounds of strawberries annually.

This is a turnkey operation with the structure and 20 plus subsystems designed and/or integrated, manufactured, constructed, and installed by Prospiant , our brand in the market. Contract value of phase five is approximately $25 million, and we will start and complete phase six in 2026 and phase seven in 2020 -- sorry, phase six in 2025 and phase seven in 2026.

On the right is a new $35 million-plus project with Kingsone Farms, where we are designing, manufacturing, and constructing the first fully automated purpose-built facility for lettuce. Phase one, which starts this quarter and phase two span 13 acres for a planned annual production of 21 million heads of lettuce. The site, when additional phases are completed, will span at least 40 acres with an additional production of over 60 million heads of lettuce.

We have a number of produce and commercial projects in the active design phase and expect additional signings this quarter and flowing into 2025. As well, we continue to apply 80/20 and further optimize our operating systems and facilities with the intent to consistently deliver higher margins, going forward.

Now let's move on to our infrastructure business.

Joseph Lovechio - *Gibraltar Industries Inc - Chief Financial Officer*

Moving to slide 11, infrastructure segment sales decreased $1.8 million or 7.2%, reflecting the comparison against the timing of a large project last year. Backlog increased 3% with demand and quoting at robust levels, supported by continued investment at the federal and state levels, participation gains, and new products we have introduced.

Segment adjusted operating and EBITDA margins each improved 230 basis points, driven by product line mix, new products, 80/20 initiatives, and continued strong execution. We expect continued strength in orders and sales and margin expansion in 2024.

Let's move to slide 12 to discuss our balance sheet and cash flow. At September 30, we had cash on hand of $229 million and $395 million available on our revolver. During the quarter, we generated $65 million in cash from operations, from net income plus cash generated from working capital of approximately $20 million. Our free cash flow generation for the quarter was 16.4% of sales, and we continue to expect 2024 free cash flow to be approximately 10% of sales for the year.

Also, during the quarter, we used $9 million to repurchase approximately 139,000 shares of common stock at an average price of $64.45 per share. At quarter end, we had approximately $80 million or roughly 40% remaining under our $200 million stock repurchase authorization. Our revolving credit facility remains untapped, and we remain debt free.

We expect to generate strong solid cash flow for the remainder of the year. Our capital allocation priorities for 2024 are to continue to invest in our organic growth and operating systems for scale with capital expenditures between 1% to 2% of sales. We continue to be active in our pipeline of high-quality M&A opportunities. We have discussions in process and our strong balance sheet provides flexibility. We think there is a higher probability in the near term in the residential and agtech segments.

Finally, we plan to continue to opportunistically return value to shareholders through the approximately $80 million remaining authorized under our repurchase program, funded by cash generated from operations, and the use of our revolver depending on timing of any M&A or repurchases.

Now I'll turn the call back to Bill.

William Bosway - *Gibraltar Industries Inc - Chairman of the Board, President, Chief Executive Officer*

So let's move to slide 13 and we'll review our 2024 guidance. As mentioned earlier, we are reconfirming our recently updated outlook. While we are dealing with some end market challenges, particularly in the solar industry, we expect to deliver solid performance in Q4 and earnings growth for the year. We expect consolidated net sales to range between $1.31 billion to $1.33 billion compared to $1.36 billion on an adjusted basis.

GAAP operating margin is expected to range between 10.8% and 11% and an adjusted operating margin is expected to range between 12.4% and 12.6% flattish against last year. Adjusted EBITDA margin is expected to range between 15.3% and 15.5%.

EPS expectations are, on a GAAP basis, between $3.57 and $3.71 at the midpoint of this range, up modestly compared to $3.59 in 2023. And adjusted between $4.11 and $4.25, up 1% to 4% compared to $4.09 in 2023. We continue to expect free cash -- 2024 free cash flow of approximately 10% of sales.

As for an update on our 2025 objectives, our long-range planning and budgeting processes are now in process and we will share our 2025 plan early next year during our Q4 earnings call. In closing, as I mentioned earlier in the call, we are not -- we were not able to overcome all the solar industry challenges in Q3, but the rest of the portfolio executed well, improving adjusted operating income 9.3%, EBITDA 7.8%, and EPS 18.2%.

