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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the Gibraltar Industries second quarter 2012 earnings conference call. (Operator Instructions)

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, sir.

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 performance. These slides are also posted on the website. Please turn to Slide No. 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'll 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 our call today.

I'll begin as usual with some brief comments and then turn the call over to Henning and Ken for a more detailed review of our results, and then I'll close our prepared remarks with observations about our business outlook. And then following that, we'll open the call to any questions that any of you may have.

I'll begin my remarks by referring to Slide No. 3 in our presentation.

Entering this year and through the first quarter, we felt optimistic that improving end market conditions and stronger GDP would drive greater organic revenue growth in our business, however recent economic data on the second quarter reflected slower demand than we and many industry observers had anticipated. Nonetheless, our revenues grew 5% this quarter, with contributions from organic growth as well as acquisitions.

Additionally, this was a challenging quarter on the bottom line as we faced more competition in key markets as we worked our way through an expanded reorganization of our West Coast residential operations. Nonetheless, as Henning and Ken will discuss, we strengthened Gibraltar's presence in product categories and in end markets that we expect will yield improved performance results as our markets recover more meaningfully.

We're also focused on improving our underlying operations, tightly controlling costs, and increasing the margin leverage in our business. In addition, with our strong balance sheet and increased liquidity, we're in excellent position to acquire product lines that complement our organic growth and expand our range of products. As a result, we still expect to deliver stronger financial results in 2012 than we did in 2011 in spite of continuing historic low levels of end market activity.

I'll refer to Slide 4 now, which focuses on the positioning in new product categories and end markets that I just mentioned.

During the past three years, through organic growth, acquisitions and divestitures, we've expanded our presence in the non-residential, industrial and infrastructure end markets to approximately 50% of our current total sales from 30% in 2008. Our sales in these markets are about evenly split between the building construction infrastructure and industrial sectors, with 55% of that being driven by repair, remodeling and replacement applications. This diversification has enabled us to offset weak demand in housing and drive growth and profitability in the business, as demonstrated by the contribution made by D.S. Brown in the second quarter.

So, in short, we're making progress in strengthening our business and improving our performance in spite of weak end market conditions. All of this progress will be leveraged to greater bottom line growth as our end markets improve.

Henning and Ken will review our second quarter results in greater detail, and then I'll conclude our prepared remarks with some additional comments on the outlook. Henning?

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

Thanks, Brian.

Turning now to Slide No. 5, I'll begin with a closer look at our top line for the quarter.

Our 5% revenue increase in Q2 was fueled by increases to infrastructure and industrial end markets, principally higher volume for grating, perforated and expanded metal products and industrial applications such as filtration and energy production platforms and new applications such as architectural exterior facades. Looking forward, we continue to see excellent potential for exposure to all such markets that we serve worldwide.

And there was another solid quarter for our infrastructure business as shipments from its backlog helped us reach record quarterly sales. Looking specifically at the infrastructure business, we continue to exceed our initial expectations. We're continuing to see solid growth in our backlog, which remains near record levels at the end of June.

As in the first quarter, sales and backlog growth were driven by a good mix of bridge and highway-related opportunities. We are continuing to penetrate additional markets, for example, by supplying product to offshore oil production platforms and further expanding its presence in Europe. In addition, the recent passage of a new two-year transportation bill should help provide additional demand with funding certainty for the next two years.

Additionally, our metal grating business in Canada that we acquired in the first quarter of 2012 also is performing well, serving the oil and gas sector in Western Canada.

Regarding residential markets, housing starts, residential and non-residential building, and residential repair and remodeling activity were all slower than we had anticipated going into the year.

The work we've done to position Gibraltar as the leader in the majority of our product categories enabled us to continue delivering sales growth despite these challenges. We've launched new products and improved our penetration of existing nationwide customer accounts. At the same time, we've dramatically strengthened our customer service orientation and we're continuing to increase our overall market share as a result.

Residential and non-residential new building activity has increased modestly for the nation as a whole, but some parts of the country are still lagging and the growth overall remains persistently weak. As a result, our retail and wholesale customers have not increased inventories to any meaningful extent.

Our residential repair and remodeling activity has remained somewhat resilient because of our tie-in to smaller projects and necessary repairs like re-roofing, while consumers are still very cautious and postponing larger home improvement projects where they can.

Our quarter two sales into the home center channel were favorable to Q2 a year ago.

Looking at the retail channel specifically, we're offering targeted programs to home center customers on a region-by-region basis. Along with special programs, we're focusing on providing quality products on a competitive basis while also expanding our offerings with product and market innovations regionally and nationally. These initiatives are continuing to strengthen our presence in the home center channel.

We're making comparable progress penetrating the wholesale channel as well, fueled by our extensive geographic coverage, broad line of products, compelling marketing and merchandising programs, and proven manufacturing capacity.

