Good day, ladies and gentlemen, and welcome to the Gibraltar Industries second-quarter 2013 earnings conference call. At this time, all participants will be in a listen-only mode. We will be conducting a question-and-answer session towards the end of the conference call.

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

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 second-quarter performance. The slides are also posted to the website. Please turn to slide number 2 in the presentation.

Gibraltar’s earnings release and this morning’s slide presentation both contain 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

Thank you, David. Good morning, everyone, and thanks for joining us on the call today. I'm going to start off with some highlights on the quarter, and then turn the call over to Henning and Ken for more detailed comments on our results. And then I'll close our prepared remarks with a brief wrap-up, and at that point, we'll open the call to any questions that you may have.

My remarks now are going to refer to slide 3 in our presentation. While EPS in Q2 were $0.02 below last year's Q2 and below the guidance we provided earlier in the year, there were operational improvements in key areas of the business in the second quarter. But these positives were unfortunately offset by weaker than expected markets, particularly in the industrial markets. Nonetheless, our business fundamentals continue to be solid, and we are poised to deliver improved performance when the macroeconomic conditions improve in the periods ahead.

Our guidance for the second quarter was for revenues to increase by 9% year-over-year, driven by incremental sales from our recent acquisitions, plus a modest amount of organic revenue growth. The three acquisitions we completed during the fourth quarter of 2012 contributed a strong 7% to our Q2 sales growth. These businesses are continuing to perform as expected, and their integration is continuing as planned. However, our organic sales were down 5%; and, as a result, revenues grew only 2% from Q2 last year. And adjusted EPS fell short of last year. Henning and Ken will provide the detail on the revenue and earnings dynamics during their portions of the presentation.

On our call last quarter, we talked about four factors driving expected improved growth and profitability in 2013. We're seeing the improvement we expected in three of these areas — those being improved profitability from our West Coast operations, results from our recent acquisitions, and lower interest expense due to our debt refinancing in January. The fourth factor, however, is the market recovery, and the end markets that we're serving have not all rebounded to the extent that we and industry observers had expected. The expectations that many of us were feeling early in 2013 have been pushed out to the future periods as the year progressed.

However, the uptick in end market activity is still anticipated in the future. Industry observers continue to believe it's a matter of when, not if. Residential new housing, and multifamily housing in particular, have definitely been a plus for our business this year. But during the quarter, everything else is, or was, trending flat to down. Henning and Ken will relate the end-market conditions to our performance during the quarter, and you'll see that we continue to make progress in the business.

Our fundamentals are solidly in place, and we're optimistic about our prospects for top- and bottom-line growth longer term. Near-term, our goal is to capitalize on pockets of opportunity. I'll have more to say about the outlook after Henning and Ken have discussed the quarter.

So with that, I'll turn the call over to Henning.

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

Thanks, Brian. Let's now turn to slide 4 and begin by illustrating our 2013 revenue exposure by end market served. As the center pie chart shows, we're currently generating about 50% of our consolidated sales from the residential and low-rise commercial building market. Roughly 80% of this half of the business is residential, predominantly stemming from repair and remodeling activity.

20% comes from the low-rise commercial building market, as many of the products we sell for residential applications are also installed in low-rise commercial structures such as professional buildings, hotels, and retail centers. The other half of our consolidated sales is split roughly 40% and 10% coming from the industrial and infrastructure markets, respectively. And repair and remodel activity is a meaningful driver of demand from these two market categories.

Turning to slide number 5, as Brian said, our net sales for Q2 of 2013 were up 2% from Q2 last year, driven by acquisition-related growth, with the weakness in the industrial markets being the largest factor weighing on our consolidated results.
Looking at our markets specifically, I'll comment first on the 50% of our business directly related to residential and low-rise building, including repair and remodel. We've clearly entered a fundamentally solid, long-term recovery in residential new construction, which represents about 10% of our consolidated revenues.

We're continuing to see bullish industry reports on housing permits, starts, and new home sales, but with an irregular rate of improvement month-to-month, as underscored by the decline in June's seasonally adjusted new housing starts figures compared to May's figure. Nonetheless, the positive overall trend is being reflected in our order flow for residential products. Our second-quarter sales to the residential new construction sector were up year-over-year, led by our storage and security products, which offset volume declines in residential repair and remodeling.

Concerning residential new construction, the dynamic that drives near-term growth for us is having homebuilding plans become actual projects that generate orders for our distributors. There is typically a 4- to 8-month lag between the time a residential permit is pulled and the time our building products are installed. After a slow start to the year, we're now seeing more new projects actually being started.

