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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the Gibraltar Industries' third-quarter 2016 earnings conference call. Today's call is being recorded and webcasted. My name is Bob and I will be your operator today. (Operator Instructions).

I would now like to turn the call over to your host for today, Mr. David Calusdian, from Investor Relations firm Sharon Merrill Associates. Please proceed.

David Calusdian - *Sharon Merrill Associates - IR*

Good morning, everyone, and thank you for joining us. If you have not received a copy of the earnings press release that was issued this morning, you can find it in the investor info section of the Gibraltar website, Gibraltar1.com. During the prepared remarks today, management will be referring to presentation slides that summarize the Company's third-quarter performance. These slides are also posted to the Company's website.

Please turn to slide 2 in the presentation. The Company's earnings release and slide presentation contain forward-looking statements about future financial results. The Company's actual results may differ materially from the anticipated events, performance, or results expressed or implied by these forward-looking statements. Gibraltar advises you to read the risk factors detailed in its SEC filings, which can also be accessed through the Company's website.

Additionally, Gibraltar's earnings release and remarks this morning contain adjusted financial measures. Reconciliations of GAAP to adjusted financial measures have been appended to the earnings release. On our call this morning are Gibraltar's Chief Executive Officer, Frank Heard; and Chief Financial Officer, Ken Smith.

At this point, I will turn the call over to Frank.

Frank Heard - *Gibraltar Industries, Inc. - CEO, President, COO*

Thanks, David. Good morning, everyone, and thank you for joining us on our call today. Gibraltar delivered another quarter of solid results. While GAAP results were below our GAAP guidance due to a higher amount of restructuring costs, our adjusted earnings exceeded the top end of our third-quarter guidance. This adjusted earnings beat was largely a result of continued market success and progress with operational excellence, including our RBI business, which delivered substantial operational improvements, well above our expectations.

Our residential segment is increasing its leverage and profitability as its teams continue their successful execution on 80/20 initiatives. So two of our three segments are performing well, and are at or above expectations. The third segment, Industrial and Infrastructure Products, continued to experience relatively soft demand, particularly from upstream energy markets. Low oil and gas prices continue to weigh on demand for its related fabricated metal products.

Overall, we continue to make excellent progress in executing our transformative four-pillar strategy across the organization. And as a result of our strong year-to-date results and forward momentum, we are raising our guidance for full-year 2016. We have raised the floor on the range for GAAP results, and raised our guidance for adjusted EPS by 10%. I will speak more about our strategic progress and guidance expectations after Ken reviews our financials.

Ken?

Ken Smith - *Gibraltar Industries, Inc. - SVP, CFO*

Thank you, Frank, and good morning, everyone. I'll start with slide 3 in the presentation, entitled "Consolidated Results." As cited in our earnings press release this morning, we have extra good news being reported today. And part of that good news is that a portion of new earnings belongs in prior quarters of 2016. The Company's results for the nine-month period ended September 2016 includes a significant increase in operating earnings by our Renewable Energy and Conservation segment. The increased earnings result from a greater degree of synergies and amounts derived from raw material sourcing and freight management, as well as strategic make-versus-buy actions that have begun yielding higher-than-expected profitability in 2016.

And the increasing magnitude of the improvements was not identified at the time of our second-quarter investor call on July 28. During the third quarter 2016 we conducted new tests of key internal controls in RBI, including controls over revenue recognition under its percentage of completion methodology. This testing in the third quarter identified that RBI's accounting for near-complete projects was not being accounted for soon enough, and meaningful cost savings from margin improvement initiatives were not being accounted for soon enough.

Slide 3 depicts the results of our analyses. Operating income of $6.6 million and the equivalent of $0.13 per share that was preliminarily reported internally in the third quarter should have been reported in earlier quarters -- $0.08 per share in the first quarter and $0.05 per share in the second quarter of this year.

Therefore, after pushing the $6.6 million of operating income and the related EPS effect of an aggregate $0.13 into the first and second quarters of 2016, we end up with a final and reported third-quarter results shown on the bottom third of slide 3 -- GAAP EPS of $0.43 per share and adjusted EPS of $0.55. And these adjustments only affect our Renewable Energy Segment and consolidated results. Additionally, in consultation with our independent audit firm, we are in the process of finalizing whether it would be required to file amended Form 10-Qs for the quarters ended March 2016 and June 2016. Nonetheless, the restated results for the prior two quarters of 2016, as shown on slide 3, will be the results that we compare to when reporting our 2017 quarterly results.

We have instituted additional internal controls to help ensure our future segment and consolidated results are properly reflecting estimated project costs more precisely and timely, including any effects being realized from operational initiatives. So, net, net, net, this is good news. RBI is realizing greater degrees of synergies after having been acquired only 15 months ago. And its adjusted operating margins have grown from 9% to 10% at the time of acquisitions, now to the mid-teens.

And finally, the bottom number on the right-hand corner of slide 3, the adjusted $0.55 per share -- which is after pushing back the adjustments to prior quarters -- that $0.55 per share exceeded the top end of our third-quarter guidance for adjusted EPS of $0.47 to $0.52.

I'll next talk about slide 4 in the presentation entitled "Earnings Grow in 3Q," and the main themes behind our results. Our employees are really driving significant efficiencies via many simplification projects that are lifting profitability, cash flow from operations, and return on invested capital. Two of our three segments are significantly expanding their margins and operating income. The Renewable Energy and Conservation segment, as I had mentioned, is realizing better-than-expected synergies and other meaningful cost reductions. And our Residential Products segment has certainly benefited from 80/20 simplification that is directly showing up in its margins. And as Frank will quantify in his concluding prepared remarks, Gibraltar is on track to exceed its five-year profit target from 80/20 by the end of its first two years of transformation, 2015 and 2016.