We delivered revenue growth and higher unit volume in spite of competitive market conditions. We've made strategic decisions in pricing with the customers to maintain, and in some cases gain, market share from our competitors.

Please turn to Slide No. 6.

Our strategy remains positioning the business so that we can be efficient and profitable even at low demand levels in our major end markets.

Our restructuring has been completed, with the exception of the West Coast operations, which is planned to be completed early in 2013. This leaves the Company poised for profitable growth at an accelerated pace as our end markets recover.

We strive for continuous improvement in the businesses, as was the case in the second quarter, focusing primarily on completing the integration consolidation of manufacturing and distribution facilities and business restructuring in the West Coast region following last year's acquisition of Pacific Award Metals. We completed the process of closing facilities in Kansas City and Denver in Q2 and our plans to close a second West Coast facility during the second half of 2012 remain on track.

As I said last quarter, we considered consolidating more small facilities in connection with the West Coast consolidation but have decided on closing a single, very large facility later this year, which is the reason why the process is taking longer than we expected. We are combining four separate West Coast businesses with similar products and market characteristics into a single entity with market differentiators that provide benefits to our customers.

The cost of our ongoing integration of the Award Metals acquisition with our West Coast residential businesses, including a significant inventory write-down related to this initiative, negatively affected the margins this quarter. We expect this project to gradually contribute to Gibraltar's earnings during the next two quarters. We expect to accomplish our gross margin objectives for these West Coast initiatives by year end, while also building a retail and wholesale delivery platform capable of supporting significant growth in sales.

The intensified competitiveness in some of our end markets dampened our margins in the second quarter. Much of this was driven by continued low demand levels, which should diminish as market conditions improve.

We are committed to improving our profitability by managing the cost side of the business, including the materials pricing equation and purchase price variance. We're making good progress with asset management at targeted levels of excellence. The systems investments we've made in recent years are aiding our asset management in all of our business units.

We previously stated that we expect commodity costs to have less impact on our margins in 2012 than they did 2011. Based on our experience during the first and second quarters, this remains our expectation.

Overall, we're looking forward to accelerating our sales growth and further improving our financial performance in the remainder of 2012.

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

Ken Smith - *Gibraltar Industries Inc. - CFO*

Thanks, Henning, and good morning.

I'll start by discussing Gibraltar's P&L results, and the P&L information in this presentation represents adjusted measures for continuing operations, and I'll reconcile the supplemental schedules in the earnings press release.

So let's turn to Slide No. 7 in the presentation and sequential performance.

Revenues are up 14% from the first quarter. This growth was predominantly organic and driven by seasonal volume increases in every market we serve, with the only exception being Europe, where we derived approximately 6% of our consolidated revenues. And each of our major residential product categories had double-digit increases compared to Q1.

Adjusted operating income nearly doubled sequentially driven by the leverage on the higher organic unit volume, and this improvement included our acquisition of the D.S. Brown Company, which turned in a record quarter for revenue and profitability, as Henning noted.

And regarding adjusted EPS, the sequential increase of $0.19 per diluted share was driven by operating income growth as well as a small benefit from a discrete income tax item.

Now let's turn to Slide No. 8, entitled Year over Year Performance. This slide includes year-over-year comparisons for the second quarter and as well the first six months of 2012. I'll begin by going down the three-month columns.

Revenue grew 5% for the quarter, largely driven by 3% higher organic sales volume, primarily in the non-residential and industrial end markets, and 2% of the growth came from acquisitions Award Metals and Edvan.

Adjusted operating income was down 16% for the three-month period and operating margin was down 200 basis points. The net effect of gross margin squeezed 360 basis points, while SG&A expense as a percent of revenue was lower by 160 basis points. Approximately half the gross margin decline was driven by competitive end market conditions and less favorable material margin, and the other half from West Coast integration efforts, including a related inventory charge of $2.2 million. The improve SG&A expense as a percent of revenue came from lower compensation expenses, including lower equity comp.

Translating these factors into their effect on adjusted EPS, the bridge from last year's Q2 adjusted EPS of $0.30 to this year's second quarter EPS is summarized as follows -- a $0.04 per share increase from leveraging the higher organic growth, driven mainly by sales of infrastructure products and grating and expanded metal products in the non-residential and industrial markets, a $0.03 per share increase from the lower SG&A expenses, and a $0.03 improvement came from a lower effective income tax rate. These increases were offset by a $0.06 per share decrease related to the cost of integrating the West Coast operations and $0.04 of the $0.06 was the inventory write-down, and a combined $0.06 per share decrease related to the narrowed spread between raw material costs and pricing.

Now going down the six-month columns, revenue grew 11% for the half year. This growth was largely driven by the three acquisitions, the first of which came in early April 2011. The three acquired businesses added $26 million or 7% to revenue for the first half of this year. The organic increase amounted to a 4% increase and came equally from residential and non-residential markets and largely volume growth.