Our distributors, in turn, are gaining confidence in the sustainability of the homebuilding recovery, which is beginning to ease the inventory constraints that have been holding back demand for our products. We're expecting this acceleration to continue through the second half of the year.

Multifamily housing construction continues to be the bright spot in our business in the second quarter, and we believe that our multifamily business will continue to do very well going forward. As a result, for 2013 we continue to anticipate 10% to 15% growth in the residential new construction sector, which correlates with 10% of our consolidated revenues.

The picture in residential repair and remodeling is more mixed. Activity related to residential and low-rise commercial building repair and remodeling, which drives 40% of consolidated revenues, continued to lag expectations and the prior year in the second quarter. We entered 2013 forecasting 2% to 5% growth for the year in this portion of revenues, which included then-current industry forecasts for no growth in roofing shingle volume.

Although we don't sell roofing shingles, asphalt shingle demand correlates to demand for products which we do sell, such as roof and attic ventilation products, along with trims, flashing and rain carrying products. Typically, when a re-roofing project is undertaken, everything connected to the roof is replaced at the same time. Our roof ventilation, trims and flashing, and rain dispersion products comprise about 25% of our consolidated sales.

On our call last quarter, we said that 2% to 5% growth in residential repair and remodeling in 2013 could prove to be a conservative range, given signs of improving demand in the roofing market during the first quarter, and information from our customers. However, residential roofing demand declined during the second quarter compared to last year's period. We believe this was partly due to unfavorable weather for roofing in some parts of the country. It also reflected, we believe, continued reluctance among homeowners to commit to big-ticket remodeling projects.

Big-ticket remodeling has yet to start the robust recovery that many in the industry have been expecting. This is most likely due to the ongoing consumer uncertainties about job security and the economy. The recent rise in prices of existing homes and mortgage interest rates has only added to these uncertainties. In light of these challenges, and the persistent weakness in roofing in particular, we now expect 2013 sales for residential repair and remodeling in 2013 to be flat compared to 2012.

Let's turn now to our infrastructure products business. These products contribute 10% of our consolidated revenues. This business continued to perform solidly in the second quarter driven by backlog, new orders, and contributions from one of the businesses we acquired in the fourth quarter of 2012.

Looking forward, we're continuing to anticipate continuing solid performance in our infrastructure products business. We entered the year with a very strong backlog, an amount equivalent to the backlog in January of 2012. Quoting activity continues to be robust, especially related to large, longer-term projects. A portion of this activity stems from the two-year federal transportation funding bill that was enacted in the second half of 2012.
In our industrial markets, the picture was not positive this quarter. We generate approximately 40% of our consolidated revenues from sales of industrial products. Market conditions were similar to those we experienced in the first quarter, with ongoing soft demand in part due to a slow economy and the deferral of capital projects. Overall, our industrial sales, including sales in the industrial business we acquired in Q4 of 2012, were down 1% this quarter versus Q2 of last year.

Excluding acquisitions, our Company-wide industrial sales decreased 10%. North American industrial sales were down 9% organically. This decline was mainly due to lower demand in a variety of industrial markets, including energy production and architectural applications, as well as lower pricing driven by competition in the market. Our European industrial sales were down 14% in the second quarter. With Europe in recession, the main driver there continues to be lower demand. This continues to affect sales of our security fencing products, as well as precision perforated metals sold to European OEMs for filtration applications in off-road, heavy equipment, and automobiles.

Looking forward, we expect demand from industrial markets to be negative 6% organically for the full year 2013 versus 2012, which takes into account the 10% organic contraction in the first half of 2013, as compared with the first half of 2012. Including acquisitions, now we expect our Company-wide industrial sales for 2013 to grow 2%.

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 continuous improvement and leveraging even modest levels of end-market growth into stronger profitability. We have worked to position ourselves as a low-cost supplier with excellent customer service, and to be consistently competitive in even the most challenging market environments.

Executing on this strategy, we have continued to drive improvement in the business during the second quarter of 2013. The second quarter’s improved gross margin was the result of our more efficient West Coast business, with its products sold into residential and commercial construction projects; and the contribution from our recently acquired businesses. These contributions were partially offset by lower pricing and volume in our industrial business. The net result was our adjusted gross margin for the second quarter increased by 70 basis points to 20.2%.

Adjusted operating income was down versus Q2 of 2012 by 40 basis points, the net result of the increase in gross margin by 70 bps, while SG&A increased by 110 basis points, driven by the effect of our rising stock price.

Overall, although we are disappointed with the slower than expected improvement in end-market demand, we feel good about how we’ve positioned the business. The fundamentals are all in place. Our focus remains on taking the initiative and maximizing our performance independent of market conditions. Each business unit is working on opportunities to drive sales improvements going forward, which Brian will discuss after Ken’s financial review.

