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ROCK - Q1 2013 Gibraltar Earnings Conference Call

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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the Gibraltar Industries first-quarter 2013 earnings conference call. At this time, all participants will be in a listen-only mode. (Operator Instructions). I would now like to turn the call over to your host for today, Mr. David Calusdian, from the Investor Relations firm, Sharon Merrill. Please proceed.

David Calusdian - *Sharon Merrill - IR*

Good morning, everyone, and thank you for joining us. If you 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 first-quarter performance. These slides are also posted on the website.

Please turn to slide number 2 in the presentation. Gibraltar's earnings release and this morning's slide presentation both contain adjusted non-GAAP financial measures. Reconciliations of GAAP to adjusted measures have been appended to the earnings release.

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

On our call this morning are Gibraltar's Chairman and CEO, Brian Lipke; Henning Kornbrekke, President and Chief Operating Officer; and its CFO, Ken Smith.

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

Brian Lipke - *Gibraltar Industries, Inc. - Chairman and CEO*

Thanks, David. Morning, everyone. We appreciate you joining us on the call today. I'm going to start off with a brief overview, and then I'll turn the call over to Henning and Ken for detailed comments on our results. And then I'll come back on and offer some closing comments and observations about our business outlook. Then we'll open the call to any questions that any of you may have.

Please turn to slide number 3 in our presentation at this time. There were positive developments in key areas of our business in the first quarter, but, unfortunately, these were offset by some unforeseen factors.

Our guidance for the quarter was for sales to increase 4%, net of a small organic revenue decline. We anticipated lower organic revenue due to pricing in certain product categories and reduced volume from residential products compared to a very strong Q1 last year.

The unanticipated negatives were the winter storms that persisted across many sections of the country through the first quarter and into April, and softer-than-expected demand beginning in late February in our industrial markets, which also drove increased pricing pressures. In addition, many of our retail and wholesale customers postponed their normal spring buys as bad weather persisted.

As a result, our total first-quarter revenues grew only 2% on a year-over-year basis. Organic sales were down 4% from Q1 of 2002, which, as you recall, was an outstanding quarter due to the unusually mild winter and early spring.

On the positive side, the three acquisitions we completed during the fourth quarter contributed 6% to our Q1 sales growth. These businesses are performing as expected, and their integration processes are underway. At the same time, our West Coast operations delivered the margin improvement we expected, and we have begun to benefit from lower interest expense due to our notes having been refinanced in January of this year.

So we continue to be optimistic about our prospects for solid growth on both the top and bottom lines in 2013, and I'll have more to say about that outlook after Henning and Ken have discussed the quarter.

So with that, Henning, I'll turn it over to you.

Henning Kornbrekke - *Gibraltar Industries, Inc. - President and COO*

Thanks, Brian. Turning now to slide number 4, I'll begin with the basics on our revenue.

This slide reflects our 2013 revenue exposures correlated to end markets served. We've taken our actual 2012 net sales and added, on a pro forma basis, the 2012 net sales of our three recent acquisitions, which had aggregate revenues in 2012 of $55 million. About 20% of these acquired revenues were residential market, 30% public infrastructure, and 50% industrial. This had the effect of increasing Gibraltar's overall exposure to the industrial markets.

As you can see on slide 4, we're currently generating about 50% of our total sales from the residential and low-rise commercial building market. Roughly 80% of this part of the business is residential, predominantly from repair and remodeling activity.

Our sales in the low-rise commercial building market reflect the fact that many of the products we sell for residential applications also are installed in low-rise commercial structures, such as professional buildings and retail centers. These products include interior corner bead, lath, external rain dispersion, facia and trims, attic and foundation ventilation, and multi-unit mailboxes.

The other half of our consolidated sales comes from the industrial and infrastructure markets. We experienced mixed sales results in our markets during the first quarter, as outlined on slide number 5.

Our net sales for Q1 of 2013 were up 2% from Q1 last year at $196.8 million. Looking at our markets specifically, this was another solid quarter for our infrastructure products business, driven by backlog, new orders, and an acquisition. Q1 was our fourth consecutive quarter of year-over-year profit growth in this part of our business. Our infrastructure sales, including the acquisition, were up 21% from the first quarter last year.

We're anticipating continued steady performance improvement in our infrastructure product business as 2013 progresses. Quoting activity continues to be robust, especially related to large, longer-term projects, primarily reflecting the fact that a two-year federal transportation funding bill was enacted in the second half of 2012. In addition, one of the businesses we acquired in the fourth quarter of 2012 expands our infrastructure products offering and provides additional opportunity for growth.