Let's move to slide 5 in the presentation entitled "Consolidated Profitability Rises." The unfavorable revenue comparison was expected. The factors behind it include 2015 benefiting from revenues from a since-divested European industrial business; 2015 benefiting from a since-completed sales contract for residential postal products; and, together, these first two items totaled $21 million of revenue in the third quarter last year. Additionally, 2015 benefited from sales acceleration for solar installations, as developers sought to qualify for a 30% federal tax credit before its expected reduction. And, lastly, 2016 has experienced continuing soft market activity in energy-related markets that continue to affect our industrial and infrastructure segment.

Despite these affecting our top line, we continue to have strong bottom-line performance. On the bottom half of slide 5, the encircled numbers quantify the impressive impact resulting from our operational excellence initiatives. And although not shown on slide 5, the Company's margin expansion has been impressive in such a short time. Consolidated gross margin improved 480 basis points to nearly 25% for the third-quarter 2016 on a GAAP basis. And year to date, our consolidated gross margin is up over 600 basis points on a GAAP basis. GAAP operating margin for the third quarter grew 200 basis points to 9.7%, and adjusted operating margin for the third quarter grew 230 basis points to 11.7%.

Next I'll talk about each of our three reporting segments. I'll start with slide 6, the Residential Products segment. Revenues for this segment decreased, all due to a since-completed two-year sales contract for centralized mailboxes that we successfully finished in December of 2015; which, by the way, provided only a modest amount of profit contribution last year. This segment also continued to see steady demand for its residential products, largely in line with the gradual improvement in new construction and repair and remodeling activity. And, impressively, this segment's employees have excelled in driving improved operational efficiencies via 80/20 simplification. And approximately 180 basis points of this segment's third-quarter operating margin was derived from 80/20 simplification programs.

Turning to slide 7, the Industrial and Infrastructure Products segment. The revenues in this segment continued to be affected by three key factors. First, we divested the European industrial business in April of this year, so the third quarter of 2015 benefited from its then-revenues and nominal operating profit. Second, lower shipment volumes have continued on weak market conditions, primarily commodity-related upstream energy markets. And third, we're experiencing a narrowing difference between raw material costs and customer pricing. The second and third factors have compressed this segment's profitability and have exceeded the segment's continuing and underlying margin improvement from 80/20 simplification projects. To counter the low level of incoming order activity, we continue to evaluate new measures to mitigate the margin compression.

Now turning to slide 8, the first of two slides on our third reporting segment, the Renewable Energy and Conservation segment. On slide 8, we depict the same adjustment amounts as shown on slide 3, as those adjustments only relate to this segment. So before I talk about the succeeding slide, I wanted to show this segment's results by quarter, this year, and how the adjustments changed the previously reported quarterly results. So the right-sided columns for GAAP and Adjusted will be the results we refer to now and in the future.

So let's turn to slide 9, the Renewable Energy and Conservation segment. To begin, the amounts on this slide for the 2015 periods provide the pro forma results for the three-month and nine-month periods ended September 30, 2015, in order to provide an apples-to-apples comparison between the respective time periods. Regarding the revenue comparison, the year-to-date growth has been as expected, while the third quarter comp is less significant due to last year's second-half high demand for solar installations prior to an expected reduced ITC credit. RBI's business continues to be successful in its markets. Its incoming order rates year to date are up 12% versus the same period of 2015. And RBI's backlog as of September 30, 2016, is also higher by 12 percentage points compared to September 30, 2015.

This segment's operating margin has increased dramatically, as we have already described. Synergies are being realized to a greater extent, plus the benefits of specific cost reduction programs it has been executing. So overarching good news. Operating income and margin improvement have been most impressive, and its employees are also to be congratulated.

At this point, please turn to slide 10, "Continued Progress on Value Creation Strategy," and I'll turn the call back to Frank.

Frank Heard - *Gibraltar Industries, Inc. - CEO, President, COO*

Thank you, Ken. Our ongoing and strengthening financial performance is a direct result of the unified efforts across the organization to effectively execute on our four-pillar strategy. The first pillar of operational excellence remains our focus: reducing complexity, simplifying our product offering through the 80/20 initiative, and adjusting our cost structure to better support our partners. We now have all of our business units participating in 80/20.

This includes the RBI business, where our focus is on executing against the key areas of improvement that we identified at the time we acquired the business; leveraging Gibraltar's global supply chain to improve the sourcing of raw materials and freight management, lowering manufacturing costs by increasing the percent of items that we make in-house versus buy, and being more selective with projects that are pursued in order to better leverage our value proposition to key customers and partnerships, as well as the introduction of a new and innovative ground mount racking solution.

As Ken mentioned, RBI's operating margin has improved from the 9% to 10% range to the mid-teens today. We expect similar improvements with the recently acquired Nexus greenhouse business, especially as we cross-leverage the strengths of each organization. Overall, we have improved our income statement by $17 million in the first nine months of 2016, and we expect -- and we are now on track to achieve annualized cost savings of over $20 million this year.

This 2016 amount is incremental to the $11 million of savings realized in 2015; and, as a result, we will exceed our initial five-year target of $25 million of pre-tax savings by the end of year two. Today, we sit at the start of the middle innings of this 80/20 initiative, which means that there's both more work and opportunity ahead.

Next, we're targeting greater structural changes affecting the balance sheet. We've just starting the follow-on management tools of in-lining our manufacturing processes linked with the market rate of demand replenishment tools. These follow-on tools are focused on manufacturing the highest volume products for our largest customers on a much higher level of capacity utilization. We expect these methods will yield additional benefits in the areas of lower manufacturing costs, lower inventories and fixed assets, and an even higher level of service to our customers.

Additionally, we will begin focusing on driving top-line growth with new and innovative products. Our initiatives will be tailored towards reallocating sales and marketing talent to target specific end-user groups in order to better understand their needs and the various market opportunities that may be available. This will result in new product ideas and opportunities that will generate profitable growth.