Adjusted operating income was down 12% for the six-month period and the operating margin was down 170 basis points, matching the gross margin decrease of 170 basis points, while SG&A expense as a percent of revenue remained unchanged. The large majority of the gross margin decline resulted from the cost of the West Coast integration effort, including the inventory charge of $2.2 million, and we expect the largest portions of the integration costs have been incurred.

Translating these factors into the effect on adjusted EPS, the bridge from last year's $0.41 for the first half to this year's first half is summarized as follows -- a 9% or, I'm sorry, $0.09 per share increase from the combined contribution of organic growth and incremental effect of the acquisitions led by D.S. Brown, a $0.03 improvement came from the lower income tax rate, and these positives were offset by an $0.11 per share decrease related to the cost of integrating our West Coast operations and a combined $0.05 per share decrease predominantly related to the narrowed spread on material costs and customer pricing.

And regarding free cash flow, the amounts shown on Slide 8 reflect our historical pattern of a seasonal investment in working capital in the first quarters followed in the second quarters with converting a portion of that back into cash.

Starting with Slide No. 9, titled Net Income and EPS, I've already described the changes in operating income so my remarks on this page and the slide regard interest expense and income taxes.

Interest expense was higher in Q2 of 2011 due to funds borrowed under our revolving credit facility to help finance the acquisitions of D.S. Brown and Award Metals last year compared to no amounts outstanding on our revolver during the second quarter of 2012.

Interest expense for the half year decreased, a net result of higher borrowings on the revolver last year as well as interest income earned last year on a note receivable from a 2008 divestiture.

Regarding income taxes, we recognized a much lower effective tax rate for both the quarter and half year of 2012. The 34% rate for Q2 2012 compares favorably to the 42% rate in Q2 of last year due to a 5 percentage point reduction on the reversal of an uncertain tax position after the recent completion of a tax audit plus lower non-deductible expenses this quarter.

The six-month 2012 rate of 35% was lower than the 43% a year ago for the same reasons.

Now turning to Slide No. 9, titled Continued Low Net Debt, we ended the second quarter with an increase in cash compared to March end, having converted some of our seasonal investment in working capital. We also continued to have positions of low debt to capitalization and net debt to net capitalization. We've not had borrowings against our revolver since mid-September 2011. We continue to have a conservative debt level and no near-term debt maturities. Our leverage ratio at the end of June was 3.1 times and our liquidity increased again to $194 million at the end of June.

With a strong balance sheet, lower leverage and ample liquidity, we're strongly positioned to finance organic and acquisition-driven growth opportunities going forward.

I'll conclude with comments on our updated P&L expectation for 2012. As both Brian and Henning stated earlier, the growth we've seen in our end markets is somewhat slower than we anticipated going into the year.

The market indices and published reports of various industry observers underscore a mixed outlook. For example, the National Association of Homebuilders report on their Housing Market Index for July stated that, while builder confidence is improving, housing is still in a fragile state of recovery. And the American Institute of Architect's Architectural Billings Index dropped for the third consecutive month to 45 in May and essentially at that same level for June, foreshadowing softer demand in the multi-family and institutional markets and flat design and construction activity in the commercial and industrial markets. And, as you know, the recent report on second quarter GDP growth in the US fell to 1.5%.

These and other published reports, plus our own order rates thus far in Q3, suggest that our organic growth for the second half may slow a bit and yield an approximate 2% organic growth rate for the full year 2012.

Our expectation for the third quarter of 2012 compared to Q3 2011 is for comparable adjusted earnings per share on modestly lower revenue, with an improved operating margin led by lower West Coast restructuring costs.

And for the fourth quarter of 2012, which is a seasonally low quarter for revenue, earnings should improve compared to Q4 2011 based on improved efficiency in our West Coast operations plus much lower SG&A expense.

For the full year 2012 P&L, we now expect organic revenue growth approximating 2% for our core businesses plus additional revenue from the acquisitions, which could be an incremental $30 million.

We expect our gross margin for the full year 2012 to approximate 20% based on our current assumption of slower volume growth in the second half and lower volatility in raw material costs. It also includes shrinking costs for the completion of our West Coast region reorganization.

Regarding our SG&A expense for the full year of 2012, we expect it to approximate $27 million per quarter and represent about 13% of our full year revenues.

Our expectations for financial measures for continuing operations on an adjusted basis for the full year 2012 include net interest expense at a current run rate of $4.7 million to $4.8 million per quarter, an effective income tax rate of 37%, CapEx spending of approximately $15 million to $16 million, and free cash flow to approximate 4% of full year revenues.

In summary, despite second half economic conditions that appear to be softening in key end markets, we expect full year EPS improvement over 2011.

And now Brian has concluding remarks.

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

Thanks, Ken.

We have made significant progress in the last few years, leveraging improved profitability from Gibraltar's businesses without the benefits of significant recovery in our end markets. The drivers of this are summarized on Slide No. 11.