As I mentioned, we generate approximately 40% of our revenues from our industrial markets. Q1 was a challenging quarter in this part of the business, where sales, including an acquisition, were flat with the prior year. Excluding acquisitions, sales in North America were down 4.6% and sales in Europe were down 18.7%. Primary driver for the North American revenue decline was lower pricing, a function of a very competitive market and soft demand.

Europe's economy continues in a recessionary mode. Our products, precision perforated metals for filters, are tied to off-road heavy equipment market in that region, as well as the European automotive market, which is off approximately 30%.

In addition, sales of metal grating products for various industrial markets, including energy production and architectural applications, experienced a 4% volume decline from Q1 last year. This reflected continued softening of demand, in part due to a slow economy and the deferral of capital projects, which should lead to improved future demand as the economy strengthens.

The weakness in demand along with competitive pressures for our industrial products have continued into April and will put pressure on Industrial product margins this coming quarter. However, we expect the industrial markets to strengthen in the second half of the year.

Continuing on slide number 5, I'll comment on the 50% of our business directly related to industrial and low-rise building, including repair and remodel. Overall, we saw the first quarter as a short-term, weather-related blip in a fundamentally solid, long-term residential building recovery.

As we said in our last call last quarter, the near-term growth driver for us will be increased building activity as plans become actual projects and generate orders for our distributors, who will in turn gain confidence in the sustainability of the homebuilding recovery. Lacking that confidence, inventories remain constrained, and these constraints have been holding back demand for our building products.

Given the favorable underlying trends in housing, we had expected to see this scenario begin to gradually improve during the first quarter, recognizing it's still winter in the northern US and that our product mix does tend to lag new housing starts by several months. Mother Nature apparently had a different plan in mind, however, because the weather during the last six weeks of the quarter turned out to be much colder and stormier than normal across most of the country.

We believe that building plans and activity were significantly delayed as a result, which had a corresponding impact on our sales for the quarter in both the wholesale and retail channels. Residential roofing demand, which correlates to one of our major product applications, seems to have been particularly hard-hit. As Brian mentioned, last quarter one weather pattern was just the opposite, which made the year-over-year comparisons that much more challenging.

Regarding revenue expectations for the second quarter and the full year 2013, normal spring weather will arrive eventually. This will bring, we believe, a substantial acceleration of new home construction and repair and remodeling activity. We expect this to be driven not only by efforts to catch up on projects delayed by the weather this year, as well as by the normal pickup as we move into the warmer months, but by the currently strong fundamentals in housing overall.

The latest published reports on the housing industry confirm what our customers were saying -- the fundamentals remain positive and, if anything, have improved somewhat since the time of our fourth-quarter conference call in late February. We continue to anticipate 10% to 15% growth in the residential new construction sector in 2013, which correlates with 8% of our total revenues.

Sales in this market should build from quarter to quarter, reflecting the typical four- to eight-month lag between the time a permit is pulled and the time our products are installed. Multi-family housing construction was the bright spot in our business in the quarter, and we believe that our multi-family business will do very well for 2013 as a whole.

On our call last quarter, we forecasted a 2% to 5% increase in residential repair and remodeling activity, which correlates with about 32% of our total revenues. This reflected then-current industry forecasts for flat roofing shingle volume year over year. Although we don't sell roofing shingles, shingle demand correlates to demand for roof and attic ventilation products, along with the trims, flashings and rain-carrying products that we do sell. These products comprise about a quarter of our residential sales. Typically, when a reroofing project is undertaken, everything connected with the roof is replaced at the same time.

Since then, the US roofing market forecast has been updated to 2% growth for 2013. 2% to 5% growth for residential repair and remodeling could prove to be a conservative number, given the updated roofing information and the latest information from our customers. In addition, we've completed first-quarter retail store resets, including the inclusion of new products, paving the way for improved sales in the upcoming quarters.

In the low-rise commercial building market, both new as well as repair and remodel, we continue to anticipate 4% to 7% year-over-year growth in 2013. This segment of our business correlates to 10% of the total revenues. The Architectural Billings Index of nonresidential construction activity has been in positive territory since June of 2012, signaling an upturn in activity in the coming months.