The second of the four pillars in our strategy is portfolio management. We're leveraging in 80/20 to improve the financial health of each one of our businesses, taking a very strategic look at our customers and end markets; and allocating leadership time, capital, and resources to the highest potential platforms and businesses. Already we are realizing the benefits from this strategy, including spending less capital in 2016 compared with historical levels. And at the start of Q2 2016, we divested our lone European industrial business, which had generated low returns. Delivering on a key goal, we expect to realize a higher rate of return on invested capital in 2016, north of 11% compared to 8.1% in 2015. Looking ahead, we intend to continue our portfolio management evaluations and take measures to counter unprofitable sectors, product lines, and market regions. We will better position our human and capital resources towards more attractive markets and businesses.

The third of the four pillars is product innovation, and we define innovative products as those with patent protection. These currently represent 5% of our revenues. Our objective is for innovative products to approach 10% of revenues by 2020, driven initially by internal product development, but also by acquired product lines. From an internal product development, our xPress Locker centralized parcel storage system continues to be well accepted in the market, with more than double the number of units sold in the first nine months of 2016, which keeps us on track to more than double the number of units sold annually, for the second year in a row. In our roofing segment, we've successfully completed the testing of a new metal roofing installation system that can withstand hurricane force winds. The first of these roofing systems was installed in Florida with positive feedback.

Our focus on innovation is a key strategic driver in our Industrial and Infrastructure segment as well. We've been focused on identifying applications outside of our traditional end markets that offer growth and margin profiles, leveraging our existing materials and manufacturing capabilities. Through this work, we have identified perimeter security as an attractive application opportunity, given the increasing demand for protecting high-value physical assets. We have developed a series of new perimeter security products that can be customized to our customers' needs, and we recorded our first orders for this product during the third quarter. We expect to begin installations before the end of the year.

Our fourth strategic pillar is acquisitions. Our focus remains on prospects that participate in attractive end markets with opportunities to improve market share and drive operational enhancements. Earlier this month, we completed the acquisition of Nexus Corporation, a US manufacturer of commercial-scale greenhouses. Nexus provides a full range of greenhouse designs to meet almost any indoor growing requirement, and includes commercial greenhouse designs for floriculture and agricultural markets, plus seed development and research. With annual revenues of around $30 million, we expect to further solidify our leadership in the US greenhouse market and support its plans to expand financial returns by applying our 80/20 methodology. We're very proud to now combine two well-respected brands and organizations that have served the North American greenhouse market for well over 50 years. We continue to look for opportunities in five key high-growth markets, and have developed of solid list of prospects that interest us.

Now, turning to guidance, we're increasing our earnings guidance for full-year 2016 as outlined on slide 11. This reflects our over-performance year to date, plus our expectation to continue our positive momentum and sustained profitability during the last quarter of 2016. Regarding the fourth-quarter 2016, we're expecting revenues of $220 million to $230 million, down 20% or $50 million from a year ago. The decline in revenue includes $22 million of nonrecurring revenue from 2015 for the European divestiture, and the completion of a postal contract. Additionally, continued softness in the industrial market and the high demand for solar racking products in the fourth-quarter 2015 will also contribute to the unfavorable top-line comps. As a result, we expect adjusted earnings per share of $0.19 to $0.23 versus prior-year adjusted EPS of $0.29, which benefited from the greater sales volume.

In summary, we are very pleased with the transformation that is well underway at Gibraltar. Our strategy is supported by a deep bench of evolving leadership and best-in-class operational teams who are rapidly adopting our transformative culture. In 2016, we're poised to deliver a second consecutive year of sequential and meaningful financial improvement in terms of absolute profit dollars, returns, and cash flows. And specifically comparing 2016 expectations to 2015, we expect to deliver the following: a consolidated gross margin up 500 basis points; consolidated operating margin up at least 40%; EPS up 40%; cash flows from operations 35% higher than last year, which will be meaningfully in excess of $100 million of cash generated in 2016, or 10% of revenues; inventory and fixed asset reductions totaling $65 million in the 18 months ended September 30, 2016; return on invested capital improved by nearly 300 basis points to an expected 11% for 2016, which is nearly triple the measure for 2014; and liquidity of over $400 million to support future growth initiatives, including larger-sized acquisitions.

So, at this point, we'll open the call up for any questions you may have, and I appreciate the time.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Ken Zener, KeyBanc.

Ken Zener - *KeyBanc Capital Markets - Analyst*

Another interesting quarter here. I understand the operational; if we could just spend a little time on the accounting, the restatement, and the impact that we would have had on cash flows. And obviously you guys might be filing further information, but it looks like you adjusted $0.08 to 1Q, $0.04 or $0.05 to 2Q. Which would mean after the $0.05 beat this quarter and your guidance, that is going to hit your EPS that you gave. What was it specifically that led to this? How did you end up in this situation this quarter? And what does that say about the business? Was it just that it was private versus public? Because it was -- restatements are interesting, obviously.

Ken Smith - *Gibraltar Industries, Inc. - SVP, CFO*

Agreed, Ken. I think to do a degree it is a difference between how a public company manages itself to high standards of public reporting, as required under regulatory bodies, versus a private company. And as you know, under SEC and Sarbanes rules, when an acquisition is made, the new public owner has until the following fiscal year to get controls in that newly acquired business up to public standards. So, in the second half of 2015, we conducted a number of I'd say top-level and mid-level reviews to make sure that our percentage of completion for revenue and profit was being done correctly.

And that has been borne out this year, as we extended that testing to greater depths, because there is no effect on the 2015 year. So, as we got into the following year, being 2016, we've designed new controls of testing as required under Sarbanes-Oxley to delve deeply into all of its key controls, and particularly in revenue recognition. I would say a historical practice of having projects remain open persisted in the first half. And the second reason was expected costs to complete a project were not fully trued up as it progressed through the first half of this year.

Ken Zener - *KeyBanc Capital Markets - Analyst*

(multiple speakers) Your SOX program and methodology matured. And then specifically on the cost side, you just were running older cost-based accounting metrics through.

Ken Smith - *Gibraltar Industries, Inc. - SVP, CFO*

Yes, yes.