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

Ken Smith - Gibraltar Industries, Inc. - CFO

Thanks, Henning, and good morning. Now let’s turn to slide number 7, titled year-over-year performance. First I’ll detail the second-quarter results and comparisons. For the second quarter, revenues were up 2%, with that increase coming from acquisition-related growth, while businesses we owned in both quarters experienced a decrease in revenues. Company-wide, the 5% organic decrease was comprised of a 3% decrease in pricing and a 2% decrease in volume, both weighted to industrial products; with sales of residential products flat organically compared to Q2 last year, as volume gains from residential new construction were offset by the decline in repair and remodeling demand.

The second quarter’s adjusted operating margin was down 40 basis points, the net result of the increase in gross margin by 70 bps, while SG&A increased by 110 basis points, driven by the effect of our rising stock price on equity comp expenses. And reconciling last year’s adjusted EPS of $0.28 to the $0.26 this quarter, the key differences are an $0.08 increase by our more efficient West Coast residential business; plus a $0.04 increase in the recent acquisitions; plus a $0.02 improvement on lower interest expense resulting from our successful refinancing of notes in January of 2013.
And these three increases were offset by an $0.08 decline from industrial products’ pricing and corresponding margin; plus a $0.06 decrease on higher equity-based comp, tied to our rising stock price; and a $0.02 decrease related to income tax expense, as the second quarter of 2012 tax expense included a discrete benefit from a then-completed tax audit.

Now I’ll describe the first-half results and comparisons on slide 7. First-half revenues again were up 2%, with acquisition-related growth providing 7 percentage points; while businesses we owned in both periods experienced a 5% decrease, which comprised a 4% decrease in pricing and a 1% decrease in volume -- again, both primarily related to our industrial products. And sales of residential products were flat organically compared to the first half of 2012, again as volume gains from residential new construction were offset by the decline in repair and remodeling activity.

The first half’s adjusted operating margin was down 100 basis points compared to the first half of 2012, the net result of improved operational performance from our West Coast business, plus the accretive acquisitions, plus residential new construction, all of which was more than offset by industrial products’ pricing and a higher equity-based compensation tied to our rising stock price.

Translating these factors into their effect on adjusted EPS for the six months, and reconciling from last year’s $0.37 per share to $0.30 this year, the key changes were an $0.11 increase by our more efficient West Coast residential business; plus a $0.04 increase from the recent acquisitions; plus a $0.01 increase from residential construction; and a $0.03 increase on lower interest expense, resulting from our refinancing of notes.

And these four improvements were offset by a $0.14 decline from industrial product pricing; a $0.10 per share decrease in higher equity-based compensation; and a $0.02 decrease related to income tax expense, again, because of last year’s 2012 results included a discrete tax benefit from a completed tax audit.

Now, slide number 8, titled net income and EPS -- my remarks on slide 8 focus on interest expense and income taxes. Regarding adjusted interest expense, it was lower this year, resulting from refinancing the notes in late January of 2013. And the new issuance carries an interest rate that is lower by 175 basis points.

And regarding income taxes, we recognized a higher effective tax rate in Q2 2013 of 38.5%, higher by nearly 400 basis points to last year’s second quarter. This difference again is attributable to the favorable outcome of a completed tax audit in Q2 of 2012. And that same reason applies to the six-month effective tax rate of 37.6%, which is higher by over 200 basis points to the rate for the first half of 2012.

I’ll now turn to slide number 9, titled cash flow. We generated cash in the first half of 2013, unlike the small use of cash last year, as we trimmed our investment in inventories this year and had higher accruals for compensation-related liabilities. Days of net working capital continued to be low, at 62 days for the second quarter of 2013. This continues to be in the range we’re targeting for the long-term, and which we believe is sustainable going forward.

Now, slide number 10, entitled 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 third quarter 2013, we expect revenue to rise approximately 8% to 9% compared to Q3 last year, with the majority of that increase coming from recent acquisitions; while organic revenues are expected to increase on slightly higher residential construction, both new and repair and remodeling.

Concerning third-quarter adjusted EPS, we expect it to be equivalent to the $0.24 for Q3 last year on continued improvement by our reorganized West Coast residential business, contributions from our latest acquisitions, and lower interest expense, but with offsets coming from the continued weakness in demand, along with competitive pressures for our industrial products.