In the infrastructure market, backlog is an important predictor of near-term revenues. We entered 2013 with a very solid backlog, an amount equivalent to backlog in January of 2012. In addition, as I mentioned, quoting activity remains high. As a result, we expect our 2013 infrastructure product revenues to grow organically by about 5% from 2012. This market correlates with 10% of our total revenues.

In the industrial market, we continue to expect roughly 2% to 5% organic volume growth in the second half of the year, but with tight pricing. We expect revenue growth from this market, including acquisitions, to be approximately 15%. We're anticipating that product synergies will accelerate our top- and bottom-line growth as we move into the year, helping offset the tough market conditions in Europe.

Let's turn now to the factors that affected our margins, as summarized on slide number 6. As most of you know, our strategy during the past five years has been to improve our underlying operations and expand margins in every part of the business, with the goal of leveraging no growth or modest levels of end-market growth into stronger profitability. We have worked to position our businesses to be the low-cost supplier with excellent customer service -- in other words, to be consistently competitive in even the most challenging market environments.

Looking specifically at the first quarter, our gross margin was 18.5%, a decrease of 90 basis points from Q1 last year. While total volume shipped this quarter was equivalent to a year ago, pricing was lower, particularly in the Industrial markets. This more than offset the improved margins in our West Coast residential business and on products sold into the building and infrastructure markets.

Adjusted operating income was down versus Q1 of 2012 by 100 basis points, driven by lower gross margins and the higher SG&A cost associated with equity compensation valued on our rising share price.

Translating these and other factors into their effect on our adjusted operating margin relative to Q1 2012, the key differences are a 70-basis-point increase related to the improved performance in our West Coast business; a 40-basis-point increase on higher sales to multi-family construction, with a 150-basis-point decrease related to lower pricing, primarily industrial products; a 50-basis-point decrease related to seasonal mix and integration activities for three recent acquisitions; and a 90-basis-point decrease related to the equity comp expense tied to our rising share price.

We continue to expect further margin improvement as the year unfolds, highlighted by the exit from a major facility on the West Coast by year end. At the same time, our stronger retail and wholesale delivery platform on the West Coast is beginning to deliver the growth in sales that we anticipated.

Overall, given the positive trends in our markets and the increased margin leverage in our business model, we continue to expect Gibraltar will deliver accelerated sales and margin growth and improved financial performance in 2013.

With that, I'll turn the call over to Ken.

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

Thanks, Henning, and good morning. Now I'll turn to slide number 7 titled Year-over-Year Performance.

Revenues were up 2% from Q1 of last year. Acquisitions contributed 6% of the revenue growth, while businesses we owned in both quarters experienced a 4% decrease in revenues. As Henning described, revenues were soft across the board, while revenues from multi-family housing grew nicely and infrastructure product sales were solid. Overall, total volume shipped this quarter was equivalent to a year ago, while pricing was lower, particularly in industrial markets.

The first quarter's adjusted gross margin was 18.5%, as Henning described, a decrease of 90 basis points from Q1 of last year, led by lower pricing. The adjusted operating income was down versus Q1 of last year, with operating margin down 180 basis points, 90 points coming from the reduced gross margin, plus another 90 basis points reduction on the equity comp increase and SG&A

So bridging last year's Q1 adjusted EPS of $0.09 per share to the Q1 2013 EPS of $0.04, the following key differences are a $0.03 improvement by our West Coast residential business; a $0.01 improvement from higher multi-family revenues; and a $0.01 improvement on lower interest expense resulting from our refinancing of notes, offset by a $0.06 per share decline from industrial product pricing and the corresponding margin compression and a $0.04-per-share decrease on higher equity comp tied to our rising stock price.

Now slide number 8, titled New Notes Due 2021. It covers the result of our refinancing that we completed during the quarter. We issued press releases in both mid-January and mid-February announcing the steps taken to refinance the 8% notes. As you can see, the maturity was extended to 2021, and the annual coupon decreased by 175 basis points. And we expect that it will provide a reduction in annual interest expense of over $3 million beginning in 2013.

Now turning to slide number 9 titled Net Income and EPS, my remarks on slide 9 will focus on interest expense and income taxes.

Regarding the adjusted interest expense, it was lower this year, resulting from the refinance of the notes and the new lower interest rate. And regarding income taxes, we recognized a lower effective tax rate this year, lower by nearly 800 basis points, due to the R&D tax credits that were recorded and were discrete to this quarter.

