THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

ROCK - Q3 2012 Gibraltar Earnings Conference Call

EVENT DATE/TIME: NOVEMBER 01, 2012 / 1:00PM GMT

THOMSON REUTERS

CORPORATE PARTICIPANTS

David Calusdian *Sharon Merrill - EVP, Investor Relations*

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

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

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

CONFERENCE CALL PARTICIPANTS

Peter Lisnic *Robert W. Baird - Analyst*

Tim Hayes *Davenport & Company - Analyst*

Ken Zener *KeyBanc Capital Markets - Analyst*

Robert Kelly *Sidoti & Company - Analyst*

Seth Yeager *Jefferies & Company - Analyst*

PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the Gibraltar Industries third quarter 2012 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 now like to turn the call over to your host today, Mr. David Calusdian, from the investor relations firm with Sharon Merrill. Please proceed, sir.

David Calusdian - *Sharon Merrill - EVP, Investor Relations*

Good morning, everyone, and thank you for joining us. If you have not received a copy of the earnings press release that was issued this morning, you can find it in the investor info section of the Gibraltar website, gibraltar1.com.

During the prepared remarks today, management will be referring to presentation slides that summarize the Company's third-quarter performance. These slides are also posted on the website. Please turn to slide number 2 in the presentation. Gibraltar's earnings release and this morning's slide presentation both contain adjusted non-GAAP financial measures. Reconciliations of GAAP to adjusted measures have been appended to the earnings release.

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

On our call this morning are Gibraltar's Chairman and CEO Brian Lipke; Henning Kornbrekke, President and Chief Operating Officer; and its CFO, Ken Smith. At this point I will turn the call over to Brian.

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

Thanks, David. Good morning, everyone, and thank you for joining us on our call today. I'll begin, as usual, with some brief overview comments and then turn the call over to Henning and Ken for a more detailed review of our results. Then I will close our prepared remarks with observations about our business outlook. And then, of course, following that we will open the call to any questions that any of you may have.

I'll start my remarks by referring to slide number 3 in our presentation. A confluence of micro factors and events during the third quarter temporarily impacted our industry and reduced third-quarter end market activity, while overall signs point to strengthening end market demand as we look out into 2013 and beyond. Henning and Ken are going to discuss those factors in more detail in a few minutes.

Although many of the leading indicators are pointing to overall improvement in the US economy going forward, including, and perhaps led by, the September report on housing starts, overall demand during the third quarter was less robust than we and many industry observers had anticipated.

Our revenues were down 7% from Q3 last year, and that was primarily due to slower US roofing activity and recession-driven weakness in the European automotive and industrial sectors. Weak sales in these markets were only partially offset by stronger demand from our customers in the multifamily building and public infrastructure markets.

At the same time, however, we continued to benefit from our ongoing efforts to improve the efficiency of our operations, tightly control costs, and thereby increase the margin leverage in our business. These improvements, together with a moderation in costs associated with the consolidation of our West Coast operations, helped offset the margin impact of lower sales during the quarter.

These operational improvements bode well for our performance in Q4 and for 2013. In spite of what we expect to be continuing historic low levels of end market activity, we still anticipate delivering stronger financial results in 2012 than we did in 2011. Looking further ahead, in 2013 we expect to realize the full benefits of the time, energy and dollars that we have invested this past year in consolidating and integrating our West Coast operations.

The vast majority of these investments will be behind us, reinforcing our confidence in delivering improved bottom-line performance from 2012 to 2013, even without the benefit of stronger end market demand, just as we saw from 2011 to 2012 and did from 2010 to 2011. In addition, we've taken a wide range of actions during the past two years to strengthen our presence in attractive end markets and product categories. As a result, when we do realize sustainable end market improvement, we'll be well-positioned for accelerated growth on both the top and bottom lines.

Henning and Ken will review our third-quarter results in greater detail, and then I'll conclude our prepared remarks with some additional comments on our outlook. Henning, I'll turn it over to you.

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

Thanks, Brian. Turning now to slide number 4, I'll begin with a closer look at our revenue for the quarter, which reflected mixed results in the markets we serve. During the past three years, through organic growth, acquisitions and divestitures, we've expanded our presence in the nonresidential, industrial and infrastructure end markets to approximately 50% of our current total sales from 30% in 2008. This diversification has enabled us to offset weak demand in housing and drive growth and profitability in the business, despite historically low levels of activity in the single-family housing market.

As Brian said, multifamily and infrastructure, or non-building construction, were pockets of strength in the third quarter and we are capturing a good share of those end markets. In our other markets, however, Q3 felt like a pause in an overall improvement continuum that's been slowly gathering strength for a couple of years now.

Growth in nonresidential new construction activity seems to have moderated in recent months, and we have experienced relatively weak demand for nonresidential building products in the third quarter.

Residential repair and remodeling activity also remains relatively weak. Consumer confidence levels are improving, but not to the point where households are feeling confident enough to start the larger home improvement projects they've been postponing over the past few years.