Our teams are going to continue to remain proactive. We're going to work through these respective headwinds. We continue to drive performance and expand our participation with existing and new customers. I do want to express my appreciation to everyone in each of our operating businesses and to our corporate team for remaining resilient and focused on executing our playbook.

Now, let's open up the call and we'll take your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Dan Moore, CJS Securities.

Dan Moore - *CJS Securities, Inc. - Analyst*

Hey. Good morning, Bill. Good morning, Joe. First of all, quickly, welcome to Joe and a quick thanks to Tim for all the efforts, obviously, over the last multiple years. Greatly appreciated.

Joseph Lovechio - *Gibraltar Industries Inc - Chief Financial Officer*

Thanks, Dan.

Dan Moore - *CJS Securities, Inc. - Analyst*

Start with resi maybe, can you break down the 7% decline in revenue between price and volume? And further, what's your sense of how much of the volume decline represents true end market demand versus perhaps customers destocking inventories as we head into yearend with election uncertainty, et cetera?

William Bosway - *Gibraltar Industries Inc - Chairman of the Board, President, Chief Executive Officer*

Yeah. Dan. I'd say it's all volume there. There really wasn't a lot of price impact in the quarter for overall business. And when you look at it by -- you break it down by MSA by region, it really does vary a lot. So you kind of build up from that perspective.

As I mentioned, Texas was up 20%. In terms of pricing, that's not a big market for us per se. But states like Florida were down 20%. Where you find a lot of shingle usage, let's say, over a million squares in the quarter, those states for the most part were negative with the exception of Texas. So it's a regional thing and I think it's how well you're positioned in each of those states for that given time period.

Now, so I think it's flowing consistently with what we see from the end market. Now from the point of sales perspective that we get from that media feedback again, those point of sales, that data does also vary regionally as you might expect where stores in certain states are having different experiences than they are in other states.

So I don't think it's been a destocking effort at all from Q2 through Q3. I think that settled in and corrected itself. As we enter Q4, we're going into a normal seasonal pattern. So you'll see volume shift down as they normally would. I just think once it got corrected, it's kind of stayed where it is. And that's reflected in the point of sales information that data we're seeing as I shared earlier.

Dan Moore - *CJS Securities, Inc. - Analyst*

Helpful. And the margin performance in resi obviously continues to remain impressive, given the top line softness. Was there any benefit from mix in the quarter? Is it all pretty much reflective of operating efficiencies, cost controls, et cetera?

William Bosway - *Gibraltar Industries Inc - Chairman of the Board, President, Chief Executive Officer*

Yeah, a lot of 80/20. People ask this every day, when you're going to run out of that and we just don't because it's a combination of -- your expectations go up, you've got to get a little bit better, and our team is continuing to find 80/20 initiatives, and those result in better operating performance through productivity and general execution. So it's mostly that.

We've stayed laser focused on price/cost management. Supply chain is doing a really good job. Doing a lot of interesting things, I think, on that front. Staying in the business, if that makes sense for us. We got out of some business last year in certain regions that didn't make sense for us. So I would just say the playbook has continued -- that we've demonstrated the last few years, we'll continue to do that.

But clearly, some of the expansion initiatives I referenced that will be coming here shortly will help us go into next year to drive some growth on top of the market regards to whatever the market does. So we're excited about the things that we're doing and expect it to read through more and more as we get through the end of this year and into next year in our residential business.

Dan Moore - *CJS Securities, Inc. - Analyst*

Excellent. Maybe one more [impacting Q] with a couple of parts on agtech. Maybe just talk about what impacted the timing of orders as we exited the quarter. And then bigger picture, we're now at a $40 million-plus quarterly run rate. You mentioned some of the big projects that are coming, given the increases and backlogs and orders, we've seen. Where can that get to over the next four to six quarters? Are we trending toward, you know, $50 million-plus? And maybe just talk about your capacity to handle potential more significant growth in that business? Thank you again.