Frank Heard - *Gibraltar Industries, Inc. - CEO, President, COO*

And Ken, it's Frank. I think the other factor that goes into this is that this is a business that we identified four or five areas that we thought we can improve it operationally over the course of one to three years. And the reality is some of those -- all those initiatives got started in the back end of 2015 in terms of raw material sourcing at the corporate level, freight management, investing in a couple roll forming operations that -- one at the end of the quarter last year; one at the beginning of the year -- along with some of the 80/20 initiatives and new product launches. All those things got started at different times. And I think the material impact of those obviously was larger and faster than people realized, and their accounting systems for project management could keep up with.

So now we're tracking year-to-date north of 15% in literally about a six-month transformation in terms of some of those various initiatives. So, I think the methodology that we're using -- they were using at the time was probably appropriate for the type of business they were running. The depth of accounting and controls and maybe the timeliness of picking up some of the rapid changes in costs didn't come to light until Ken and his team started digging a little bit deeper as the year rolls out.

Ken Zener - *KeyBanc Capital Markets - Analyst*

You're obviously doing a lot of things, and the results that are out that they are good things. I just want to drill down on this, because restatements can be very impactful, both historically and looking forward. So, Frank, you said 15%, give or take. We're looking at -- a lot of information here to process pretty quickly. But if you say 15% year to date, since it's dynamic, and 3Q was 20%, can you directionally give us some idea? Because 4Q, I haven't had a chance to look at what those margins are, so some guidance there, given the trajectory you've had. And really about FY17, because I assume you are still sticking with industry growth rates of 9% to 11% that you highlighted last quarter, given your 12% backlog that you mentioned.

But can we have some understanding of what this might mean for next year? Should we think about this being an operating leverage business at 30%? Or should we just be thinking a mix between 2Q and 3Q margins is 16% to 20% is a better base case for next year's EBIT business? I realize you don't want to give us FY17, but these restatements are significant.

Ken Smith - *Gibraltar Industries, Inc. - SVP, CFO*

Right now, I think we're still trying to make sure that we can -- as you pointed out, these are significant changes/improvements for their -- I'd say -- I would describe as a new level of operational efficiency within RBI to deliver these higher margins. Right now I'm expecting that, I think, 2017 in general would be in the mid-teens. And at this point, I'd want some more internal proof points for myself and the senior team here before saying it's on a level to deliver 20% operating margins consistently from now forward.

Ken Zener - *KeyBanc Capital Markets - Analyst*

No, that's good. And obviously I'd want to [take] a conservative one. And my last question before I go back is -- steel has moved. Can you just talk generally about how you are handling the steel increase, and what that means? Thank you very much, gentlemen.

Ken Smith - *Gibraltar Industries, Inc. - SVP, CFO*

Well, steel increase is certainly a cost that we monitor daily, multiple times a day, across our business platform. So, we're trying to ensure that we are buying at the lowest optimum points for quantities that we need in the future. And we feather those sources of supply based on where we think the cost is going to be going. And at the same time, we help ensure that we are providing our customers with the best value/priced products that are competitive in the marketplace with high service levels, which have become quite a bit higher, from the 80/20 simplification efforts.

So, we continue to monitor it very, very closely, Ken. And at the same time, making sure that our customers are treated fairly. Our value products.

Sounds like we're ready for our next question.

Operator

Al Kaschalk, Wedbush Securities.

Al Kaschalk - *Wedbush Securities - Analyst*

I just wanted to follow up. In terms of maybe steel, but more generally or more broadly, procurement, with the efficiencies that you've gained, the scaled-down businesses, or certain businesses being scaled down, have you changed or evolved any procurement practices that could help fight the volatility that comes with procuring commodity-related materials?

Ken Smith - *Gibraltar Industries, Inc. - SVP, CFO*

I think we've always been particularly -- of late, the last, most recent several quarters -- very good through our supply chain leader that's quarterbacking the programs in our business units, to ensure that we've got the right stocking levels, sources of supplies from quality and reliable vendors, at price points -- cost points that are the best that can be had. Frank touched on the next impactful program that we see advantaging ourselves and our cost structure, and that being the next set of 80/20 tools, particularly in-lining and market rate of demand, where we'll be ensuring that our manufacturing base that we have a direct cost structure for producing our A high-volume products. And those that are of lesser volume likely could be produced more efficiently and at lower price points on the outside is outsourced.

So, as Frank described in this call, and previously, we think that's going to benefit both the P&L and balance sheet in 2017 as well as 2018. But that's -- to answer your question with a long-winded answer -- that's the next compelling initiative that's starting to roll out by our business units.

Al Kaschalk - *Wedbush Securities - Analyst*

Okay. Thanks for that color, Ken. Frank, in terms of the business that's still struggling, for lack of a better word, the Industrial and Infrastructure (segment). We're more concerned here -- or the area I'd like maybe to hear some additional color on is the order performance or order rates. How do you balance that in terms of visibility versus the longer-term profile of trying to drive higher returns on the capital that's invested, or that you are running day-to-day? So, said in other words, is there more forthcoming here in terms of activities or actions as it relates to this particular segment?

Frank Heard - *Gibraltar Industries, Inc. - CEO, President, COO*

Well, certainly, when you look at Industrial and Infrastructure, you've got to look at the two different end markets; the Infrastructure really being elevated highways and bridges. And the end market there is -- there's certainly a great need in terms of rebuilding our infrastructure from a transportation perspective. And recently we got the benefit of the FAST Act bill. That, to a large extent, has not affected the market in any positive way yet in terms of a rising tide of order intake or shipments. And I think that the issue there -- and there's lots of different press around this -- that those monies are primarily funded -- targeted at large-scale projects and are matched with state funding.