The persistent weakness in repair and remodeling, coupled with unusual weather patterns, had a negative effect on the building industry, including roofing activity in the third quarter. Roofing is one of our exposures to the residential repair and remodeling market. These factors affected demand for our roof ventilation and building accessory products.

In addition, US roofing sales were unusually strong in Q3 last year, with several sections of the country rebuilding from major storm damage in the first half of 2011, skewing quarter-over-quarter comparisons.

On the positive side our infrastructure business continues to perform well. The infrastructure business entered the third quarter with a strong backlog, and our sales and backlog growth in the quarter continue to be driven by a good mix of bridge and highway related opportunities. Driven by new business and shipments from backlog, this part of our business delivered a second consecutive quarter of record sales.

Now that federal transportation appropriations extend through the next two years, we are seeing greater confidence that funding will be available for large, longer-term bridge and highway construction projects. We've already seen an increase in quoting activity and we anticipate the size of the projects in our sales pipeline to increase as we move into 2013.

Demand in our nonresidential businesses that serve areas other than non-building construction markets experienced a near-term pause in improvement. Across our key product categories, including metal grating and perforated and expanded metal products for industrial, infrastructure, energy production and architectural applications, we saw mid single-digit sales decline, year over year, in the third quarter. The lower demand included slower sales to our customers in the European automotive and industrial markets, driven by the ongoing recession in that region.

Our businesses that serve the North American oil and gas and industrial markets also experienced a short-term pause and customer demand in Q3. While there continues to be a healthy level of exploration and production activity throughout North America, rig counts did come down a bit. Nonetheless, we are continuing efforts to gain share in the North American energy markets, including offshore drilling, and invest in these important markets, as we did earlier this year when we acquired a business serving the oil sands region in Western Canada.

In the residential construction market, we are seeing the first signs of what could become a meaningful rebound, as indicated by the September data on housing starts and home sales, and rising levels of confidence in the home building industry. Ken will comment on this in more detail.

However, because of the normal time lag between a housing start and the point when our products are purchased and installed, these improved end market conditions did not have a meaningful impact on the results yet. Looking forward, if the current trends in housing starts prove to be sustainable, we should see the cumulative impact on both our top and bottom lines in the quarters ahead.

In addition, we've been working hard to position Gibraltar as the leader in the majority of our product categories by launching new products, further penetrating existing nationwide customer accounts and strengthening our customer service orientation. This strategy should enable us to accelerate our growth and market share as the building markets and economy continue to improve.

In the retail channel, we are expanding our product offerings and rolling out targeted programs to our home center customers on a region-by-region basis. And in the wholesale channel, we are leveraging our geographic coverage, product portfolio, marketing and merchandising programs and proven manufacturing capacity to increase our penetration nationally.

The marketplace remains highly competitive. Pricing has been an important factor on the retail side for several quarters now. With end market demand remaining generally weak, it's now becoming a factor in the wholesale channel as well. We are successfully navigating these pressures by very carefully managing the materials-pricing equation, which is enabling us to continue providing quality products on a competitive basis.

Asset management is a major factor in this, and the system investments we've made in recent years are aiding our asset management in all of our business units. After seeing good trends in commodity costs during the first and second quarters, our material costs as a percent of sales again were favorable for us, year over year, in the third quarter. We've previously stated that we expect commodity costs to have less impact on our margins in 2012 than they did in 2011, and this remains our expectation.

Now let's turn to the bottom line as summarized on slide number 5. As Brian said, for the past three years our top strategic priority has been to position the businesses so we can be efficient and profitable even at low demand levels in our major end markets. In addition to continuing to improve operating efficiency across the Company, for the past year we focused on restructuring and integrating our West Coast operations following last year's acquisition of Pacific Award Metals. We are combining four separate West Coast businesses with similar products and market characteristics into a single entity with market differentiators that provide benefit to our customers.

On our earlier calls this year we mentioned a plan to close a second, very large West Coast facility during the second half of 2012. Given the associated costs of closing this facility and the near-term outlook for our end markets on the West Coast, we have decided to focus on optimizing the current configuration that we have and to continue operating the facility through the first half of 2013.

Overall, however, our plans for the West Coast integration remain on track. We experienced the sequential improvement in gross margins in our West Coast operations that we expected for the third quarter, and we expect to accomplish our gross margin run rate objective for this initiative by year end. In the process, we expect to build a retail and wholesale delivery platform capable of supporting significant growth in sales and profits.

Most importantly, the majority of the costs associated with the West Coast integration will be behind us as we enter 2013. As a result, we will be well-positioned to accelerate our sales and margin growth and provide improved financial performance in 2013. With that, I'll turn the call over to Ken Smith.

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

Thanks, Henning, and good morning, and I'll start by continuing with more detail on our P&L results. And the P&L information in this presentation represents adjusted measures for continuing operations and is reconciled in supplemental schedules in the earnings press release. So let's turn to slide number 6 in the presentation, titled Q3 sequential performance.

Revenues were down 6% from the second quarter, a nearly equivalent degree for both residential and nonresidential products. Regarding residential demand, we had an unfavorable comparison with last year benefiting from repairs for higher storm activity, while, as Henning mentioned, this year's hot and dry weather slowed US roofing activity and related demand for our roofing related products such as ventilation and rain dispersion.