Since late 2007, we've essentially reconfigured the business, reducing our annual operating expenses, managing commodity costs more efficiently, and reducing our working capital by nearly half. We've also rationalized and refocused our business portfolio and our product lines through strategic divestitures and acquisitions. As a result, we've taken share from our competitors in our traditional residential markets, focusing on home repair and remodeling, and reducing our sales related to housing starts to approximately 12.5% of our total sales.

At the same time, we've grown our presence in the non-residential, industrial and infrastructure markets from 30% to 50% of our total sales.

With organic and acquisition-driven volume growth and better margins, we've increased our earnings from continuing operations in an environment that overall has been stubbornly resistant to sustained improvement. At the same time, we've maintained significant available capacity to support future growth, generated positive cash flow, and strengthened our balance sheet, including reducing our borrowings by nearly half.

Looking to drive sales organically, we've developed a product portfolio that addresses diverse and attractive markets as well as innovative marketing programs and a strong customer service orientation. When we do see meaningful improvement in our end markets, our streamlined cost structure and richer product mix position us for improved profitability as construction activity rebounds.

In terms of acquisition-driven growth, our stronger liquidity and positive free cash flow position us to fund strategic additions to our business. We remain actively involved in discussions with a number of small and mid-sized companies. These are companies we know as competitors or as suppliers of products that could broaden our portfolio and whose market position and business performance could be enhanced through integration with Gibraltar. As always, we're continuing to be thoughtful and systematic in our approach.

Overall, we're optimistic about Gibraltar's prospects. Given the sales growth we've delivered in the first half of the year, we look forward to regaining our earnings momentum and reporting full year improvement in our financial results for 2012 and into 2013.

That concludes our prepared remarks, and at this point we'll open the call for your questions. Operator, you can open the call.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Our first question comes from the line of Peter Lisnic with Robert W. Baird. Please proceed with your question.

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

Good morning, gentlemen.

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

Morning, Pete.

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

I guess the first quarter, Ken, if you could, you had $0.06, I think it was, of West Coast charges in the second quarter. How does that kind of roll forward in the second half of the year?

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Ken Smith - *Gibraltar Industries Inc. - CFO*

I would expect our second half will probably have, I'd say, no more than $1 million of costs related to the (technical difficulty).

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

Okay. Perfect.

And then if you look at the price-cost equation, I guess I'm a bit confused with commodities rolling over a bit. It would suggest that you're seeing some price pressure in markets, and I think you alluded to that in the comments or press release.

Can you give us a feel for where that price pressure exactly is, how significant it is, and then does it alleviate at all here in the back half of the year?

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

I think we see the price pressure in normal markets that we serve, both residential, industrial, commercial. There's less business out there and the folks that are out there vying for their business, they're just learning how to be more competitive and that's forced us to remain more competitive on pricing as well.

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

Is there some point where or have you walked away from business thinking that maybe the returns are just not optimal?

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

Yes, we're very careful. We are committed to supporting our customers and therefore we work closely with our customers providing the right pricing.

And there are some instances where we have walked away from some business. Again, we tend to be very careful how we do that because we do value the relationships with our customers. It's a very touchy issue.

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

All right. And then should we expect --

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

Let me just add one other thing.

We believe that a lot of this is driven by the continued or even somewhat worsened end market demand levels and competitors are everybody. Anybody who has business has become a target and we're battling back against that.

I'm confident that as end market conditions improve and demand levels pick up that a lot of that will dissipate and rather quickly.

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

And so the back half of the year I would expect, given the macro uncertainty out there, that maybe this continues to be an issue for at least the remainder of the year? Is that the right way to think about it?

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

I would say yes.

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

I think at this point, we are being very conservative in our outlook and in what we've projected to you all is a very conservative look on the rest of the year.

We still believe that there is a pickup coming and we're all just waiting for when that will start to happen.

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

Okay. And then last question, if I could, just, Henning, you talked about these targeted programs you have at retail.

Are there any load-in costs that you're incurring there? And then maybe can you give us a feel for what that has been doing to gross margin mix as those programs kind of kick off?

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

Yes. We've continually provided new products and that's all built into our budget, so there are no additional load-in costs with any of our programs that we're putting in.

And your second question was?

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

What sort of impact it's had on mix, if any, in the gross margin line.

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

I think we've seen mix changes in some of our businesses and that has had negative impact in the second quarter. Some of the products which tend to be more profitable weren't as strong.

We see that starting to change as we go through the rest of the year, fortunately. We noticed that even coming out of the end of July. So we think the mix will return to a more favorable mix going forward.

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

From a broader perspective, Pete -- this is Brian -- strategically, as we've divested businesses and added new ones, our focus is to position the Company for higher overall margin generating capability.

The business we divested last year had become a lower margin generating business and we replaced it with a significantly higher margin generating business, so overall we're shifting the business in the right direction.