State funding is the challenge to this day, as various states struggle to balance their budgets, and are looking at maybe bond releases to just renegotiate debt as opposed to rebuilding infrastructure. So, it's taking longer than I think people expected. And it's certainly not transforming itself into any immediate uptick in order intake or backlog opportunities for us today in the infrastructure side of our business platform. We do expect to begin to see that from a bidding activity perspective. We're beginning to see projects being talked about. We expect that to continue in early 2017, and start to see a trickle effect into maybe late 2017 and a rising tide of orders, and hopefully shipments as well that can be pulled into the 2017 time frame. And then from that day forward, we expect it to continue to improve.

That particular business group has gone through a series of 80/20 work, refinements in terms of footprint, refinements in terms of product lines and skill sets, and have a couple ongoing projects that will help them. And they've done a real nice job protecting their market share and also their level of profitability within that share position. So, from a context of making more money at a higher rate of return, and more efficient use of capital, certainly they are not sliding backwards in that context.

In the Industrial side, our challenges are a little bit more pronounced. Under the three product lines there, one is specifically tied to the end markets of oil and gas. That's been a challenge. It was a challenge starting last year. It's become more of a challenge as the market continues to bottom out, resulting in probably a 2x capacity in terms of what real demand requires; which, in turn, has depressed prices closer and closer to the input cost of raw material. That particular business, if you recall, did a real nice job from 2014 to 2015, applying the 80/20 principles. And even though they had that end-market headwind, was able to meaningfully move that business forward in terms of operating income despite those end-market headwinds.

The challenges continue in 2016. And the reality is they continue to take costs out. They are doing some great refinements around footprint, allocating the right people towards profitable product lines, simplifying their business. And, also during the course of 2016 have done some end market research and identified an attractive market space that would help with their transformation into a higher level of profitability, which is in that perimeter security area, which the group is pretty excited about. But short-term, they are working hard and they are doing some nice work, but they have some material headwinds in front of them.

Al Kaschalk - *Wedbush Securities - Analyst*

Thank you for the color. You've touched on the perimeter security product. Is that an area where there could be some further growth? Whether it be niche acquisitions, is there technology there that you can scale? Just trying to appreciate that aspect of that particular business.

Frank Heard - *Gibraltar Industries, Inc. - CEO, President, COO*

Yes. Our people have put probably six, eight months of end-market research in that business in a variety of spaces, and have landed on perimeter security. They've always had fencing in their line, but more as an afterthought as a product line that would then, in turn, get sold to various end customers through steel wholesalers and the such, but no real focus on the industry itself. So, over the last six months, they have actually done quite a bit of end-market research and realized that it's a large space; it's an evolving space, unfortunately, because of global security issues.

And perimeter fencing in various forms is certainly the key solution that people request. And then there's technology put around it in terms of monitoring. There's conductive areas, non-conductive areas; corrosive, non-corrosive. And as our people begin to understand the space, the value chain, the various pain points, they've developed a series of products and a dedicated sales and marketing group to start knocking on -- participating and spending time with the end users, the developers in that particular space that are new and different, to a large degree, than how they've pushed product through channels in the past.

And they are pretty excited about the opportunity. And to your point, certainly technology opportunities, certainly opportunities to accelerate their position in it through the acquisition process. And it's a rising tide where we think there's a completely different margin profile than maybe their historical business. So, early days; but each group is challenged to transform themselves over a 3- to 5-year cycle. And these guys start from a difficult position, but they've really gained some momentum over the last 18 months. We are excited about the work they've done to date.

Al Kaschalk - *Wedbush Securities - Analyst*

Great. And if I might just sneak in one last one, just lifting up a little more broadly on capital allocation. The funnel from an M&A perspective remains properly -- I won't say tight -- but in terms of the return profile, getting through the filter. But could you comment a little bit more from a positioning standpoint? Are things feeding down through the filter? Are they getting close to transactions where you are getting closer to negotiating final opportunities and announcements? Or are we still in that category of the niche ones really make the most sense here, short-term? Thank you.

Frank Heard - *Gibraltar Industries, Inc. - CEO, President, COO*

Yes, just at a high level, and it's certainly -- our primary objective is to -- within our filter, just from a size and scale perspective, is ensure that we are targeting acquisitions either in existing platforms or in new platforms -- one being the renewable energy space, recently entered, or water management -- would be acquisitions of scale. So, yes, we did tuck in Nexus as a smaller strategic accelerator within our Renewable Energy and Conservation space, primarily within the greenhouse. Because we thought that was -- allowed them to reinforce a leadership position and further accelerate profitable growth as new products and new market opportunities came into play. And we thought that was a nice fit.

That wasn't our primary scale target. Over the last quarter, for example, our level of activity -- I think we have interacted with north of 25 different companies either through private equity or through the investment banking community, or direct through our own work, and filtered that down to -- I think we had those targets. I think we participated in -- Ken and I -- in probably close to a dozen meetings that got through the filter that we thought were interesting, and narrowed down to three or four that we started to work our way through a process before -- at a point in time, stepping back and saying that maybe strategically it's not really the fit that's going to translate into winning three different ways: ending up in a large growth market that's got the right type of long-term growth, a share position that we can grow within that marketplace, and maybe potentially buy a business that we can improve 3 to 5 points of margin to ensure that our value generation is sustainable, as opposed to a one-time event.

So, looking at some great companies. The good news is we've got a strong pipeline and we continue to be excited about the opportunities, both in the near term and the long term. We've got a lot of different irons in the fire that we continue to work on. And with every quarter of effort, the pipeline gets better, the quality of the pipeline gets better, and we get closer and closer to being able to find and close that next deal that would help transform Gibraltar's end-market portfolio to something that I think would be sustainable over the long term.

Al Kaschalk - *Wedbush Securities - Analyst*

Very good. Thanks for the detail. Good luck.

Operator

Daniel Moore, CJS Securities.

Daniel Moore - *CJS Securities - Analyst*

Good morning. Wanted to take a circle back a little bit to outlook for solar. We've heard from some suppliers that the solar industry during this earnings season has seen a bit of a headwind; volumes declining. Maybe just remind us of the niche that you play in, and your confidence around -- obviously the backlog is up nicely -- your confidence around continued growth in that critical end market into 2017.