Regarding lower sequential sales of non-residential products, there were specific large orders shipped in the second quarter that did not repeat in the third quarter, involving functionally critical infrastructure products, as well as designed-to-spec fabricated products.

Adjusted operating income declined modestly, by $1.3 million on a $14 million decrease in revenue, as much of the lost contribution of lower sales was mitigated by improvements in Q3 in the West Coast reorganization and lower SG&A costs.

While not shown on slide 6, the operating margin was essentially unchanged for both periods at nearly 8%. Regarding adjusted diluted EPS, the sequential decline of $0.04 per share was driven by lower volume as a result of the short-term pause in the market recovery which Henning described earlier.

Now let's turn to slide number 7, entitled year-over-year performance. I'll begin by going down the three-month columns. Revenues were down slightly for the quarter, nearly equivalent for both residential and nonresidential categories. And Henning provided a lot of color on the end market conditions that affected the reduced demand. Of the 7% revenue decrease, unit volumes decreased 5 percentage points, with the balance due to lower selling prices resulting from lower commodity costs for steel and aluminum.

Adjusted operating income was down 15% for the three-month period. However, adjusted operating margin was down only 70 basis points on a nearly $15 million decline in revenue. Although not shown on slide 7, the third quarter's adjusted gross margin was 19.7%, a decrease of only 10 basis points from the third quarter of 2011.

The decline in gross margin was primarily due to the lost contribution on lower revenue and a comparatively higher cost of the West Coast region reorganization in Q3 2012, both of which were partially offset by improved material margin and operating efficiencies this quarter.

And SG&A expense as a percentage of revenue was a bit higher in Q3 2012, by nearly 70 basis points, which was primarily due to the third quarter of 2011 containing a net benefit for equity compensation of $600,000, compared to a $1.3 million charge for equity compensation in Q3 2012.

So translating these factors into their effect on the adjusted EPS, and bridging from last year's Q3 adjusted EPS of $0.26 to this year's $0.24, is summarized as follows. An $0.08 increase from improved material margin and operating efficiencies this quarter, plus $0.03 improvement came from the lower effective tax rate.

These increases were offset by a $0.09 per share decrease related to the lost contribution of lower revenues, plus the comparatively higher cost of the West Coast region reorganization in Q3 2012. And a $0.04 per share decrease related to SG&A expense being proportionately higher this year compared to the favorable equity comp last year.

Now, going down the nine-month year-to-date columns on slide 7. Revenues grew 4%, driven by acquisitions in the past 18 months, and these acquisitions increased our exposure to residential housing, including multifamily growth and provided new exposure to the public infrastructure market. For business units we operated in both nine-month periods, those experienced a slight decrease in revenues worth one percentage point.

Adjusted operating income was down 13% for the nine-months. The most weighting came from the increased costs for the expanded West Coast integration effort, including a related inventory charge of a little over $2 million earlier this year. And a much lower equity compensation expense last year tied to our lower stock price last year.

Translating these factors into their effect on adjusted diluted EPS for the nine months and bridging from the $0.67 last year to $0.61 this year, I describe as the following. A $0.04 per share increase from the combined contribution of incremental effect of the two acquisitions that serve nonresidential markets; another $0.04 improvement from better margin management with our material costs; cost reductions and other operating efficiencies. Plus a $0.06 improvement from the lower effective tax rate.

These positives were offset by an $0.11 per share decrease related to cost of integrating the Award Metals acquisition and the related and expanded West Coast reorganization; a $0.07 per share decrease related to the more favorable equity compensation that we had last year; and a $0.02 reduction to EPS from reduced revenues for business units operating in both nine-month periods.

Now turning to slide number 8, titled net income and EPS, I've already described the changes in operating income, so my remarks on this page concern interest expense and income taxes. Regarding interest expense, it was lower in both periods of 2012 compared to the prior-year periods for the same reasons.

First, last year we borrowed funds under our revolving credit facility to help finance two acquisitions and we've had no amounts outstanding under our revolver during 2012. And, secondly, 2011 benefited from some interest income earned on a note receivable related to a 2008 divestiture, and that note was paid off in late 2011.

Regarding income taxes, we recognized lower effective tax rates this year. This year's Q3 and nine-month effective tax rates were the same at 36%. This rate compares favorably to the 45% rate for Q3 of 2011 and 42% for the first nine months of 2011. The rate reductions were led by discrete adjustments this year, including the reversal of an uncertain tax position in Q3 2012 after the completion of a tax audit, plus lower nondeductible expenses this year.

Let's turn to slide 9 and cash flow. Amounts on the slide are remarkably consistent for both periods. Given the historical seasonality of demand for building products, we invest in working capital starting in the first quarter and continuing to mid-third quarter. In September we began to convert working capital back to cash and this cash conversion continues through the entire fourth quarter. As reported in our press release, days of working capital continue to be well managed as we remain in the low 60-day range for both Q3 of 2012 and the prior year quarter.