Concerning our guidance for the full-year 2013, we had previously expected a second-half recovery in our industrial markets, which represent 40% of our consolidated revenues. We now expect continued weakness in industrial demand, with a gradual improvement in pricing. As a result, we now expect that Gibraltar will deliver modest sales growth in 2013, with slightly lower margins and earnings compared to 2012. The dynamics that Henning described bring us to full-year 2013 revenue growth approximating 5.5%, including acquisitions, compared to 2012.
We expect adjusted gross margin for the full year 2013 to approximate 19%. This is based on the revenue assumptions that Henning cited and the headwinds in the first half of 2013 from soft demand and pricing for industrial products. And these headwinds will dilute continued improvement by our West Coast residential business, along with increases from residential markets.

Regarding our SG&A expense for the full-year 2013, we expect it to approximately 13.5% of revenues. And while not shown on slide 10, adjusted net interest expense is expected to approximate $15.5 million for the year, and the adjusted effective income tax rate to approximate 38%. With that detail, we expect adjusted earnings per share from continuing operations for 2013 to be in the range of $0.54 to $0.64, which is slightly less than the $0.65 we had for the full-year 2012.

Now, to slide 11, titled EPS guidance -- our now expected adjusted EPS range is reduced from what we have provided you on our last earnings call on May 2. The most significant change in expectations relates to economic conditions across the industrial markets we serve. As of May 2, we had reason to believe weak demand and pricing in the industrial markets would abate by the end of the second quarter, with demand gradually improving in the second half, along with pricing.

On August 1, we now know that easing did not occur in the second quarter across the industrial markets, and our July results continue the trend of unfavorable organic comps to last year. So, we are not forecasting an uptick in demand from industrial markets during the remainder of this year. And pricing will likely continue to be a headwind in the short term. These factors could change, but we are not forecasting such at this time.

Additionally, there are two other factors noted on slide 11 that affect our full-year estimate. Residential repair and remodeling demand is expected to be more modest in the second half. Considering the negative comp we experienced in the first half of 2013, particularly related to reported unfavorable comps in re-roofing activity, as our roof ventilation and rain dispersion products are often sold in tandem, we now believe residential repair and remodeling demand in the second half will be slightly favorable to the second half of 2012, not just as strong as we had assumed when we last talked to you on May 2.

The third factor on slide 11 is the additional equity compensation expense in the second quarter of 2013. Led by our rising stock price, it increased the value of previously deferred equity-based comp. For the balance of 2013, we do expect equity comp expense to be equivalent to the amount we recorded in the second half of 2012.

In summary, the second half of 2013 should continue to benefit from our recent acquisitions, improved performance by our West Coast operations, and lower interest expense, as well as continued strength in the residential construction markets. Our challenge for the second half is to continue to maximize the opportunity in the residential, industrial, and infrastructure markets.

Long-term, when we see more broad-based and market rebound, as we believe we will, Gibraltar is well positioned to deliver more significant improvement on both the top and bottom lines.

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

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

Thank you, Ken. Before we open the call to any of your questions, I wanted to touch on the upside potential in our business that we expect to see unfold as we look beyond 2013. We continue to focus on new product development in each of our major product categories. And a couple of examples involve several new storage and security products, which tie into the growing needs of the mail and package delivery market.

One example stems from the United States Postal Service. It has recommended to the House Committee on Oversight and Government Reform, which oversees the Postal Service, a number of ways to reduce its financial losses. And draft legislation within the Committee, titled the Postal Reform Act of 2013, proposes a number of cost saving actions, one of which calls for not less than 30 million door-to-door mail delivery points to be converted to curbside or centralized delivery by September 30, 2022. Passage of this legislation could meaningfully impact demand for our centralized and single-family home mail storage and security products.
In addition, we have developed, and are marketing, a secure delivery solution for apartments and condominiums. This product set will eliminate the need to have someone at the front desk to handle package deliveries, while providing secure storage and allowing the tenant or owner to pick up packages at their convenience.

Regarding our West Coast operation, its new streamlined cost structure and manufacturing footprint positions it to gain market share. But with the available existing capacity in its facilities and a very competitive order fulfillment capability, we are getting traction which will lead to growth in that area of our business.

Our infrastructure products continue to perform well and have substantial upside potential. The high proportion of bridges in the United States that are structurally deficient or functionally obsolete represents long-term demand stability and growth in those markets. In addition, our infrastructure products are sold into 14 countries around the world, providing opportunities to expand sales as we further establish our presence in those and other markets around the world.

Also, we have formed a joint venture arrangement with a Chinese company to build and market our infrastructure products directly in China, providing direct access to growing Chinese and Asian markets. Expanding sales in these product areas is an important part of our shareholder value creation plan.