Ken Smith - *Gibraltar Industries, Inc. - SVP, CFO*

The majority of RBI solar installations are fixed angle, fixed tilt, ground-mounted arrays that are largely developed for and sold to small and midsized utilities; and with a growing prominence, but to a lesser amount of money, into commercial installations that may power an industrial park or professional buildings that surround a nearby field. RBI does not meaningfully participate in three other market adjacencies or product adjacencies. One being residential rooftop, a second being commercial rooftop, and the third being tracker installations where the -- the panels are rotated during the course of the day to optimize its facing to the sun rotation.

So, it participates in one of the four currently, in the most meaningful way. And I would say it's also currently investigating how it might more meaningfully participate in the other three adjacencies. Currently what we're reporting, and in the near term, they really have gone from zero market share to a little over 20% share in the ground mount, fixed tilt category. And that's all in the space of, what, 6 1/2 years. They have become the market leader from zero, just bringing their value position. But that's a long-winded answer to, of the four product categories, they are at the top of the heap in one of them.

Frank Heard - *Gibraltar Industries, Inc. - CEO, President, COO*

Yes. And Dan, I think to relate back to some of the press that gets written, is the space that we participate in today is the least affected by what you read in the press. It's translated really predominantly in the residential space, and not so much in the space we participate. The second point that Ken makes, which is really important, yes, we are -- we did enter five or six years ago. We did start with zero position and we are now the leader, in our opinion, in the low- to mid-20s. But it's the low- to mid-20s.

So whether the market is growing or the market is stagnant, and we believe it's going to continue to grow at the rates originally advertised, our objective is two things: grow in the space we're in today, and we think we have opportunities to continue to drive share from the low 20s to the high 20s, into the 30s over the coming years, which is material in numbers. And secondly, we have opportunities to enter other spaces that are adjacent to us that leverage our existing value proposition without a tremendous amount of investment; and leverage our value proposition in terms of design, engineering, manufacturing, and install, which is not just a manufacturing core competency. It is also our connection with the end customers, the EPCs, the installation crews, so on and so forth.

So, I am excited about the opportunity. We're going to continue to get a rising tide in the space we participate in. And we are going to continue to grow share in the space we participate in, drive operational improvements that they've done an excellent job with so far, year to date; while, at the same time, entertain moving into new adjacent spaces. So, lots of opportunity in this group. And it's led by a very experienced group of people who have -- that have a track record of entering new spaces, developing new products, and executing in a short period of time. So, they get a lot of our attention and a lot of our support at the corporate office.

Daniel Moore - *CJS Securities - Analyst*

Very helpful. And clearly Q4 is up against a tough comp. But given the increase in backlog, just help us reconcile the outlook for Q4, particularly around solar relative to the underlying strength that you're seeing.

Ken Smith - *Gibraltar Industries, Inc. - SVP, CFO*

Well, the guidance that we have for the fourth quarter that plays into the full year is contemplating an unfavorable revenue comp for solar, because of the accelerated sales benefit that it had in the fourth quarter of 2015. That backlog that we cited being 12% higher in dollars at the end of this September compared to a year ago is less weighted to the next succeeding quarter as it was a year ago because of the then-expected ITC stepdown. So the backlog the RBI business has today -- it's got scheduled installations that go into 2017. And it is contemplated in our revenue projections that we have for this particular segment in the fourth quarter, not being as strong as it was last year because it's got more projects weighted into the early part of 2017.

Frank Heard - *Gibraltar Industries, Inc. - CEO, President, COO*

Our view of this business going forward in 2017 is if the end market improves by 7%, 8%, 9%, 10%, certainly we would expect to grow with it. If we execute on our share penetration plans, we would expect to exceed it. And certainly if we had plans from a new product introduction into new and different markets, then that would be a multiplier effect, over and above it again. Part of the fourth-quarter comp, to Ken's point, is obviously the ITC pending stepdown at the end of 2015 that didn't take place. A lot of bubble-type activity, I guess, that got generated.

But the other thing that's probably more important -- which RBI participated in, and really allocated a lot of time and effort to try to maximize that result -- we have really consciously worked with RBI. They've got a very unique value proposition that is disruptive in their space. And we really encourage them to be more thoughtful about the types of work, the types of jobs, the partners they work with, to really leverage their value proposition and ensure they get the right types of returns out of that work. As opposed to just looking at work that maybe would be incremental in terms of just profit dollars, as opposed to at the rate and return that they really deserve with that type of partner.

So part of I think the fourth quarter and the year-to-date numbers as well, and the improved profitability in real dollars at a higher rate of return -- is that they are being more thoughtful and getting a better result as a byproduct of their uniqueness in the marketplace. I think we could have probably maximized our fourth quarter a little bit better if we just operated as we did in the past and ended up with better revenue comps, but maybe not from a profitability perspective.

Daniel Moore - *CJS Securities - Analyst*

Certainly helpful. And just switching gears, maybe one more in the infrastructure side.

Ken Smith - *Gibraltar Industries, Inc. - SVP, CFO*

Dan, before you go to infrastructure, I have a small footnote to come back to one of your earlier questions on solar. Because I do recall that there was another public company that does third-party processing. And as I recall, in announcing their third-quarter results, they alluded to disappointing order rates that came out of the solar industry. For us -- and I guess I want to put a finer point, and contrast to our business -- in our case, for example, we galvanize virtually all of the piles and most of the cross members on the racking that we install.

That's different than one of those other, larger adjacencies, namely the tracker fields. You can have, and there are, tracker projects of large scale that because of favorable soil conditions, a developer can require thicker, uncoated, ungalvanized steel for the pilings and the cross members, and not require any galvanizing from a third-party processor. So, I think there can be a mix factor when trying to compare somebody else's business that may be servicing the solar business to our RBI business, which, as we've described, particularly our backlog going forward, is in a very strong position.