Turning to slide number 10, entitled continued low net debt. We ended the third quarter with an increase in cash compared to the end of June, as we begin to convert seasonally high working capital back to cash. We also continue to have positions of low debt to capitalization. We've not had borrowings against our revolver since September of 2011 and we continue to have a conservative debt level and no near-term debt maturities.

Our net debt-based leverage ratio at the end of September 2012 was 2.1 times, and our liquidity increased again to $211 million as of the end of September 2012, which is three times our trailing LTM EBITDA. With our strong balance sheet, lower net leverage and ample liquidity, we are strongly positioned to finance organic and acquisition-driven growth opportunities going forward.

I'll conclude with comments on our updated P&L expectations for 2012. As both Brian and Henning stated earlier, the growth we've seen in our end markets has been somewhat slower than we anticipated in the third quarter. Springtime optimism, led by homebuilders' rising sentiment, orders and profits were followed by a mixed outlook in July and August and lower than expected results in building product categories, were reported for Q3 by both distribution and several manufacturers.

And we are now in the fourth quarter, which historically has been the quarter of the calendar year with the slowest demand for building products. And despite recent increases in optimism for market growth, we don't expect to see that in our fourth quarter order levels. Nonetheless, we do expect our fourth-quarter revenue to be comparable to last year.

We also expect to report adjusted fourth-quarter diluted earnings per share from continuing operations to be much improved versus Q4 2011, with an improved gross margin driven by improved efficiency from our reorganized West Coast operations, plus much lower SG&A expense.

For the full year 2012 P&L, we now expect revenue growth of approximately 3%. We expect our adjusted gross margin for the full year 2012 to approximate 19%, including the cost of re-organizing our West Coast operations. Regarding SG&A expense for the full year, we expect it to approximate $26 million per quarter, and in the aggregate for the full year, 13% of revenues.

Our expectations for other financial measures for 2012 include net interest expense of $19 million; an effective tax rate approximating 36%; as I said, a full-year EPS improvement over 2011; CapEx spending of between $11 million and $12 million; and free cash flow to approximate 7% of full-year revenues.

Thinking about 2013, we are optimistic about improved market conditions. As Brian and Henning said, our industrial infrastructure markets are holding their own despite the uncertainty surrounding the global economy, particularly Europe. And as reported in the media, the United States may be meaningfully turning the corner based on September's report for housing starts. That report cited housing starts being up 15% month over month and reaching a four year high.

New home sales for the strongest in more than two years. Existing home sales in September were up 11% over the prior year and home prices have been rising since the start of the early summer in every major US geographical market.

And, from a residential industry perspective, the National Association of Homebuilders Housing Market index for September was the highest it's been since June of 2006. And the ABI index turned positive in August for the first time in five months, and for nonresidential demand we are encouraged by the recent report on third-quarter US GDP growth of 2%, which is the rise from the second quarter's revised 1.3%.

So, despite the near-term pause in demand we experienced in Q3, to be followed by a seasonally slow fourth quarter, we are increasingly optimistic that 2013 will provide a meaningful and sustained improvement in key end markets that we serve. Now, Brian has concluding remarks.

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

Thank you, Ken. As summarized on slide number 11, Gibraltar is well-positioned to resume its topline growth when more of our end markets begin to experience meaningful recovery. Our focus on providing our customers with new products, innovative marketing programs and outstanding customer service has enabled us to hold our share in major product categories.

In addition, over the past 18 months we have acquired new product lines that should enable us to penetrate a broader range of markets and channels, adding value to national customers. With the cost of our West Coast business integration increasingly behind us, we are also well-positioned to deliver stronger profitability.

We are successfully executing on the strategy we put in place at the beginning of the housing downturn. This strategy is focused on improving our underlying operations, tightly controlling costs and increasing the margin leverage in our business so that we can continue to deliver solid margins even at low demand levels in our major end markets.

Since late 2007, we have successfully reconfigured the business, reduced our annual operating expenses, managed commodity costs more effectively and lowered our working capital by nearly half. At the same time, our positive cash flow has allowed us to reduce our borrowings by nearly half as well.

Our strong balance sheet and liquidity have enabled us to rationalize and refocus Gibraltar's business portfolio and product lines through strategic divestitures and acquisitions. And, with our strong balance sheet, we are well positioned to continue pursuing acquisition-driven growth.

We remain actively involved in discussions with a number of small and midsized 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 are continuing to be thoughtful and systematic in our approach.

Despite the challenging conditions in our end markets, we continue to expect to deliver stronger financial results in 2012 than we did in 2011 and to continue this positive momentum into 2013. That concludes our prepared remarks and at this point we'll open the call for any questions that any of you may have. Operator? You can open the line.

QUESTIONS AND ANSWERS

Operator

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

Peter Lisnic - *Robert W. Baird - Analyst*

Good morning, everyone. First question, can you give us a feel for what the growth rate in Europe was, what sort of impact that had on the topline in the quarter?

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

It was down a bit. But it's been down for --

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

The European operation was down, as I recall, 21%. And it's primarily driven by the recession that's there, and as a percent of our total business, it's about 6%, 7% of our total business.