As Henning and Ken have said, our business is fundamentally headed in the right direction, and our strategy is on track. We continued to drive operational improvements across the Company during the second quarter; so, operationally, we are stronger than ever. For all of these reasons, plus our deleveraged capital structure and ample amount of liquidity to manage the business on a day-to-day basis and make acquisitions, we continue to be optimistic about Gibraltar's potential, even in the face of continuing weak demand in several of our end markets, which industry observers continue to believe will rebound.

Coming out of past recessions, housing starts have rebounded first, followed by commercial and industrial activity. New housing has clearly begun to rebound, setting the stage for a rebound in the commercial and industrial markets.

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

Operator, you can open up the line.

QUESTIONS AND ANSWERS

Operator

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

Peter Lisnic - Robert W. Baird - Analyst

Good morning, gentlemen. First question, just on the industrial piece of the pie. Can you discuss the competitive balance in that segment? And just why the acute pricing pressure? And then maybe if you could delve into where specifically -- I know you gave a little bit of commentary -- but just where specifically the weaknesses; but maybe start with the competitive balance, and why such acute pricing pressure.

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

Yes, I think in the marketplace there are three -- in one of our major product lines within that industry participation -- there are three major competitors. We all have a somewhat similar market share. And with the demand in the marketplace down, obviously it has created a very competitive
situation relative to pricing. I think also contributing to that is a steel industry that continues to price lower than, certainly, we expected and the industry itself expected. And that also has evolved into lower pricing in the marketplace.

And I think as Brian had said, we expect both of those conditions to start to abate as we go forward. We're starting to see some movement in the steel industry that suggests that higher pricing is coming near to fruition. And we also believe in some of the markets, and we talked about the restraint of capital spending, as some of that starts to lift -- and we're seeing signs that it is -- our business will continue to get stronger as we go forward.

At this point we're a little reluctant to forecast that. And so we've given you a forecast that does not include that. But we still, inside the Company, believe that that's likely to get better, faster. I think Brian tried to outline some of those conclusions for you.

Okay. And is there perhaps an industry capacity utilization number there on that industrial side that you can maybe give us, to give us a sense as to how significant the volume shortfalls are (multiple speakers)?

Our utilization capacity right now is running less than 50%. We typically like to be at least 65% to 70%. As Brian said, and we've indicated in previous discussions, we have trimmed back our capacity. We have consolidated plans where appropriate. But we're now -- we're at the footprint that we should be at going forward. And we do hope that in the coming months, and certainly quarters, we'll see that capacity utilization start to approach the 65% to 70% range which we normally run at.

And does the industry, outside of yourselves, does there need to be some capacity rationalization there to have a better pricing dynamic? Is that part of the equation here?

We don't think so at this point. We think the industry is fairly well-balanced. And I gave you, really, a view of just one of the major product lines, but we have actually four major product lines inside of the industrial. And one of them has started to rebound nicely. One of the product segment's sales are up almost 30%. It happens to be related to the building industry. And we start to see that pricing improving. And we're looking at that in terms of margins. And that is starting to happen, so that mix will start to get a little bit better as we go forward.

The other three product lines are more tied to industrial usage, and that's more directly tied to capital spending. We did mention our relationship to the energy industry, and that has been somewhat flat. I think we all recognize that. We also believe that will start to get stronger going forward.

This is Brian, Peter. Henning has done a good job of talking about the markets and the pricing issues. I'm a firm believer that, as end-market demand picks up, that will stimulate a firming of pricing. And the other factor that affects this business, because of substantial portion of our sales go to the distribution network, which is primarily steel service centers, who are all very closely aligned with steel pricing. Because they by steel directly from the steel mills, they know exactly what's happening with steel pricing.

And while they are willing to accept price increases as raw material costs go up, they also understand clearly when pricing comes down, and they expect a reduction of selling prices. That's why it's important to note that while our sales dollars are down, our volume is pretty close to flat with
last year. In the last week, I believe three different steel mills have each announced raw material -- or steel selling price increases. And as those begin to stick, that should give us an opportunity to look at some firming in our pricing environment as well.

But, overall, as Henning mentioned, I think it’s not a capacity issue. It’s a demand issue at this point in time. And when the market would get back to more normal levels, I think there’s a good -- there would be a good balance between supply and demand.

**Peter Lisnic - Robert W. Baird - Analyst**

Okay, perfect. And then, last question -- I just want to make sure I understand the forecast accurately. If I look to the back half of the year, your gross margin looks like it’s falling off a bit from the first half of the year. And I understand there’s probably a little bit of seasonality there. But is that a function of just more of acute pricing pressure as we roll through the third quarter here? Or is there something in mix that yields that decline? Just a little color on why -- was there a bit of, perhaps, of conservatism in your forecast, just given what you’ve gone through here in the first half of the year? Just some color on the deceleration in gross margin, second-half versus one-half, would be helpful.