During any given period of time, there may be a little ups and downs in that but, as an overall statement, our focus and the actions that we've taken have positioned the business for higher overall margin generating capability.

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

Got it. All right. That is all very helpful. Thank you for your time.

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

You're welcome.

Operator

Our next question comes from the line of Tim Hayes of Davenport & Company. Please proceed with your question.

Tim Hayes - *Davenport & Company - Analyst*

Good morning, guys.

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

Morning.

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

Good morning, Jim.

Tim Hayes - *Davenport & Company - Analyst*

A couple questions. I wanted to check if I heard the gross margin correct. You're expecting 20% in the second half of the year?

Ken Smith - *Gibraltar Industries Inc. - CFO*

That was 20% for the full year.

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

Full year.

Tim Hayes - *Davenport & Company - Analyst*

Full year. And that's on an adjusted basis, yes?

Ken Smith - *Gibraltar Industries Inc. - CFO*

Yes.

Tim Hayes - *Davenport & Company - Analyst*

Okay. Was the first half running just a little under that?

Ken Smith - *Gibraltar Industries Inc. - CFO*

Yes.

Tim Hayes - *Davenport & Company - Analyst*

Okay. The comments you made on the oil and gas remaining strong, were your sales in Q2 on par with Q1 or up or down versus Q1 for that end market?

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

I think for that end market in total, it was about on target and in line with last year.

Tim Hayes - *Davenport & Company - Analyst*

And how did that compare to, say, Q1?

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

I don't know if we've done that comparison.

Tim Hayes - *Davenport & Company - Analyst*

Okay. Yes, we've just heard some mixed reports on the oil and gas. Some say it's remaining strong. Some have seen some weakness. I was wondering, did you get any sense of any sales that were hurt by the switch from gas to oil?

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

No, we have not.

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

Fortunately for us, we're serving both sectors of that industry.

Tim Hayes - *Davenport & Company - Analyst*

Sure. Sure. And that's mainly through the metal grating product or is there any other products that you --

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

Metal grating but there's some infrastructure products that we provide as well.

Tim Hayes - *Davenport & Company - Analyst*

Yes. Okay.

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

D.S. Brown is moving into areas like that.

Tim Hayes - *Davenport & Company - Analyst*

Okay. Very good. Thank you.

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

Thanks.

Operator

(Operator Instructions)

Our next question comes from the line of Ken Zener with KeyBanc Capital Markets. Please proceed with your question.

Ken Zener - *KeyBanc Capital Markets - Analyst*

Thank you. Good morning, gentlemen.

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

Good morning, Ken.

Ken Zener - *KeyBanc Capital Markets - Analyst*

Reviewing your comments last quarter for growth, there was 4% to 5% for organic and now we're at 2% for 2012 which, given roughly a 4% rate in the first half, it assumes nearly standstill growth on the volume side, maybe almost 1%. That's what you're saying, correct, in terms of the shift quarter to quarter to the back half?

Ken Smith - *Gibraltar Industries Inc. - CFO*

Yes.

Ken Zener - *KeyBanc Capital Markets - Analyst*

Was it so pronounced? You mentioned inventory. Oil and gas, you just kind of went through that. How come, I guess? And that's been causing the competitive landscape. Is it just really, you know, if you look at the residential side, the volume's down and the competition's heating up a little bit. What is that, in your view? Is that consumer sentiment? I know you referenced the Homebuilder Index, but you cited only 12% of your sales to new sales.

Could you kind of just comment on that perhaps a little bit, why it just stopped?

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

Yes. I think in general -- and Brian has views as well -- but I think the general consensus is that the overall market in the US is down. It's moving sideways. Everyone is very uncertain.

And I think it's moving into the markets that we serve. We see it in residential. We see it in wholesale. We saw a little bit of it even on the industrial piece of it.

There is a lot of pent-up demand. We know that in some segments that the building market has started to pick up. We see signs in specific areas where the new building is up 20%.

I think eventually that's going to translate through and translate to our business. Again, remember, there's also a phasing. We tend to participate later so, as building picks up, we eventually will start to see our business pick up as well.

Ken Zener - *KeyBanc Capital Markets - Analyst*

Then I guess the first half, first to second half, would you say that the tempering of demand might also be considered somewhat of a pull forward given weather? Warmer, you know, whether it was a milder winter, warmer spring, dryer.

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

I think everyone talked about the weather conditions. January and February were stronger than usual and then the months after that were weaker than usual, and now we're hearing a lot of comments about the unusually hot, dry weather through most of the country, which has pushed back demand particularly on certain roofing projects and other types of expansion projects. And I think that's real. What that suggests is some pent-up demand which will eventually be released. Will it be released in the fourth quarter, the first quarter, we don't know yet.

Ken Zener - *KeyBanc Capital Markets - Analyst*

If you don't mind just expanding on that roofing concept a little bit because milder winter, less ice, less snow, less damage, less rain in the spring, dry, so you don't know your roof has a hole in it, but it sounded like you said heat was actually a deterrent there.