Peter Lisnic - *Robert W. Baird - Analyst*

That's perfect, thanks for that. And I missed the -- I think I missed it, at least, the commentary on pushing out the incremental West Coast plant close and the optimization of that footprint. Can you just run through that again and maybe give us a feel as to why the push out, and what it might look like from a cost perspective when you do undertake it?

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

Yes, sure. I think there were two reasons. One, it's very costly, as you know, to close down and relocate a plant, and it's a very large facility. So that closing of a facility or moving the facility has a dramatic impact on our ongoing P&L. That was one of the rationales that we've used. And the other was, that we expect our West Coast volume to start to pick up; we're starting to see a lot of positive activity on the West Coast, and as we examined it more closely, we feel that we might, in a very short period of time, fill the facility to close to its capacity, which will give us the full overhead absorption that we've been missing.

Peter Lisnic - *Robert W. Baird - Analyst*

So, is it safe to say then that that facility will not be closed and there are no other incremental actions to be taken on the West Coast?

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

I think at this point that's the case. I think we are looking very close -- it's a fantastic facility. It is very large; it's almost 350,000 square feet. Really, it's a beautiful facility and I think we are very heartened with the increase in activity out there, and being able to fully utilize the facility will be a real plus for our businesses.

Peter Lisnic - *Robert W. Baird - Analyst*

All right. And then the strong free cash (multiple speakers).

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

Just a final thing on that, Peter. We are well along now in the entire integration process out there. And, as I stated in my prepared remarks, the majority of the integration activity and the costs associated with this will be behind us by the end of the fourth quarter, putting us in an excellent position next year to have very favorable comparisons from those operations on a year-over-year basis.

Peter Lisnic - *Robert W. Baird - Analyst*

Right, and that means essentially no cost for 2013, whereas I think the plan was maybe that there would be costs with this plant perhaps closing. Correct?

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

Exactly.

Peter Lisnic - *Robert W. Baird - Analyst*

Balance sheet and free cash flow looked -- obviously, looked very good. Just wondering what the appetite there is to reinstate the dividend or how we should think about capital allocation as we look forward. And if you want to throw in commentary on acquisition pipeline in that answer, that would be great.

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

From a dividend perspective, it is something that we discuss at the Board of Directors level every quarter. And at this point in time, we think that we can provide a better return to shareholders by continuing to invest in the business, as opposed to paying a dividend. If you recall in the past, too, our dividend yield was always very low, and if we did reinstate it, it would be very low at this point in time as well.

We feel that we can serve the shareholders best by holding onto that cash and utilizing it for business development as opposed to distributing it to the shareholders. So, at the present time, with the balance sheet in the condition that it's in, we're going to hold tight and not declare a dividend. But it is something that we discuss every quarter with the Board of Directors.

From an acquisition perspective, we have a relatively long list of acquisition candidates. As I said in my prepared remarks, the majority of them are small and midsized acquisitions. I've mentioned on past calls that Ken Smith has brought to us a much tighter focus and greater discipline in how we evaluate potential acquisition candidates, and we are applying that tighter filter to every candidate that we look at.

So we are going to be cautious and careful as we look at acquisitions, but, nonetheless, there are number out there. And with the balance sheet that we have and the cash on the balance sheet, we expect to continue to be making acquisitions as we finish up this year and look out into 2013.

Peter Lisnic - *Robert W. Baird - Analyst*

All right, that is very helpful. Thank you for your time.

Operator

Tim Hayes, Davenport & Company.

Tim Hayes - *Davenport & Company - Analyst*

Good morning, everyone. Two questions. First on -- with the hurricane that has come through, can you remind us, back when Katrina came through, which I think it was around Q4 of '05, how did building products fair in the quarter or two after? I guess part of the reason it's tough to look back at the financials is because that was, I think, the same quarter you but AMICO, so it may mix up the results. I was curious what kind of bump in demand you might see with all the repair that is going to likely have to happen up in the Northeast?

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

It clearly will accelerate the demand for our products. We are very much aware of it. We're trying to support the victims of the terrible situation, but we are also preparing our plants to ramp up in their production activities to support the increased demand that we'll see -- probably not this quarter, but probably first and second and spilling into the third quarter of next year.

Tim Hayes - *Davenport & Company - Analyst*

What applications see the most benefit? I figure --

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

We do a lot of roofing applications; our ventilation products; we do siding, we do some metal roofing. Many of our products do have direct application in the repair and rebuild of the housing market.

Tim Hayes - *Davenport & Company - Analyst*

And then, final question, with all the cost cutting and consolidation that has continued in '12, what kind of bottom-line impact would you get from having the full year effect in '13? Is that a number that can be quantified?

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

We think our gross margin is going to improve, it depends what volume levels you'll lose by at least 1.5 percentage points. So, this year I think Ken indicated that we are running about 19.7%. I think when we go forward at the increases we've looked at, we get a little bit north of eventually 21% gross margins.

Tim Hayes - *Davenport & Company - Analyst*

And that 21%, what's the revenue -- do you have a revenue assumption that goes along with that 21%?

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

We are using reasonable revenue increases going forward; one that is easily obtainable and one that we should be pushing on at the end of 2013.