Frank Heard - *Gibraltar Industries, Inc. - CEO, President, COO*

And the difference of that mix between our segment and that larger segment -- the jobs that we would be scaling anywhere from probably $250,000 to $10 million -- larger tracker jobs can scale anywhere from $10 million to $100 million and north of that. So depending on where those jobs in the tracker space are located, translate back into whether or not they need that third-party galvanizing or not. And that's very much a norm in that space. So that could create -- if we were in the type of business, supporting that space with some sort of galvanizing operation, one could expect some wider swings, even in a normalized end-market growth rate.

Daniel Moore - *CJS Securities - Analyst*

Very helpful. Absolutely. Appreciate the color. Last one on Infrastructure. Maybe just give us a sense of where are we now in terms of energy as a percentage of revenue for that segment. And do you think we have bottomed here? Or as you talked about, maybe contemplating some additional actions, do you see further downside in that piece of that segment?

Ken Smith - *Gibraltar Industries, Inc. - SVP, CFO*

Of the segments, I'd say it's probably a 20% to 25% exposure. And even though that's a minority out of a 100% scale, it's had the most inclined trends for order volume and pricing in the last -- recent months. It's been a soft incoming order rates and it's just -- the curves are a little steeper on that compared to the other 75% of the revenues from other markets.

Daniel Moore - *CJS Securities - Analyst*

Got it. Thank you again.

Operator

Michael Conti, Sidoti & Company.

Michael Conti - *Sidoti & Company - Analyst*

Ken, you broke out the margin improvement from 80/20 on the residential side. How much of 80/20 offset the lower volume in the Industrial and Infrastructure (segment)?

Ken Smith - *Gibraltar Industries, Inc. - SVP, CFO*

Embedded in that margin result for the third quarter, they had a little over 300 basis points of improvement from 80/20. That got offset by the other decline, and factors that we cited, to net out at the margin results that you had for the (segment) -- reported on the slide.

Michael Conti - *Sidoti & Company - Analyst*

Got it. Okay.

THOMSON REUTERS

Ken Smith - *Gibraltar Industries, Inc. - SVP, CFO*

So they are -- all three business -- certainly the two that had the earlier starts, Residential and Infrastructure and Industrial, continue to have good momentum. It's just in this particular segment of Industrial and Infrastructure that you are questioning, it's just been market forces that have been more than offsetting to those improvements.

Michael Conti - *Sidoti & Company - Analyst*

Got it, okay. And then can you just talk about the backlog within the Infrastructure piece? And the impact of the delay in infrastructure funding that we -- there was a couple articles that came out last month. And I think originally you expected the FAST Act to benefit in early 2017. But has that been pushed out at all?

Ken Smith - *Gibraltar Industries, Inc. - SVP, CFO*

Well, I'll answer in reverse order, starting with the FAST Act and Infrastructure. I'm looking at the ceiling here. But as I recall, our remarks in our call that we had at the end of the second quarter, 90 days ago, we indicated that order rates -- that our quoting activities were decent. But at that time, we thought that as states were at that time, and continue to be under state budgetary pressures, bids being left and bids being actually funded and awarded probably wouldn't affect us on our top line of revenues until midpoint of 2017 and after.

And we continue it here on October 27 -- continue to believe that is the case. The backlog for our infrastructure projects continues to be unchanged from June end. And I think it was even this morning I read in the Journal another article about the continuing pressures that states are under to balance their budgets, what they're going to fund with the available monies that they have, and infrastructure projects continuing to be under pressure from being awarded. Because states need to spend their money or feel they need to spend money elsewhere.

So, right now we think the FAST Act -- which is from the federal pocketbook, and there's got to be matching or near matching funds from the state level -- the states now seem to be the gating factor for meaningful upticks on awards and funding of projects, and actually having them executed by general contractors and their subs.

Michael Conti - *Sidoti & Company - Analyst*

Got it, okay. And then on the metal roofing product in Florida, can you just go over some detail on that? How are you going to approach the market? Are you teaming up with other distributors? Or just some color on that would be great.

Frank Heard - *Gibraltar Industries, Inc. - CEO, President, COO*

Michael, we will give you a little bit, but we're going to be consciously vague just for competitive reasons. It is a new market. It's an historical market segment, the metal roofing segment, whether it's a commercial metal building or whether it's an ag metal building or residential. Our people -- and there's some historical attachment methodology that goes back multiple decades that -- early in my career I participated in. We've got an engineering team and a development team within a particular business that has done some real nice end-market research, working with user groups as to what their pain points are, and have developed a new and different methodology that would solve some of the problems that the installers have historically had; and some of the ongoing liability issues in terms of just a safe and structurally sound roof over the long-term that, to be quite honest, doesn't develop leaks and rust issues, and so on and so forth.

So, it's early days. They've come up with a real nice product. They've gone through testing, early days of testing. They are filing for different forms of protection around it, and we're excited about the opportunities. Like I said, they have been in a couple test markets. The size of the business in terms of the opportunity is material. But again, if you look at it from a baseball analogy, I would say we are probably somewhere in the third inning in terms of it - you know, the whole commercialization of a new product with a full marketing agenda behind it from a penetration perspective and a launch perspective.

That being said, I think as they work their way through some of these testing and filing processes, I think early 2017, first-second quarter, I think they are certainly going to expand their reach into the marketplace and start to develop -- on the basis that they expect to be successful, and begin to develop the plans from a full rollout perspective maybe later on in the third and fourth quarter of 2017.

Michael Conti - *Sidoti & Company - Analyst*

Okay. And just last one for me with Nexus. I think you mentioned RBI will assist in the raw materials side. But can you just give us an idea on targeted growth rates? Is RBI going to assist in increasing capacity with Nexus? How should we think about targeted growth rates and margins within that business? Thanks.

Frank Heard - *Gibraltar Industries, Inc. - CEO, President, COO*

Well, I think the first thing you need to think about, and I'll Ken jump in, is that the solar aspect of RBI is a stand-alone business and it represents the majority of the revenue and the profit today. And then the other component was the historical greenhouse business under the Rough Brothers banner, which would represent a smaller piece. But the original greenhouse business had similar types of improvements in terms of top-line revenue and operating income improvement over the course of this first full operating year, 2016.