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

Heat does destroy your roof, probably faster than ice and cold weather. The outgassing of the materials is accelerated and shingle roofs need to be replaced at a much faster pace. And the roofing industry is exhibiting the same sentiments, and we listen to their reports as well.

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

Ken, a little different perspective on it or coming at it from a little different perspective.

You noted accurately that only 12.5% of our sales now go to the new housing market, which means that there's a very big piece that goes to the repair and remodeling market, and a lot of that is simply driven by consumer confidence.

And right now, with 24/7 badgering, I guess, of the consumer with a broad range of different problems -- the nuclear situation in Iran, the troubled financial situation throughout all of Europe, what's going to happen with the tax cliff here in the US, even though I don't think many of us understand it, it's still a troubling issue out there, all of the bantering about the presidential election coming up -- I think consumers are just getting more and more conservative about things and, unless they absolutely have to do a repair or remodeling project, I think a lot of them are just holding back. And I think there have been a number of reports that have cited that consumer confidence is down and that's, we think, having a significant impact during this period of time.

Once some of those things sort themselves out, once the election's done, as Henning pointed out, this is pent-up demand that's building and will be released to the market. But I think consumer confidence is a big -- or lack thereof -- is a major factor in this.

Ken Zener - *KeyBanc Capital Markets - Analyst*

Okay. I do appreciate that.

Focusing on the West Coast $2.2 million charge, I take it that was in gross margin?

Ken Smith - *Gibraltar Industries Inc. - CFO*

Yes.

Ken Zener - *KeyBanc Capital Markets - Analyst*

Now, that was not the $0.02 that is the difference between the $0.26 and $0.28, is that correct?

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

$0.26 to $0.28?

Ken Zener - *KeyBanc Capital Markets - Analyst*

You had the $0.02 cited. Okay, so it's in the $0.28 kind of normalized EPS as you present it, correct?

Ken Smith - *Gibraltar Industries Inc. - CFO*

Correct. It's included as a charge.

Ken Zener - *KeyBanc Capital Markets - Analyst*

And if I were to add that back to gross margin, just since that's the charge, that would have brought your gross margin to a 20.5% rate, which was better than obviously 19.5%. But can you just, you know, we have another $1 million coming over the 3Q and 4Q, can you walk us through -- I realize this might have taken a little longer, but what happened here, to the extent you're having charges? Were they anticipated? What was the catalyst when you got on the ground given kind of recent acquisitions, and what do you think that says about your insight into assessing the business dynamics as you're looking at an M&A deal?

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

I think that we're very encouraged with what we're doing on the West Coast. I think in the middle of everything that we're doing, the market dropped significantly and that really changed the tenor of everything that we're doing on the West Coast.

But I think we're genuinely excited. We have an opportunity to put together a platform that no one else in the country has for our customers on the West Coast, and that's why we decided to invest more heavily in doing it right. And it is taking more time, it has been more expensive, but it is the right thing to do. And as we finish the project, I think it will be apparent, certainly to our customers and to our P&L, that we've moved it in the right direction.

Ken Zener - *KeyBanc Capital Markets - Analyst*

Okay. If I can just get one more question. Ken, you had a lot of numbers there on the bridge and I'm waiting for the transcript to come out so I can piece it together, but it sounded as though the bridge from gross margin, I believe, you were doing, was that from year-over-year gross margin change?

Ken Smith - *Gibraltar Industries Inc. - CFO*

I did a bridge on EPS, both separately for the quarter and the half year.

Ken Zener - *KeyBanc Capital Markets - Analyst*

Okay. It did sound as though -- so the pricing was roughly half of the shift in -- could you just review that again to clarify the pricing that you faced as opposed to the steel because steel fell in our view about 8% sequentially looking at the HRC. It's kind of set to fall that amount again 3Q sequentially from 2Q, yet you're kind of highlighting stable to modestly up gross margin. Could you give us a better feeling for how that works given a flatter sales environment, please? Thank you.

Ken Smith - *Gibraltar Industries Inc. - CFO*

I talked about a $0.06 decreasing effect on EPS compared to Q2 a year ago, which was a combined effect of raw material costs and their relationship to average pricing. I did not split it out.

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

I think when we look at it, just from an operations point of view, the margins were most impacted in the second quarter by mix, material costs and restructuring on the West Coast.

If you look at our full year material margins, they're flat with the prior year. And we expect when we finish this year, full year, we think the material margin will be relatively flat to the prior year.

We think the mix will start to change. Right now the mix is unfavorable. And when I'm talking mix, I'm talking two mix changes. One is business mix. We've had more businesses, more volume on the West Coast, which had lower margins, than our other businesses, and we think that's going to change. And we also had some product mix issues inside of some of the businesses, and we see that starting to diverge as well. So on a full year basis, mix should be more in line with what we typically do.