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

I think the key thing here is that we are anticipating improved results in 2013, because of a lot of the actions that we have taken in 2012. Before we look at any tailwind that might develop from end market activity improvements. Judging how much end market improvement we might get becomes pretty difficult. But nonetheless, even absent end market improvement, we believe that we're going to be able to generate improved performance in 2013, primarily because of activities that we have complete control of through internal initiatives.

Tim Hayes - *Davenport & Company - Analyst*

Right. But just to clarify, if the move -- if there was no revenue growth, you would still go higher from 19.7% gross margins but you wouldn't get to the 21%?

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

Yes, that's the factor that's going to impact that -- how much volume improvement actually develops during the year. And, after the last five years, we've become somewhat reticent when it comes to trying to prognosticate on demand improvement. I think if you go back over the last three or four years, almost every year at this point in time there are prognosticators out there saying that there is going to be a dramatic improvement in the coming year, and I don't think we've seen that as of yet.

So, we are a little hesitant to prognosticate on that. But what we have focused on all along is lowering our costs so that we can make money at these low levels of end market activity. And through continuing efforts to streamline our operations, manage our raw material, supply chain management costs better, and reducing overhead wherever we can, we're going to drive improvements in profitability even at these low levels of end market activity. So there's upside; the question is how much?

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

We think we'll get at least one percentage point improvement in the coming year just with the activities that we have been working on and primarily concluding this year.

Tim Hayes - *Davenport & Company - Analyst*

Okay.

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

If that helps quantify it.

Tim Hayes - *Davenport & Company - Analyst*

That certainly does help quantify it, thank you.

Operator

Ken Zener, KeyBanc Capital Markets.

Ken Zener - *KeyBanc Capital Markets - Analyst*

Good morning, gentlemen. I appreciate your comments, Ken, related to guidance. I just want to be clear -- when you talked about the fourth quarter, the gross margin, were those comments -- and the 19% for 2012. So, is the gross margin, were you talking sequentially when you said gross margins, I believe in the fourth quarter, being flat, or was that versus last year?

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

Third quarter was flat relative to prior year at 19.7%.

Ken Zener - *KeyBanc Capital Markets - Analyst*

Right. When you're talking about the fourth quarter --

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

I didn't call out the fourth. I said flatness for the fourth quarter I was talking about revenue. Fourth-quarter revenue to year ago fourth quarter.

Ken Zener - *KeyBanc Capital Markets - Analyst*

Okay. So the tough comp last year was certainly part of the third quarter challenge. Then when you talk about the 19% for the year, given 3% sales growth, that's another way to back into the fourth quarter. So, it does seem as though it's maybe up only modestly year over year, given your full year guidance of 19%. Would that be --

---

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

Yes, that's true.

Ken Zener - *KeyBanc Capital Markets - Analyst*

Now, when you talk about the 21% gross margin, you were really referring to the third quarter -- what it would be like next year, all else being equal. Is that correct? And the 1% was for the expectation for the year of the gross margin?

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

There was some discussion we had that was relative to the volume, and we declined to comment on what volume would get us to 21%. And we did say, based on activity level this year, if sales remained at approximately the same level, we would have approximately a 1 percentage point improvement in gross margins.

Ken Zener - *KeyBanc Capital Markets - Analyst*

Right. And in this quarter the sales decline was about on the 20% operating leverage basis, is that what you would -- give as a baseline for next year?

(Multiple speakers)

Ken Zener - *KeyBanc Capital Markets - Analyst*

Thank you. Ken, the guidance around -- on 3% sales growth, what was the free cash flow? I know in the past you had said $30 million. Is that the same dollar value? I didn't pick up the percent that you were giving for free cash flow guidance.

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

For 2013, I think it would be in the area of 5%, 6%. Of revenues.

Ken Zener - *KeyBanc Capital Markets - Analyst*

Okay. And I guess what (multiple speakers) considering you're --.

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

Closer to 5%, because we're probably going to increase our CapEx spending in '13 over '12. A bit.

Ken Zener - *KeyBanc Capital Markets - Analyst*

Okay. And then, could you maybe frame out the M&A? You guys have talked about it in the past. Is there a ceiling we should think about in terms of size and/or the impact on your leverage?

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

Well, size wise --

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

We are not looking to over-leverage the Company. I think Brian was very clear in his comments on there, but we've got a very open perspective, looking at opportunities of varying sizes, from those that are very small bolt-on to others that would be significant. And we've not, at this point, determined there is an absolute size that we would not do.

Ken Zener - *KeyBanc Capital Markets - Analyst*

Okay. And then my last question, roofing is interesting. Obviously, you have a variety of products that go in there. When you talk about the seasonality of the weather, is that really the heat that we are talking about, or just the tough comps that we had from storms last year?

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

I think it was both. I think this summer was a very unusual weather pattern across the United States. I think we all would agree to that. It was very dry and it was very hot. And when it is very hot, and again, parts of the country had temperatures over 100 degrees in many areas that don't get temperatures over 90, had continuing days over 90. People just don't do roofing projects when it's that hot. They just don't go up on the roof. And this is the feedback we've gotten from contractors.