I'll now turn to slide number 10 titled Cash Flow. We used free cash during both quarters, investing in inventories and accounts receivable, as we support the rise in seasonal orders from our customers. Days of net working capital continued to be low at 66 days for the first quarter of 2013, essentially unchanged from Q1 of 2012.

Total days of working capital continue to be in the range we're targeting for the long term, and we do believe we will sustain this favorable level of days of working capital going forward.

Now slide number 11, titled Guidance, Henning discussed our revenue expectations for the year in some detail, and the following P&L guidance incorporates the points he cited.

Starting with the second quarter of 2013, we expect revenues to rise approximately 9% compared to Q2 last year, led by the incremental revenues from acquisitions.

Concerning the second-quarter adjusted EPS for continuing operations, we expect a modest increase as compared to Q2 last year on continued improvement by our reorganized West Coast residential business, plus contributions from our latest acquisitions, plus the lower interest expense, but with some offsets coming from the continued weakness in demand along with competitive pressures for our industrial products and the potential for higher equity comp tied to a higher stock price.

Concerning our guidance for the full year 2013, we continue to expect year-over-year revenue and EPS improvements. The dynamics Henning described bring us to 2013 revenue growth of 11% to 13%, including acquisitions, as compared to last year. We expected adjusted gross margin for the full year 2013 to be between 19% and 19.5%. This is based on the revenue assumptions that Henning cited and the expected headwinds in the first half of 2013 related to the soft demand and pricing for industrial products. These headwinds will dilute continued improvements by our West Coast residential business, along with increases from multi-family and other end markets.

Regarding our SG&A expense for the full year 2013, we expect it to approximate 13% of revenues, including the incremental $7 million for SG&A for the three businesses we acquired in the fourth quarter of 2012.

Adjusted net interest expense is expected to approximate $15.5 million for the year, and we currently expect an adjusted effective tax rate to approximate 37%. With that detail, we expect to report adjusted EPS from continuing operations to be much improved over 2012 and to be in the range of $0.80 to $0.90 compared to the $0.65 we reported for 2012.

Other expected financial results for the full year 2013 included CapEx spending of approximately $20 million and free cash flow approximating 3% to 4% of revenues.

And with that, I'll turn the call back over to Brian for his concluding remarks.

Brian Lipke - *Gibraltar Industries, Inc. - Chairman and CEO*

Thanks, Ken. As Henning and Ken have indicated, after a slower start in Q1, the underlying trends in our markets are moving in the right direction and should improve as the year unfolds.

We continue to anticipate improving end market conditions, resulting in a stronger second half of 2013 and an improved performance on both the top and bottom lines for the year as a whole.

In spite of the slower than expected start to the year, the challenges in the industrial markets are expected to moderate as we move into the third quarter and have a stronger second half of 2013. We also expect that we will benefit from the Q4 acquisition activity that we had in 2012, lower interest expense, improved West Coast operational performance, and overall improving end market demand.

That concludes our prepared comments. At this point, we'll open the call to any questions that any of you may have.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Peter Lisnic, Robert W. Baird.

Peter Lisnic - *Robert W. Baird & Company, Inc. - Analyst*

Good morning, gentlemen. Two quick questions. First on the pricing dynamics, you mentioned industrial sort of being the bigger headwind there. Can you give us a feel for how pricing is evolving or has evolved in some of those non-industrial markets, i.e., resi, [repair, remodel] and new?

Henning Kornbrekke - *Gibraltar Industries, Inc. - President and COO*

The pricing in those markets have continued as expected. We are not seeing the same pressures in those end markets that we had seen in the industrial markets where I think the entire economy is just holding activity in those markets down. So there certainly is -- there's very competitive, a more competitive environment there than it seems to be in the other markets we serve.

Brian Lipke - *Gibraltar Industries, Inc. - Chairman and CEO*

I would add to that, Pete, that in the industrial products categories, an increase in demand will help to alleviate the current pricing pressures. There's a little too much supply out there for the demand and once that starts to turn itself around, we will be, I think a lot of that will be alleviated.

Peter Lisnic - *Robert W. Baird & Company, Inc. - Analyst*

And that was actually leading to my next question which was, if you look at the industry, has there been any significant capacity rationalization in that piece of the market and the industrial market or is it do you think rightly sized for what normalized demand in that industrial market might be?