And as Ken has said, the restructuring on the West Coast will be largely behind us as we move through the end of this year, and so we see the margins starting to realign themselves to the 20% full year and start to move forward as we go into '13 to 21% to 22% gross margin.

I don't know if that's helpful.

Ken Zener - *KeyBanc Capital Markets - Analyst*

It is. Thank you very much.

Operator

Our next question comes from the line of Robert Kelly with Sidoti & Company. Please proceed with your question.

Robert Kelly - *Sidoti & Company - Analyst*

Good morning.

The West Coast consolidation business merger, were there any disruptions there that caused sales pressures and caused some share loss? Anything like that exacerbating the cost issues that you're running through on the West Coast?

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

Yes. When we were going through the restructuring initially we did have problems with delivery, particularly on the wholesale side of our business. But fortunately, our folks got very much in line with the issue and did resolve it.

That was an early second quarter issue and that's been since resolved. And we're now back up providing outstanding levels of service as we go forward.

Robert Kelly - *Sidoti & Company - Analyst*

So that's a potential benefit for the second half of the year?

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

Absolutely. Absolutely.

And we're starting to get that business back. We're staying very close to that so, as we move forward, that business has continued to get stronger.

Robert Kelly - *Sidoti & Company - Analyst*

Okay, great. And then just as far as what you see for the second half of the year, is it a function of the res and the non-res business weakening or a deceleration in the positive pockets of industrial and infrastructure that you've seen in the first half of the year?

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

I think at this point I think everyone -- we talk to our customers -- everyone sees the business going pretty much at the pace it's at right now. I think everyone has got their fingers crossed, hoping that the pent-up demand eventually moves forward and starts to impact the business as early as the latter third quarter and fourth quarter of this year.

Robert Kelly - *Sidoti & Company - Analyst*

And that's across all your industry verticals?

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

Yes, I think we'd say in all the businesses we have. We've looked at the industrial piece that we're in, the commercial piece, the residential, and I think they're all moving in the same direction.

If you look at LIRA -- I don't know if Ken outlined it, but LIRA suggests that the particular third and fourth quarter this year is to be unusually strong, with strong double digits going into the first quarter of 2013. So LIRA is very optimistic on remodeling as we go through the back half of this year and early into the first quarter of next year.

Robert Kelly - *Sidoti & Company - Analyst*

Okay.

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

And, again, that report was just released about two or three weeks ago, but they were extremely bullish on the back half of this year, particularly going into the first quarter of next year.

Robert Kelly - *Sidoti & Company - Analyst*

Okay.

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

I think, too, Robert -- this is Brian -- our commentary is based on two relative points, one, the expectation levels coming into the year, so when we say things are weak it's relative to those expectation levels. And the first quarter, I think it's fairly well established that because of weather conditions and other factors, there was some pull ahead of ordering patterns and so off of that level it has weakened some.

But as Henning pointed out, overall we expect a fairly consistent pattern of low level activity going out through the balance of the year.

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

I mean, on balance I think we've done a good job. We've had 5.2% growth. We expected 7% or 8%. There've been a lot of mitigating factors that have pulled back. But I think we've stayed very aggressive in the marketplace and we've continued to show growth in spite of the challenges that we've had. And I think we continue to stay optimistic as we go forward through the year and into 2013.

Robert Kelly - *Sidoti & Company - Analyst*

Great. And not to put words in your mouth, but it sounds like you saw a pretty solid spring, a downshift in May or maybe early June, and you expect that kind of June run rate to play out for the balance of the year?

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

We're still hoping that there's a more positive uptick as we get into the back end of the third and early fourth quarter.

Robert Kelly - *Sidoti & Company - Analyst*

Okay.

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

But we'll go with your statement.

Robert Kelly - *Sidoti & Company - Analyst*

You're implying 0%, you know, flat growth for the second half of the year. Is that how we should think about it, kind of just a stead run rate from what we've seen here in June?

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

Yes. Yes.

Robert Kelly - *Sidoti & Company - Analyst*

Okay. Fair enough.

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

While we're frustrated with the slow pace of a return to normality in our end markets, whatever the new normal will be, all it really does is heighten our activity level relative to continuing to find ways to take costs out of the business, find ways to grow organically by producing new and different products and we have a number of activities underway in that area, strengthening our desire to go out there and find better ways to serve the customers and gain more market share, and then to look for acquisitions that can meaningfully help us improve our overall operating performance characteristics while growing the bottom line.

It's frustrating. We had higher hopes for this year coming into the year based on the estimates that were coming out from the various sources, and it's frustrating that it hasn't developed quicker.

Nonetheless, we are continuing to focus on how we can generate improved performance from our business in the market conditions that we're facing today, and that's why we emphasized several times during the call that in spite of all this, our expectation is to generate improved profitability in 2012 over what we saw in 2011 in spite the of the fact that the end markets have not improved.