They, being one of the premier players in the marketplace, both in commercial, institutional, and retail; Nexus being a significant player as well, being number one and two, depending on whose opinion you'd ask. Very complementary, and predominantly maybe more so in the commercial space. So when you look at the combination of those two businesses, they have a lot of synergies in terms of end-market focus. They have a lot of synergies in terms of geographic. And they both have historically different emphasis strategically as to where they're going in terms of existing and new market opportunities. And certainly Nexus plays in spaces that we're pretty excited about from a new market development perspective.

So we've got two very strong management teams that will work at how they can leverage those synergies, both from an end-market, end-user perspective, but also how they can look at their combined supply chain and footprint to gain better leverage for the business that they win in the marketplace. Great positions, nice synergies, and some real smart people that are going to figure it out in a real short period of time. The combination of those two businesses I think would represent probably 10% of Gibraltar's overall revenues, in that range.

And they've got a tremendous upside opportunity, I think, over 3 to 5 years, to grow that to even a larger number, and significantly move the operating margins, 3 to 5 margin points. And, that is not a complexity to the solar aspect of the business, because it's led by a different leadership group under that total umbrella.

Michael Conti - *Sidoti & Company - Analyst*

Great. Very helpful. Thanks.

Operator

Walter Liptak, Seaport Global.

Walter Liptak - *Seaport Global Securities - Analyst*

Congratulations. The call has already run a little bit long, so I just have a couple questions. One on -- in the past you have called out 80/20 benefits on a to-date basis over the last couple of years. Where are we now with the benefits that you've gotten or have identified for this year [in millions of dollars]?

Frank Heard - *Gibraltar Industries, Inc. - CEO, President, COO*

I think on the call we referenced approximately $17 million year to date, with an expectation that we would finish 2016 at about $20 million. So you take the $20 million and the $11 million in 2015, which puts us somewhere around $30 million, which is $5 million north of our five-year projection of $25 million.

Walter Liptak - *Seaport Global Securities - Analyst*

All right. Good to go.

Frank Heard - *Gibraltar Industries, Inc. - CEO, President, COO*

So, it exceeded our five-year target in two years.

Walter Liptak - *Seaport Global Securities - Analyst*

Yes.

Frank Heard - *Gibraltar Industries, Inc. - CEO, President, COO*

People ask us just what you ask us, and over the course of a quarter we said that -- what's left? And we're moving into the middle innings of in-lining and MRD. And our answer, at that point in time, was we really haven't quantified it; but once we know, we'll give you a flavor for whether or not there's anything left, seeing how we've already exceeded our five-year target, but yet we haven't applied all the tools. And if we can relate it to businesses in specific projects and have that validated by data. We now know, to some degree, that we think there's still something less than $10 million of over -- of carryover projects that would carry into 2017 from the existing work that's being done today.

So if we didn't introduce anymore tools, and we just stuck with the ones we introduced with the phase 2 business units, we would carry over somewhere $8 million, $9 million, potentially (multiple speakers) subject to the execution of that work. The incremental tools -- the in-lining, MRD, and the outsourcing -- as it affects the balance sheet, we think could be similar numbers, over and above that $7 million, $8 million or $9 million. And then there's an outsourcing activity that would be the byproduct of only manufacturing a target A group while we still need B items. That has a material potential as well.

When we bundle all those together over the next two-year period, we could get somewhere north of $25 million affecting the income statement.

Walter Liptak - *Seaport Global Securities - Analyst*

Okay. Great.

Frank Heard - *Gibraltar Industries, Inc. - CEO, President, COO*

Okay? So on the balance sheet, the same exercise -- the fallout of inventory, the fallout of fixed assets to support that activity in a new state, I think we referenced $65 million in reductions in inventories plus fixed assets over the last 18 months. I think we're averaging -- I think year to date the number this year is -- quote me a number. I think we're in the $30 million range for this year.

Ken Smith - *Gibraltar Industries, Inc. - SVP, CFO*

Yes.

Frank Heard - *Gibraltar Industries, Inc. - CEO, President, COO*

So, if you look at that over the same period of time, fixed assets and inventory reductions, we believe there's an incremental upwards of $20 million that could potentially fall out of the balance sheet, as well. So, when you take all that into account, and obviously we've made some tremendous progress on both sides of the equation as it relates to improving return on invested capital from 3.9% to 11%, two years down the road. Our target, as we have stated publicly in the past, is 15% operating margin and 15% return on invested capital over a five-year cycle.

We feel pretty good about our progress so far. And we think there's elements of the various aspects of the four pillars that still have application and can make a material difference going forward.

Walter Liptak - *Seaport Global Securities - Analyst*

Okay, great. Thanks for that answer. And just the last one. I don't know if anyone asked about hurricane, and if there was any rebuilding business that looks like it's coming through any of your channel partners, having to refresh inventory.

Ken Smith - *Gibraltar Industries, Inc. - SVP, CFO*

Not in any meaningful, big, big, big number change on the top line as yet. Generally, at least historically, that's been a relatively drawn-out order pattern, particularly for roof-related repairs and replacements need to occur. Homeowners typically have got to get insurance adjusters in, file claims, potentially debate claim settlements; then go find contractors, get bids. So it can draw out weeks, particularly as we know for those among us who do simple home projects and use a contractor. I know my personal experience is not fast, let alone replacing a roof. It will probably be protracted.

Walter Liptak - *Seaport Global Securities - Analyst*

Great. Okay. Thanks, guys.

Operator

Thank you. At this time, we have reached the end of the Q&A session. I will now turn the conference back over to Mr. Heard for any closing or additional remarks.

Frank Heard - *Gibraltar Industries, Inc. - CEO, President, COO*

Thank you, everyone, for joining us on our call today. We look forward to speaking with you about our fourth-quarter results. And this concludes our call. Thank you.

Operator

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