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

Before Ken jumps in and gives you some color on that, I will say that there was a lot of exuberance relative to expectations for improvement in 2013 coming into the year. And we always try to give the best forecast that we can possibly give at any point in time, and try to reflect information and knowledge that we have in hand at the time that we provide those forecasts. And that’s what we’re doing at this point in time. Things could change either up or down. But I think the likelihood, if they go anywhere, it’s going to be up, not down.

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

Well, that was the elegant way of saying one of the two replies I was going to offer, Peter. And that is, there is a degree of some conservatism as we understand facts and circumstances today, for August 1 and the remainder of the year. And then, secondly, which runs at your conservatism part of your question, Peter. And the other is the fourth quarter is our seasonally slowest quarter of the calendar, and so that will correlate a lower gross margin because of the lower volume going through our plants.

**Peter Lisnic - Robert W. Baird - Analyst**

Okay, all right, got it. Thank you very much for your time and the information.

**Operator**

Ken Zener, KeyBanc Capital Markets.

**Ken Zener - KeyBanc Capital Markets - Analyst**

Good morning, gentlemen. Tough quarter; good transparency. Do appreciate your openness. If we were to look at the residential side, realizing the new is the new, but looking at the R&R, given that you did introduce the word weather and we are seeing different regional trends from housing, could you illuminate us in terms of was there really a difference in terms of West versus Southeast versus, say, the Ohio Valley or the Midwest where it was very wet? Are you seeing different trends within there? And are you seeing inventory depletions? Or is your demand pretty much at sell-through?
Henning Kornbrekke - Gibraltar Industries, Inc. - President and COO

We did see differing trends relative to different regions in the country, but I think we would say that this has been a very unusual weather pattern throughout the entire year. Parts of the country have been hotter and drier than usual, and other parts have colder and wetter than usual. We happen to be in the latter (technical difficulty). And it has affected housing, and we’ve studied that very carefully throughout the country.

I think the net effect is, certainly in repair and remodeling, we talked about the roofing part of repair and remodeling. And that’s been off. And I think we’ve listened to some of the calls from some of the other folks who participate in that market, and they have reiterated the same comments. So our comments are very much in line with what the rest of the industry is seeing.

Having said that, I would also tell you there is real demand at this point, or pent-up demand, that eventually is going to run through our P&Ls and will generate the higher sales that we expect going forward. And as we just said a moment ago, we’re taking a very conservative approach and we are reluctant to put that in front of you at this point.

Ken Zener - KeyBanc Capital Markets - Analyst

Okay. And then on the industrial business, which I think you described being down 10%, and given that you had roughly a 3% overall price decline, that kind of implies more of a -- I’m assuming more of like a 5% price decline in industrial. Given that that was obviously -- that shifted, or it started in 1Q and then it shifted, what is the potential? Could you describe the dynamics that could cause that to turn? I know it’s not in your guidance. But have you seen these types of price declines in those energy -- and I think we’re talking more about the flooring area there -- before? And could you give us your perspective on that?

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

Yes, we think we’re giving conservative guidance. Internally, we think there’s a good chance that those markets will start to turn, and turn positive; and we’re hoping, faster than we’re forecasting. As Brian had finalized with his concluding comments, we still remain very optimistic about our business prospects going forward. But we tend to -- our head-set is we want to provide very conservative guidance going forward.

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

If I heard your question right, I think you were asking, had there been other periods were we felt this kind of margin compression, either because of steel prices or selling price decreases. And I guess the follow-on question to that would be, and has it come back up?

Ken Zener - KeyBanc Capital Markets - Analyst

Yes.

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

And the answer to those is yes.

Ken Zener - KeyBanc Capital Markets - Analyst

As quickly as it decelerates?
Brian Lipke - Gibraltar Industries, Inc. - Chairman and CEO

Yes.

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

Well, yes, we saw one instance where it came back even faster than it decelerated. We had an instance where margins got to be three times larger in the same quarter, in the same year -- or in a different quarter in the same year. So, yes.

Ken Zener - KeyBanc Capital Markets - Analyst

And is that dynamic driven by the amount of inventory that the service centers are holding? Or is it -- obviously since you guys did that acquisition, for example, up in Canada. Or is it more a function of demand in some type of book that you could give us, perhaps, visibility on -- or what your forward indicator is?

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

At this point we would tell you that it's more driven by demand; it's not inventory. I think we're so far down with his economic slide that no one is carrying much inventory, so we're really based on a use situation. And as projects materialize, they are going to order material and directly from us and it's used. So, I think we'd all tell you that the inventory has been wrung out of all systems. I think everyone is managing their assets very closely, as we are.