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

It was that and also if it's not raining, your roof is not leaking, so you're not going to fix it.

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

So it's easy to postpone.

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

Yes.

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

But inevitably it's going to get fixed. We've got a lot of data on roofing repairs and I know the number of houses -- and we know that in repair and remodel on roofing, it's about 80%, 85% of the total market activity. We have some real finite numbers that we know what the activity looks like, and many of those are postponed, and so the bad news, it didn't happen in '12. The good news is that will happen in '13.

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

I don't know if he got the significance of that, Ken, but what Henning said is that, when you look at the total roofing market in the United States, somewhere between 80% and 85% of that is re-roofing activities. Roofs become obsolete after a certain number of years, and have to be replaced. The new build portion of roofing is a relatively small percentage.

If you consider there are somewhere around 130 million homes in the US, and we build -- this year we're going to build less than 1 million, you can see how those percentages are driven. Where they come from. And then, the other thing that can impact that, of course, is storm activity.

In 2011, there was greater storm activity and replacement of roofs driven by that than there was in 2012. At least up until earlier this week, that was the case. Although, typically after major storm activity, there's a couple of month lag before the rebuilding/repair process begins to take place. But it can have an impact on all of that.

Ken Zener - *KeyBanc Capital Markets - Analyst*

Thank you.

Operator

Robert Kelly, Sidoti & Company.

Robert Kelly - *Sidoti & Company - Analyst*

Good morning, everyone. The 3Q year-ago bump from storm and related repair, any way to quantify that? I don't know if you have already; I apologize.

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

We haven't quantified that and I'm not so sure that we could

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

I'm not sure that we have. We thought about that and we -- I'm not sure we could get to a finite number that we can share.

Robert Kelly - *Sidoti & Company - Analyst*

Would you say it was a material bump in demand?

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

Not material.

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

If you look at the roofing industry statistics, it indicated that the roofing was up around 30%, and again, it depends on what reference you use. But from prior year, which was a little slower actually, it was up significantly last year, and we did participate in that upswing. That's about as close as we could get to it.

Robert Kelly - *Sidoti & Company - Analyst*

But roofing and ventilation and gutter products, what percent of sales is that for Gibraltar on the whole?

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

Well, we said in our remarks that unit demand was down about 5% of the 7% revenue decline. And I would say we would be in --

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

I would say, just looking at it real fast, it's about 28% of our total business, actually.

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

So you apply that against the 5%.

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

Yes, I'm just looking at our participation and the total sales volume we have, and it's in that order of magnitude.

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

So, it could be two percentage points of the 5% unit volume decrease.

Robert Kelly - *Sidoti & Company - Analyst*

So a couple points of volume from storms in the year ago. Is that a reasonable assumption for the current storms, a couple points of volume?

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

Could be. (Multiple speakers) this storm was -- it was like the other ones, regional, but it was a very broad region. This storm had a wide reach.

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

Plus, no two storms are alike. The truth of the matter is, the more devastating storms have less impact.

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

Because it takes longer to rebuild because you're totally rebuilding an entire house.

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

Right. As opposed to a less severe storm does a lot more roof damage, and so it's not a rebuilding process, it's a re-roofing process.

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

It's a repairing process.

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

So it's difficult to say from storm to storm how -- what type of damage has been done.

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

Our assessment is that this one would incur more repairing activity.

Robert Kelly - *Sidoti & Company - Analyst*

Fair enough. As far as the commentary in the press release about --characterize it as a lag for new res construction, what is the lag before Gibraltar would feel those orders?

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

We think it's at least six months (multiple speakers). If you take the latest data coming out of September and you and annualize it at a full-year run rate, it would suggest 875,000 starts. Now we know that we haven't seen 875,000 starts, but that's what it is being projected as.

And we've seen numbers for 2013, in terms of housing starts, that run probably as low as 720,000 and all the way up to 1 million units. I think the consensus is probably, right now, getting to be closer to something north of 850,000 and around 900,000, if one was going to have a range for housing starts in 2013.

And on top of that, LIRA, looking at remodeling activity, is suggesting double-digit growth starting in this fourth quarter of this year and running into the first and second quarter of next year. Now, we've been doing those studies for a number of years, and at this point there's a higher level of confidence that growth will start to be incurred.

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

Keep in mind, too, that we reach the construction markets for residential primarily through wholesale and retail distribution channels. And the key there is that those businesses and those channels have to feel the demand pull before they are going to want to increase the amount of inventory that they're going to be purchasing from us, which also adds to the time lag that Henning was talking about.

Robert Kelly - *Sidoti & Company - Analyst*

Okay, fair enough.

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

It comes, it comes. It's just not the immediate reaction that I think could be construed from the positive trend patterns that have been reported on lately.

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

Once the activity picks up, people get more confident. As they get confident they will start to order materials for inventory. And, again, you'll get a fast up-shoot and then people come to a normalized level and then it kind of levels off. That's what we anticipate.