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

And we do have growth initiatives in place and they have taken longer to finalize, but they're still there. And I'll leave it at that.

Robert Kelly - *Sidoti & Company - Analyst*

Fair enough. And that kind of segues to my next question, which is the raw material story is kind of masking a lot of the business improvements you've made, and it's somewhat counterintuitive because year-over-year material costs are down and that negatively impacting your margin. So with raw materials, your inventory base, I'm guessing, lower than it was a year ago and signs that the scrap market is turning positive for August, September, does that now become a benefit to gross margin?

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

It should. If you look at the report that came out yesterday, hot roll was up $34 a ton for the first time and they're talking about another $34 a ton next month, so we're kind of looking at that one carefully.

But typically we do see some improvement, but we try to mitigate those variations in our operations so that we can provide more stable outcomes.

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

You're right, though, Robert -- it is counterintuitive. The logical thought process would be oh, if raw material costs come down, your profitability goes up, and that's not always the case. Some of our businesses track the ups and downs in raw material costs very closely and have a direct impact on sales volume as well. As raw material costs come down in those products where the customers, particularly service centers, track steel prices very closely, they're pretty quick to say okay, your raw material cost has just come down, so your selling price should come down.

So embedded in our dollar sales numbers are the impact of raw material costs, although fortunately we have been able to offset some of that through volume increases that are masked by the lower dollar selling prices for some of the products. So it's counterintuitive.

But our whole focus here is to manage the entire supply chain so that we are mitigating by our various buying practices the volatility in raw material costs. This year, though, we're expecting that raw material cost volatility will be less than what it was last year and it puts us in a better position to mitigate against that.

I don't know if that helps or not.

Robert Kelly - *Sidoti & Company - Analyst*

I understand the thought process behind it but, I mean, you're calling out half of your gross margin compression in 2Q due to price/cost. I mean, I don't know how that translates to a full year improvement.

But just let me get to the final one. The free cash flow guidance, I mean, the math works out to about $810 million in sales based on the 2% organic and $30 million in acquisition, so it's $30 million plus for free cash flow for the year. I understand you took your CapEx budget down about $4 million to $5 million compared to what you said on 2Q, but how do we get from a $6 million outflow through the second quarter to plus $30 million for the year for 2012?

Ken Smith - *Gibraltar Industries Inc. - CFO*

Well, a lot of that will be driven by the recouping of the working capital investment that we made in the front half of the year.

Robert Kelly - *Sidoti & Company - Analyst*

So you'll be plus $50 million on working capital for the second half of the year, something along those lines?

Ken Smith - *Gibraltar Industries Inc. - CFO*

I don't have the numbers right in front of me, but we do recoup a significant amount of what we've invested.

Robert Kelly - *Sidoti & Company - Analyst*

Okay.

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

Keep in mind what we do, Robert, is we build inventory for the strong selling season during the first quarter and then we pull it back down over the second, third and fourth quarters.

Robert Kelly - *Sidoti & Company - Analyst*

Right.

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

And that's an annual pattern.

Robert Kelly - *Sidoti & Company - Analyst*

So, I mean, are you getting a little bit, with the changes on the West Coast, are you getting a little more efficient with working capital? Is that kind of the implication?

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

Absolutely. And that's where our biggest opportunity to get more efficient with working capital lies.

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

Particularly inventory.

Robert Kelly - *Sidoti & Company - Analyst*

And that shows up in the second half of the year. Great.

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

Yes.

Robert Kelly - *Sidoti & Company - Analyst*

Okay, thanks, guys.

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

Thank you.

Operator

Our next question comes from the line of Tim Hayes with Davenport & Company. Please proceed with your question.

Tim Hayes - *Davenport & Company - Analyst*

I had just one follow-up, and I think you just answered it in the last question here. But you mentioned pricing pressure across all end markets. I was curious if any parts of the channel were showing more competition, like distribution over retail, figuring that service centers were pulling back as they saw commodity prices pull back. So was there more price competition in the distribution channel versus retail? Would that be fair?

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

We saw an awful lot at retail, I think more than usual at retail, as we went through the quarter. And we did see more on the industrial and I think the industrial pricing was a function of the low market demand. And I think those customers, those competitors that we have, are simply using pricing to gain what business was out there.

And that was primarily, we think a second quarter event. I think if you came out of the end of July, it looked like we were starting to see some improvement there, which was positive.

Tim Hayes - *Davenport & Company - Analyst*

Improvement and that's on the industrial side only?

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

Yes, that was on the industrial side.

Tim Hayes - *Davenport & Company - Analyst*

Okay. All right. Thank you.

Operator

There are no further questions at this time. I'd like to hand the floor back over to Mr. Lipke for closing comments.

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

Thank you for joining us on the call today. I assure you that we are working very hard at all areas of the business to improve our profitability in spite of difficult and continuing difficult end market conditions, and we look forward to reporting back to you next quarter on our continued progress.

Thank you.

Operator

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