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

Ken, the other driver of that, too -- while demand is certainly a part of it, there are spikes and peaks and valleys in demand that occur within a relatively short period of time. But also if there are major swings in raw material costs, that can also contribute to an abrupt change in margins.

Ken Zener - KeyBanc Capital Markets - Analyst

Thank you.

Operator

Robert Kelly, Sidoti & Company.

Robert Kelly - Sidoti & Company - Analyst

Hey, good morning, everyone. Did you have a free cash flow number that you wanted to guide to for 2013?

Ken Smith - Gibraltar Industries, Inc. - CFO

It will approximate 4% of revenues.
Robert Kelly - Sidoti & Company - Analyst

4%. Okay, great. Question on the industrial business. I believe I heard you say that volumes were flat in Q2 for industrial, but the overall business was down 6% in dollars. Is that the way to think of it?

Ken Smith - Gibraltar Industries, Inc. - CFO

Yes, roughly.

Robert Kelly - Sidoti & Company - Analyst

So, how much of the margin pressure -- and it looked to be pretty significant -- or it looks to be pretty significant in the second half of the year -- is coming from the fact that your inventory prices are lagging the move down and selling prices -- the misalignment between selling prices and raws?

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

I think we would tell you it’s all coming from pricing.

Robert Kelly - Sidoti & Company - Analyst

Right.

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

Pricing because of competitive pressures in the marketplace.

Robert Kelly - Sidoti & Company - Analyst

Right, but you are also dealing with (multiple speakers).

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

Pardon me?

Robert Kelly - Sidoti & Company - Analyst

You’re also dealing with a decline in raw material environment, and you guys operate off of FIFO, right?

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

I think when we look at the year so far, the raw material pricing that we’ve seen has been relatively flat. There hasn’t been much movement in steel. Just recently, recently last week, we started to see all steel pricing moving up. And we believe that steel pricing is likely to move up going forward. We believe it’s been at some -- [I would say] historically low prices for the balance of this year -- which, I would tell you, we did not expect. We expected more upward movement.
Brian Lipke - Gibraltar Industries, Inc. - Chairman and CEO

There have been periods in the past where we have had a misalignment between selling prices and raw material costs. It's not the case here. It's selling price pressure.

Robert Kelly - Sidoti & Company - Analyst

Okay. So the margin compression from lower prices, got it.

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

We're not overstocked with high price inventory. That's not the driving factor.

Robert Kelly - Sidoti & Company - Analyst

Thanks. Previously you had expected a second-half recovery, right? Industrial and res remodel. I get that the res remodel isn't there yet, but it's probably coming. What gave you confidence to see the industrial recovery second half? And are you pushing out the expectation, and why?

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

Yes, we are pushing out the expectation because it just hasn't materialized yet. And we didn't want to mislead in our guidance. So we decided to take a conservative approach. And clearly it's going to happen, and I think we started to see signs -- I think we've said that, that it's starting to materialize. And in fact, if that's true and it continues, then we should have a very good third quarter.

Robert Kelly - Sidoti & Company - Analyst

I guess what I'm trying to -- are you seeing bidding and quoting or orders that are just being delayed? Or the temperature of the distribution channel is --

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

We see orders being delayed, and we think orders are being placed in many instances at the last moment. I've heard -- I think Brian had mentioned it -- but when we see steel pricing going out, we find that the order rate starts to pick up because people want to get in on the front end before that higher price gets converted into their product pricing.

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

Also in the fabricated end of our industrial activity, we produce products that both go to distribution channels in standard sizes, but we also have a significant business of orders that come in and we produce product to specified length and widths and configurations. In that part of the business quoting activity has continued to be good, but the release of the orders has been sporadic.

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

I think I would add, there's another element in the industrial that we haven't talked about that is related to building and construction. And that business, as I said earlier, was up about 30%. Now, that business had been in an awful lot of downward pressure previously because the housing
market had in fact collapsed. And so when the housing market collapsed, pricing in that particular product line came way down. With the volumes starting to pick up, the expectation is that the margins -- because the pricing will start to come up -- the margins will start to recover. And those things don't recover immediately, but they are in the process of recovering going forward. Certainly with those volumes up, and it looks like they're continuing to build based on current order rates, we would expect the margins in that particular product line to start to get better going forward, which will eventually help the overall margins in the industrial sector get better as well. So that activity is happening as we speak.