Henning Kornbrekke - *Gibraltar Industries, Inc. - President and COO*

Actually there's been some investment in that particular market which has helped to create the current situation. But the expectation is that that market will start to improve and in which case, I think, both our sales and the market itself will start to increase. I really didn't say substantially and that is what our competitors are saying, hence the investments.

Brian Lipke - *Gibraltar Industries, Inc. - Chairman and CEO*

Yes, some of the investments that were made were put in place several years ago just as things started to turn down. At the time that the investments were made, clearly the market dynamics opened the door for additional capacity needs. But unfortunately as industrial activity in the industrial markets that we serve turned down, this additional capacity has added to that dynamic and increased the pricing pressure. And as the end market turns around, those markets are still operating at very low levels of activity. So as those markets turn around and demand begins to pick up, I think that there will be -- the pricing issue will be mitigated.

Peter Lisnic - *Robert W. Baird & Company, Inc. - Analyst*

All right. In terms of that market continuing on that front with the new capacity that has been added, do you feel relatively comfortable you are still maintaining shares? Has there been in any sort of competitive ship there that's forcing you to respond with matching price if that is the right term for it? Or just (multiple speakers)?

Henning Kornbrekke - *Gibraltar Industries, Inc. - President and COO*

We believe very strongly that we are certainly maintaining and perhaps even gaining some market share and I would also add that at Gibraltar we have also invested in this particular market environment by putting in machinery which has higher levels of efficiency and more integrated. And so we are positioned in the right place with the uptick in this market. So I think in general we feel very optimistic about the prospects for our Company going forward in this market.

Brian Lipke - *Gibraltar Industries, Inc. - Chairman and CEO*

The only thing I would add to that too is over the last couple of years we have worked very hard across the board at lowering our cost structure and specifically in the industrial products area. We have gone through a number of consolidation efforts and have taken substantial cost out of that business. So as Henning said I think we are well-positioned as demand picks up to directly participate in that, see better improved pricing and as volume comes in against a lower-cost structure see a return to more normal levels of margin-generating activity for that business in the near future.

Peter Lisnic - *Robert W. Baird & Company, Inc. - Analyst*

All right, perfect, thank you for the details. I will jump back in the queue.

Operator

(Operator Instructions). Ken Zener, KeyBanc Capital Markets.

Paul Ridzon - *KeyBanc Capital Markets - Analyst*

This is Paul on for Ken. Just want to touch on the infrastructure business again. It seems like you guys are doing well there, but you are not having any effects from the sequester. Just wondered if you could talk a little bit about that and if that is the nature of the projects, their duration and then, if you are expecting any kind of delayed effects from the sequester later in the year or beyond? Thanks.

Brian Lipke - *Gibraltar Industries, Inc. - Chairman and CEO*

Well, we haven't felt any effects of it, of sequester, number one. Number two, going back to the fundamental drivers of the infrastructure arena, the US DOT did a study and it pointed out that of the 600,000 bridges in the US, 25% of those bridges were either structurally deficient or functionally obsolete, which simply means that there is a lot of pent-up demand and a lot of need for repairing bridges. The recent passage of the two-year Transportation Bill provided stable funding with an accelerator for inflation and that, coupled with the need, and also the clear understanding that of a bridge project immediately creates jobs and that there is a substantial need for that, leads us to be comfortable that the funding and the -- well, first of all, that the demand is going to be there and that the funding is going to be there.

So no, we are not anticipating any negatives from that. I think the last thing any elected official wants is for a bridge to fall down in his neighborhood. So I think these projects are going to continue to get attention.

Paul Ridzon - *KeyBanc Capital Markets - Analyst*

Thanks.

Operator

Robert Kelly, Sidoti & Company.

Robert Kelly - *Sidoti & Company - Analyst*

Good morning. Wanted to talk about the expected profit contribution from acquisitions. Pretty modest in 1Q. Is that the type of contribution that we should be expecting for the balance of the year?

Henning Kornbrekke - *Gibraltar Industries, Inc. - President and COO*

No, not at all. I think we look at the business particularly that we acquired they have a very different pattern of contribution. We know one of the business's contributions are extremely strong in the second and third quarter and not very strong in particularly the first. So I think as we go forward, you'll see stronger contributions from the acquisitions in the quarters as they unfold.

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Robert Kelly - *Sidoti & Company - Analyst*

Okay, are you expecting --

Henning Kornbrekke - *Gibraltar Industries, Inc. - President and COO*

Plus, there's some synergies -- excuse me, synergies associated with some of the businesses which will start to take place as the year unfolds as well.