William Bosway - *Gibraltar Industries Inc - Chairman of the Board, President, Chief Executive Officer*

Yeah. No, I think, directionally, you're right and us going more in that direction towards a bigger number than what we're showing right now with the projects that we have and the projects that we anticipate signing, I think it'll be good momentum through 2025 as it relates to just the projects themselves.

If you recall last quarter, we did some $90 million of new signings. $40 million of that was supposed to happen in the previous quarter. Got pushed 30 days just for stuff -- these things move around because of the size of the projects and a little bit of that is going on right now. But we really feel good about -- with all the work that we've been -- that we've done, the design contracts that have been improved. The projects we expect to sign more of those in Q4 and continue in Q1 next year.

So that's going to drive our momentum and our run rates better than what you'll see. Where we'll land in 2024 -- 2025 will be higher run rates across the board for the year as a result.

Operator

Julio Romero, Sidoti & Company.

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

Thanks. Hey, good morning, everyone. Following up on Dan's -- hey, good morning. Just following up on Dan's question about residential. It sounds like some of the volume declines you saw in the quarter were across some broader geographies except for Texas. Maybe if you could speak to where you're seeing some of the participation gains that are being delayed because of customers flushing out existing inventory. And then secondly, how much of a dollar impact have you seen from that issue in October to date?

William Bosway - *Gibraltar Industries Inc - Chairman of the Board, President, Chief Executive Officer*

Yeah. So I mentioned in the call in the quarter, it's about $4 million of revenue. It's with a couple of customers. I don't necessarily want to say that out loud because I'm not entirely sure it's been communicated with the incumbent. Yeah, but those are specific to two initiatives that one is, I would say, more of a national initiative and one is more of a regional initiative. But they're in the core business of ventilation and some trims and flashing.

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

And just to clarify, the $4 million, if that was for the third quarter or is that quarter to date Q4?

William Bosway - *Gibraltar Industries Inc - Chairman of the Board, President, Chief Executive Officer*

For the third quarter. Sorry. Yeah. You'd ask -- did you ask year-to-date through for the first three quarters?

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

No, I was asking if quarter-to-date in October you've seen, you know, some kind of dollar impact.

William Bosway - *Gibraltar Industries Inc - Chairman of the Board, President, Chief Executive Officer*

Oh, sorry. Now you're asking in Q4, if that's starting --

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

Correct.

William Bosway - *Gibraltar Industries Inc - Chairman of the Board, President, Chief Executive Officer*

Yeah, yeah. So we expect to see some of that. Again, it's timing as we roll out each of the individual locations so you -- as you know, there's branches involved. So as those branches, each roll out, it'll start to -- we'll start to see that flow through. It'll be branch by branch and it'll accelerate out of Q4 into Q1 as well. So yeah, we're starting to see some of that pick up a little bit and so we're excited to finally get that going.

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

Okay. That's helpful. And then just as a refresher, how do you guys define participation gains just as a refresher for all of us here? Like, do you find it as just winning shelf space? In your words, I guess. how would you define participation gains?

William Bosway - *Gibraltar Industries Inc - Chairman of the Board, President, Chief Executive Officer*

A couple ways to think about it. If you have an existing customer, you're actually taking on business from an existing product line that you did not necessarily have that region or that MSA and now you've won that business from somebody else. And that tends to be what most people look at as participation on existing product line basis. And that could be a customer that you're working with and you have a portion of their business in a certain region and you've been awarded another region or another set of stores.

Also with existing customers, it may be that you're getting into a product line that you haven't historically been in. And that's another way to drive participation. The third is just expanding into geographies and we do that either through organic or inorganic activities. So as an example, if you recall, when we acquired Quality Aluminum Products, it brought us into the Upper Midwest or Great Lakes region with Michigan, where we didn't really have much presence. And so being able to serve that business from far distance isn't the most optimal thing.