Robert Kelly - Sidoti & Company - Analyst

Okay. That's very helpful. And just as far as margins, if -- and this is kind of a tough exercise to do -- if margins are not being compressed in industrial due to pricing, if you had theoretically steady-state pricing and volume was flat, what kind of margin benefit should we expect from the M&A and the West Coast improvements? How much is the industrial price pressures masking, is what I'm trying to get a sense of, from the rest of your business?

Ken Smith - Gibraltar Industries, Inc. - CFO

I would tell you on a full-year basis on operating margins, we're looking at a net effect of 2 percentage point downward effect full year. So if margins in the industrial segment got to where they should be, got to where they are going to be, the net effect on total operating margins full year for our business would be up 2 percentage points.

Robert Kelly - Sidoti & Company - Analyst

200 basis points. Okay, great. Thanks, guys.

Operator

(Operator instructions). Seth Yeager, Jefferies.

Seth Yeager - Jefferies & Company - Analyst

You talked a lot about margins in end markets. I won't really touch on that, but despite the reduced outlook that you guys put out, it looks like you are still implying around $40 million or so of free cash flow. Given a lack of pre-payable debt, what are you guys seeing on the M&A front, and what's the focus on the use of that cash that you're generating?

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

I can tell you we discuss the use of that cash frequently at the Board of Directors level. And at the present time, as we always do, we are reviewing alternative uses for those funds. But as we sit here today, I can't honestly say that we are going to change directionally from where we've been. Relative to acquisition activity, we continue to aggressively look for acquisitions that meet all of our acquisition criteria. Honestly, it's been a little more of a struggle in the last few months to come up with good acquisition candidates, although we are involved at this point in time in that process.

So we have, with the liquidity that we are generating and anticipate having at the end of the year, plus with the availability of funds through our bank line of credit, we are in an excellent position to make acquisitions when we find the right ones to make. Ken Smith has tightened up the hurdles that we have for making any acquisitions, looking very strongly at the return on investments that we would get from making these acquisitions. But we are looking, and we are involved in the process. And we certainly have the capital to be aggressive when we find the right acquisition.
Seth Yeager - Jefferies & Company - Analyst

Okay, appreciate it. And then you mentioned multifamily being pretty strong during the quarter, and the starts in that segment have been pretty lumpy over the last few months. Are you seeing any changes in the underlying demand specifically in the multifamily segment?

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

I think on average it’s running an upward trend. I think month to month it’s going to bump around. But I think that’s fairly normal. And we would anticipate, particularly with our involvement, that that activity would get stronger. We will provide better outcomes for our product participation going forward.

Seth Yeager - Jefferies & Company - Analyst

And what is the typical lag for you guys in multifamily versus just your regular way residential? I would imagine it’s a bit longer.

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

Only about two or three months.

Seth Yeager - Jefferies & Company - Analyst

All right, great. Thanks a lot, guys. Good luck.

Operator

Paul Carter, Wells Fargo.

Paul Carter - Wells Fargo - Analyst

Thanks for taking my questions. Just real quickly, within the just roughly 45% of industrial that’s exposed to chemical, oil, gas and mining, is there maybe even a way to put a finer point in terms of what your exposure there? And what I’m getting at, I’m just trying to understand what your potential exposure is to the, quote, to use Jacob’s words, tsunami work that is potentially coming out of the Gulf Coast, whether or not you have a decent amount of exposure there or not? Thanks.

Ken Smith - Gibraltar Industries, Inc. - CFO

We have good exposure. We have operations, manufacturing and sales coverage from Alabama to Texas. And we are heavily focused on the fabricators that fuel rig construction and refurbishment of rigs coming in and out of the Gulf, as well as land-based rigs throughout that southern part of the country. So we are not lacking for sales and service capability in that particular geography, I’m sure.

Paul Carter - Wells Fargo - Analyst

What about excluding rigs, though, primarily within kind of like the petrochemical arena, with ethylene? I mean, capex directed towards more the primary infrastructure on the -- utilizing natural gas within the Gulf Coast region to build up some of the --
Ken Smith - Gibraltar Industries, Inc. - CFO

I would say our sales and service capabilities are equally strong for the chemical and refining operations, particularly along the Gulf Coast, whether it's Houston or the other part of the southern states. As those refining operations build out or convert to new installations, the grating products in particular that we produce and sell into those markets are often considered and apply to those build-outs and refurbishments and MRO activities.

Paul Carter - Wells Fargo - Analyst

All right. Thanks.

Operator

Thank you. We have no further questions in queue at this time. I would like to turn the floor back over to Mr. Lipke for any closing remarks.

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

Thank you, operator. We look forward to seeing many of you at conferences and on the road during the next few months and speaking with you again on our third-quarter conference call October 31, 2013. Thank you all for joining us today.

Operator

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

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