Brian Lipke - *Gibraltar Industries, Inc. - Chairman and CEO*

Just one more little bit of color. One of the businesses is an awning business and, clearly, there aren't a lot of awnings sold in the winter months which we just came through. So we are not -- the business is performing exactly as expected and we expect more substantial contributions in the coming quarters of the year.

Robert Kelly - *Sidoti & Company - Analyst*

So should the contributions be on par with your gross margin guidance? I'm just trying to kind of -- the 5% (multiple speakers) organic revenue growth into with the M&A just trying to get to that 19.5. How should we think about the acquisitions?

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

They will be contributing at or slightly above that consolidated range that we provide. Particularly fueled by their -- they will be above certainly our consolidated averages of the other businesses for the second and third quarters. (multiple speakers).

Robert Kelly - *Sidoti & Company - Analyst*

Okay, so --

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

-- contributed to.

Robert Kelly - *Sidoti & Company - Analyst*

Should we see -- as far as the margin guidance, should we see stronger margin second, third quarter and then something similar in 4Q to what you have just posted for 1Q as far as gross margins?

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

Certainly our second and third quarters will be higher.

Robert Kelly - *Sidoti & Company - Analyst*

Okay.

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

Given the seasonal strength on the order volume. That will drive the leverage, so yes gross margins will be --

(multiple speakers)

Henning Kornbrekke - *Gibraltar Industries, Inc. - President and COO*

20% range in the second and third quarter.

Robert Kelly - *Sidoti & Company - Analyst*

And then 4Q is something in the 1Q range?

Henning Kornbrekke - *Gibraltar Industries, Inc. - President and COO*

Yes.

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

Yes.

Robert Kelly - *Sidoti & Company - Analyst*

Great. As far as SG&A, you had said last quarter, your run rate was one to be $27 million a quarter. How much does the equity comp change that for 1Q? And what do we look for to model the SG&A for the balance of the year as far as your stock price performance?

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

We've layered in some extra expenses. Certainly we had a couple million more here in the first quarter because of the higher stock price. That could be another increment compared to -- in the second quarter compared to a year ago.

Henning Kornbrekke - *Gibraltar Industries, Inc. - President and COO*

The full-year we are still on target. It is just I am just looking at it the first quarter was at 16%, which is unusually high, and if it's second we moderate closer to 12% as we will be at third quarter as well.

Robert Kelly - *Sidoti & Company - Analyst*

That's helpful. Thank you. And as far as the pricing issues in industrial, if demand is flattish through the balance of the year if we don't see a second-half pickup just playing devil's advocate here, would you expect the margin drag to be similar? And (multiple speakers).

Henning Kornbrekke - *Gibraltar Industries, Inc. - President and COO*

We're still hopeful, I'm sorry, we are still hopeful that the margins are going to get better as you go forward because it's not only the pressures we are getting in the marketplace, it is the selling pressure, but also it is related to our material cost, primarily steel. Right now the steel market has been fairly flat. The expectation is the steel market will get stronger in the second half of the year which will have a positive effect on these margins in their industrial products.

Brian Lipke - *Gibraltar Industries, Inc. - Chairman and CEO*

It is counterintuitive to think that rising raw material costs will help margins. But in this particular space, since many of our customers are in the distribution market, i.e., Lakes Field Service Centers they are acutely aware of steel pricing. And we have no problem passing on raw material cost increases as they occur. On the other hand we are expected to reduce our prices as raw material cost inputs go down.

So we favor a rising raw material cost environment for that section of our business. And that is one of the reasons that we are hoping for an improvement in the margin-generating performance of that business as we go through the second half of the year. Steel mills are optimistic that they are going to see increases in their selling prices as the year unfolds. And if you look at US steel prices today, or even worldwide steel prices today they have moderated, come down over the last several months and at a much lower level than they were last year at this point in time. And that is why I believe the steel mills are looking to see increased selling prices for their products as the year unfolds which will help our industrial products markets.

Robert Kelly - *Sidoti & Company - Analyst*

Great. And one final one as far as the revenue expectations, the end market growth that you called out to get to your 11% to 13% sales growth in 2013. Is this something that you are seeing in your order book outside of the infrastructure where you have some visibility or is this something that you expect to develop, based on what the economic tea leaves are telling you?