But that brought us two things. That brought us expansion into Michigan, Pennsylvania, et cetera, where we weren't necessarily serving because of transportation costs. But it also helped balance us with bringing more wholesale business to the business, which also can be a positive mix for us in some cases as well. So it's a -- there's a multi-front effort going on in terms of how we think about attacking each of these opportunities at the MSA level.

And so it's geographic expansion. It's existing customer expansion. It's new customer expansion. It's channel mix expansion. And all wound up together and it's a combination of doing it organically as well as through acquisitions.

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

Super. That's really helpful there. I appreciate that guys. And then maybe just last one for me is just on the renewables segment. In the past, you guys have done a little bit better segment margins there in the past, even in quarters where you've had volume declines and volume challenges. Can you maybe just talk about this quarter and maybe why margins were hindered a little bit aside from volume deleverage?

William Bosway - *Gibraltar Industries Inc - Chairman of the Board, President, Chief Executive Officer*

Yeah. No, it's a good question, and the reality is we are in the middle of launching a brand-new product at a time that took off quicker than we thought. And this is not an excuse, I mean, so please don't take it that way. But for launching new product, the delivery mechanism around that product, the operating system for that -- operations aspect of launching that new product a little different than what we grew up with when we did fix tilt racking system.

So going through that learning curve has been more challenging than we thought because when you launch a new product, you go through your standard things and your checklist and you get it out there. When you launch a new product and you've got a December 3 deadline with a customer that's pulling projects in or pushing projects out or doesn't know exactly what they're going to do versus a bit of a normal environment, it gets a little bit more challenging for us and we've basically -- how to cut our teeth in the new product launch in a tough market situation that has an interesting dynamic.

So not that it was a perfect storm, but the team has really fought through that quite well. And that's -- a big piece of that is the drag on margins has a lot to do with the launch of a tracker in a less efficient way than it than we expected it to be a lot because of ramping up suppliers quicker than we asked our suppliers to do initially as well as trying to navigate through the dynamics of schedule changes, et cetera, et cetera with our customers that are dealing with things I described earlier. So it's kind of a combination of all that.

But like you said, we have more work to do in the launch. We're getting better. We feel good about -- honestly, we feel really good about what we've put in place, how we're taking tracker to the market. The operating delivery model is, I think, much more well-baked now than it was nine months ago when we first started. So there's a lot of things that we've done, I think, to shore up.

So as we come out of this year, we're ready to accelerate accordingly with all the infrastructure things to put in place for this launch. And hopefully, we get a little bit better cadence and pace in this industry. So it always makes it a little bit easier when you're trying to launch something but also put it in the ground, right? So you remember half of what we do or 40% of what we do is installing this new product launch. So that disruption can be a little bit impactful on the margin side, and obviously, it has been. And we're working hard to rectify that. And that's kind of what we've been dealing with.

Operator

(Operator Instructions) Walt Liptak, Seaport Research.

Walt Liptak - *Seaport Global Securities LLC - Analyst*

Hey, good morning, everyone.

I wanted to ask about the renewables business. And thank you for doing slide 8. And I wonder if you could -- I think you made a comment in there that the solar business you thought was going to return to normal in early December. And I wonder if you could just talk a little bit about your confidence level in that because from, I think, our experience, the last couple two, three years, normal has been this volatility around the duties and tariffs and customs and regulations. So what gives us the confidence that things can be back to normal? What are you hearing from your customers?

William Bosway - *Gibraltar Industries Inc - Chairman of the Board, President, Chief Executive Officer*

Yeah. Well, I actually think it's a combination of two things when you think about the next two quarters. One is the December 3 date deadline. So the most simplest way to think about it, everyone's trying to figure out how to navigate through this December 3 deadline. And if you get done before that, great. And then after December 3, there's an additional cost to the panels -- to somebody, whether it's the import of record or the developer or whomever that is tied to the DOC investigation number one as well as the DOC investigation number two final findings.

So as I was trying to describe earlier is if you get your panels installed, then you avoid having to pay any duties that were the result of the first DOC investigation. If you don't get your panels installed by December 3, then you're going to be subjected to a higher cost because there'll be some type of duty, whether it's for anti-dumping or countervailing duties applied to that panel that was imported into the US over the last two years.