Henning Kornbrekke - *Gibraltar Industries, Inc. - President and COO*

No, we are starting to see some of the necessary supportive trends on the incoming order patterns for our business. We have also had a lot of conversations with customers and customers are relaying to us the same information that they feel more optimistic as the year is unfolding. So I think all of that is coming together in the same way.

Robert Kelly - *Sidoti & Company - Analyst*

So, if you were to look at your order book for April, it would look something similar to what you call like your remodel trends are up 2% to 5%? Is that what you are seeing already or --? (multiple speakers) going to happen later in the year?

Brian Lipke - *Gibraltar Industries, Inc. - Chairman and CEO*

Keep in mind that what customers are expecting today from us are more frequent and smaller shipments as a way for them to have a tighter control over the inventory levels that they maintain and their overall control of working capital. So in many cases today, particularly in the residential products area, we have a -- we get an order today and we will ship it a day or two later. So there's not a lot of backlog in that part of the business unlike the infrastructure products and our postal products for commercial and multi-family residential construction where we do have better visibility because of backlogs.

So it is not yet showing up, but the overall trends that we are hearing both directly from our customers and reading, when it comes to the various organizations that provide the forward look on these various end markets, continue to be positive.

Robert Kelly - *Sidoti & Company - Analyst*

Thank you.

Operator

Gregory Macosko, Lord Abbett.

Gregory Macosko - *Lord Abbett - Analyst*

Just so I understand, I was curious about the acquisitions you made before. Can you give me just an understanding of where you are focusing going forward over the next year or so? You mentioned awnings. Is there a particular area that you are looking in? Kind of where are the candidates as you see them?

Brian Lipke - *Gibraltar Industries, Inc. - Chairman and CEO*

Well, in general what we are trying to do is strengthen our existing product leadership positions wherever we can. We are looking for adjacent product opportunities to those market positions that we have already established and while awnings may seem like a strange thing, we have a gutter, a business called Gutter Helmet, which puts gutter protection systems on homes and is one of the leading players in that market. And this is an adjacent product to that. So we are up optimistic that the sales teams for the awning and the Gutter Helmet business could work together to help drive improved sales for both products when customers are looking at either one of those products lines for a purchase.

So, in addition to that, we are looking for acquisitions that will move us up the margin-generating chain. For example, we sold our USP business and the next day literally bought the D.S. Brown business which is the infrastructure business. We traded a lower margin-generating business that had a distant number two market share for a much higher margin-generating business with growth opportunities to replace that with. So we are getting a much better return on that capital. And that is the kind of business that we are -- businesses that we are looking to find to add to our portfolio of companies as we go forward.

Gregory Macosko - *Lord Abbett - Analyst*

And so -- (multiple speakers).

Brian Lipke - *Gibraltar Industries, Inc. - Chairman and CEO*

We are looking for businesses that will help us reduce our dependence on any one market and any one customer group. We think that diversified set of end markets and a diversified customer base puts us in a better position as we look out into the future with the desire of generating higher overall margins.

Gregory Macosko - *Lord Abbett - Analyst*

Good, but the point is that you are looking at industrial, you are looking at the construction, commercial, and residential side of all this infrastructure and is the objective to see any balance between the three sectors over time or is it it's opportunistic? In other words if you see good acquisitions continue to see them, say, in the residential and commercial you will acquire there and not necessarily focus on public infrastructure which is a smaller percentage of total?

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Henning Kornbrekke - *Gibraltar Industries, Inc. - President and COO*

We are looking at businesses with similar technologies, with similar operating characteristics that have good growth opportunity both in top and bottom line. Simply stated.

Gregory Macosko - *Lord Abbett - Analyst*

Okay.

Brian Lipke - *Gibraltar Industries, Inc. - Chairman and CEO*

So, Greg, as we look at the business today, we see opportunities in all three of our main areas of activity. We are going to favor businesses that generate the highest margins. But it doesn't mean we will not invest in other areas if they can improve our margins.

Gregory Macosko - *Lord Abbett - Analyst*

Okay, sounds good. Thanks very much.

Operator

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

Brian Lipke - *Gibraltar Industries, Inc. - Chairman and CEO*

Thanks, Operator, and thanks to everyone for dialing in to our call today. We look forward to seeing you at any upcoming conferences that we are going to be attending and we are going to be out on the road visiting clients over the next few months, and we look forward to seeing you then. And also we look forward to speaking with you at the end of the second quarter when we release our earnings on August 1. Thanks.

Operator

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