And so the reason that the final determinations are important, the issuance of these orders which are going to be out in February-- March time frame is that'll give our customers clarity as to what the actual costs are or what they're going to have to pay for the panels that they're using.

And so that's why there's two elements of this. So December 3 isn't a panacea of, hey, things are going to get better. It's a step that our customers have to go through. And then the second step is they need these final determinations from the Department of Commerce in US, ITC, to understand what the cost will be for the panels that are here in the country that they can deploy.

Then the third element of this is -- tied up in this is we will have a final ruling on critical circumstances as I referenced earlier in that same time frame. So the thought is that unless there's some other legal challenge somewhere from somebody, the industry should be through the AD/CVD impacts of both investigations, the critical circumstances, et cetera, by the end of first quarter.

And so really there's a couple of quarters ahead of us still that we're dealing with and that's how we plan the business, going forward. So we'll continue to navigate through it, work on the things I mentioned earlier, but it's not going to be cleared up in December. It's -- that's one step. The second step is getting the final rulings in place. And that will be, I think, a breath of fresh air.

So my confidence level on that not happening - These are dates that are published by the government. They're supposed to have to hit these dates, their mandate. So there should be clarity around the dates that we referenced. And the last one that's out there really is that February 6, 2025, is the date. I just added 30 days to it because I'm sure there's a little bit unknown here. But that those are the two things to think about relative to the next two quarters for the industry.

Walt Liptak - *Seaport Global Securities LLC - Analyst*

Okay, great. And a couple of questions off of that one. Your renewables business, the [community] solar markets have grown at nice double-digit rates when there weren't all these obstacles -- regulatory obstacles in the industry. Are we thinking that we get back to that? What's the addressable market do you think?

William Bosway - *Gibraltar Industries Inc - Chairman of the Board, President, Chief Executive Officer*

Yeah. Well, we're going to talk more about that in our 2025 plan. But in general, the enthusiasm for the market is still very positive. I think there are a lot of folks that are -- you think about the industry association, the folks that have gathered the data, working with manufacturers, and publishing data around market projections for the last 10 years. How do they feel about the next couple of years? I think, still very positive and there's a huge backlog of interconnection agreements that exist in the US that totals about 1.5 terawatts worth of energy production, most of which is earmarked for solar production. That's equivalent to the today's existing production grid in the US across the entire US.

So clearly, people are buying land and/or they're applying for these interconnection agreements for solar and a little bit of wind as well, but mainly, solar. So it tells you that people still have great optimism, the need for electrifying the country, and the capacity required to do that is still out there. And there's all kinds of -- as you know, electrification in this is going on, so the grids have got to catch up. The interconnection -- the interconnectivity agreements have to be improved. That all is about connection to the utility and the transmission lines. That stuff has to catch up. And I think people feel like -- look, there's a couple years of slowing because of that and you see some of the other folks in the industry that have talked a lot about that where project schedules are moving to the right a bit and that's a lot associated with these things that we think are going to be cleared up.

So as AD/CVD clears itself and then you start working on these interconnectivity agreements and some other supply chain issues that things like large transformers, as those things start to get a little better, you're going to see the industry, I think, start to accelerate, maybe not at the 15% or 20% growth rates we saw but a healthy clip, for sure. So, we expect that as well. But we're going through that same analysis now to see, is there anything that is structurally different in the end market itself. And our initial conclusion is we still think it's a healthy end market opportunity.

So more to come on that. But it's a -- I would say it's a real-time analysis as we're trying to navigate through everything we just talked about, just like everyone else in the industry. You're trying to project things for '25, '26 from an end market perspective. There's a timing element for some of these things that I don't think anyone has a specific date that they can count on. But generally speaking, it feels like we come out of second quarter -- first quarter next year, AD/CVD will be behind us. And then some of these other issues we talked about, I know, people are working diligently on them as well.

So that was a long answer to your question. I apologize.

Walt Liptak - *Seaport Global Securities LLC - Analyst*

I appreciate the answer. And maybe just one more follow on to it. So in the fourth quarter and first quarter for renewables, it sounds like we're going to be operating at this lower level of revenue and operating margin. Is that right?

William Bosway - *Gibraltar Industries Inc - Chairman of the Board, President, Chief Executive Officer*

Yeah, I think that's a fair assessment. And remember too, we go into Q1, that's always our lowest volume quarter anyway because of seasonality. But generally speaking, yeah, I think what we've assumed and built into our guide is that the renewables business continues to deal with what it's dealing with. Obviously, we're going to work hard to improve as best we can on that. But we feel good about our ability to continue to make money and so forth. But I do think it's going to be a bit suppressed until we get through these final issuance of orders from the AD/CVD investigations.

Operator

Dan Moore, CJS Securities.

Dan Moore - *CJS Securities, Inc. - Analyst*

All right. Thanks, again. Maybe one more renewables. It might be just longer term when you think about the path back to sustained and consistent double-digit operating margins. Once we get through these things, is there anything you can do in terms of nature of the contracts to share some of the pain of customers and projects are delayed? Or is it just kind of the nature of the business that will be bouncing between mid- to high-single-digit and mid-teens margins depending on where we are in the period of demand, going forward? Thanks, again.

William Bosway - *Gibraltar Industries Inc - Chairman of the Board, President, Chief Executive Officer*

Yeah, Dan, I think it's -- a couple years ago, maybe four years ago when this journey started with UFLPA, there was a lot around contracts that were unfavorable to different parts of folks in the value chain. I think that's less of an issue today. It's not an issue that we're taking all of it and our customers are not seeing a similar type of result. They are also going through a similar challenge. I suspect most of them are private companies. So I don't have good insight into exactly how they're feeling, but it has been a very inefficient, complex situation for everyone to deal with. And I don't think we're taking on the burden solely by ourselves showing up in our financials.

Listen, some of what I described earlier is a little bit self-inflicted. We got to be better at what we're doing and how we're launching and the team's working diligently at that. And that'll help us get better in this volume environment.

If you think about the second half of last year, I think, we generated margins 13%, 14%. So we absolutely have the capability. And I think we're in a much better position, believe it or not, to do it today -- deliver that today than we would have been four years ago. The difference, I think, now is we've launched a new product in a pretty difficult market situation, which I think made things a little bit more complex for us.

So we'll work through that. I think we've been pretty good at demonstrating we can operate in some pretty tough environments. But it's probably -- this is probably the most challenging time, I think, in industry with a series of unknowns across these various things we talked about. And I didn't throw anything in there about an election.

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The election itself hasn't had any impact on the industry up to this point per se. But I do think there are people wondering what that's going to mean. And there's a little bit of pause associated with that. But most of what we've described today has nothing to do with the coming election. It has everything to do with the unknowns and the moving targets that people are dealing with.

So yeah, do I think this is a business that can run 15% consistently? Absolutely. And I think we'll demonstrate that. I mean, think of the size of the business today versus where we thought it would be. It's not as large. And even last year, it was not, yet we were able to demonstrate pretty good margin performance. So I have confidence in our team to be able to do that, for sure, going forward. We just need some cadence and pace. Our customers need cadence and pace. And I think everyone can perform a little bit differently.

Not an excuse for us. I would never tell you that that's someone else's fault. It's still our responsibility at the end of the day to get it done. So that's how I think about it.

Operator

We have reached the end of the question-and-answer session. I'd now like to turn the call back over to Mr. Bosway for closing comments.

William Bosway - *Gibraltar Industries Inc - Chairman of the Board, President, Chief Executive Officer*

Well, listen, I appreciate Walt, Dan, and Julio for joining us today and asking the questions spot on. I appreciate that.

Coming up, we do plan to present at the BOA Clean Energy Symposium and the CJ S Winter Conference as well. And we have a number of other investor events planned.

So thank you. Thanks again for joining us today as well as your support and look forward to catching up with you after our full-year report. Take care. Thank you.

Operator

This includes today's conference. You may disconnect your lines at this time, and we thank you for your participation.