Robert Kelly - *Sidoti & Company - Analyst*

Great. As far as the fourth quarter commentary, you said sales flat with 4Q '11. Are we to assume volumes are flat, or is there some sort of mix benefit? Will you still be comping down volumes in 4Q? How do we --?

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

We think volumes will be flat. We think we are going to have some mix benefit that we talked -- later, that the West Coast operations restructuring is starting to produce some positive effects, and that's going to give us a positive business mix. Which I think is what you're referring to.

Robert Kelly - *Sidoti & Company - Analyst*

In the last quarter you said you would have about $1 million total in the second half of '12 associated with that integration. You characterized it as far as an operating drag. With the push out of the closure, are you saving $500,000 in 4Q '12?

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

I think the closure -- the cost of the closure would've spilled some of it in the fourth quarter December, but much of it into January, February. Which we don't believe we are going to incur.

Robert Kelly - *Sidoti & Company - Analyst*

Right. Okay. So with -- when the closure eventually gets complete -- I think you referenced in the past contribution margin, incremental to margin, however you want to call it, of 30% to 35%. Are we still on track for something like that once you push through the integration?

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

Yes.

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

I think we said 30%. Not the 35% that -- that's a bigger spread.

Robert Kelly - *Sidoti & Company - Analyst*

It's just that, if you do a flat sales number in '13 and you do the point of gross margin improvement, we're somewhere north of that. So, is that a one-year thing because all the costs from West Coast are falling away, or is it (multiple speakers)?

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

No, it's continuous. I think the improvements we will see, we will continue to see that in coming years.

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

What we will -- particularly as the volume picks up, but for '13, a lot of it is due just to the costs of that integration falling away compared to what we expended in 2012.

Robert Kelly - *Sidoti & Company - Analyst*

And I know this is all kind of in theory, right -- so if volumes were the same in '12, and no additional costs or issues with West Coast consolidations, you can do a point of gross margin improvement from the full year 2012?

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

That's what we were explaining earlier.

Robert Kelly - *Sidoti & Company - Analyst*

If volumes were up higher, we should expect something north of that?

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

Sure, you get the higher leveraging as the overhead absorption goes up and -- absolutely.

Robert Kelly - *Sidoti & Company - Analyst*

And then, Ken, you mentioned CapEx being a little bit higher in '13 than '12.

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

Yes.

Robert Kelly - *Sidoti & Company - Analyst*

What's your budget for '12? I think you said $15 million in the past, (multiple speakers).

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

He said $15 million but we are going to spend less than that. (multiple speakers) I think we're on a rate to spend closer to $11 million the last time I looked.

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

In my remarks, I said $11 million to $12 million this year. I think for 2013 we could be in the upper teens or 20-ish.

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

Or low 20-ish, yes.

Robert Kelly - *Sidoti & Company - Analyst*

But even with that pickup in spending, you think 5% to 6% of sales is the right bogey?

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

Well, I went from 6% down to 5%.

Robert Kelly - *Sidoti & Company - Analyst*

Right. Understood. You never know, maybe the volumes come through. All right guys, thanks again.

Operator

(Operator Instructions). Seth Yeager, Jefferies & Company.

Seth Yeager - *Jefferies & Company - Analyst*

Good morning. Thanks for the guidance for 4Q. Just a couple of quick questions. The roofing OEMs, a couple of guys have guided towards some continued weakness in the fourth quarter. How do inventories look in the channel, and is that the same sort of expectation that you're operating under?

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

The inventories are very shallow in the channels, there's no doubt about that. I think, as we all know, Owens Corning did come out with a pronouncement indicating lower activity in roofing. And I think our experience mirrors very closely what they were indicating.

Seth Yeager - *Jefferies & Company - Analyst*

And it sounds like you guys -- if there's any benefit from the hurricane and rebuild activity, you probably wouldn't see that until at least the first or second quarter of next year.

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

Yes, we believe that's true. First and second quarter, I think we'll see, most likely, an increased level of activity.

Seth Yeager - *Jefferies & Company - Analyst*

Great, thanks. Last question, it sounds like your guidance implies an additional -- if I did my math right here -- another $25 million or $30 million of free cash flow in the fourth quarter. With rates where they are and your call price stepping down, how you are you prioritizing additional acquisitions versus refinancing of your capital structure?

And maybe just a follow-up on that. Given the improvement in the business and some of the tuck-ins that you're looking on, what's the level of comfort you have around leverage, going forward? Thank you.

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

Well, I'll just reply to what Brian said some minutes ago. That I don't see a change to our capital structure. Although, once we get past December, our notes have a lower redemption price and we are thinking more seriously about refinancing the bonds that we have outstanding to extend the maturities and take advantage of the lower interest rate environment. That said, our priority would continue to be deploying available liquidity to acquisitions.

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

Yes, I think Gibraltar and the view that we have, has an outstanding opportunity to accelerate the growth of our business. The market supports it, our cash position supports it so we are very optimistic as we look forward about some significant growth opportunities. I think that's where focus, as Brian had said, is and will remain.

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

I think simply put, it's two different issues. Ken is looking at the opportunity to refinance the debt that we have at a lower cost to the Company. And, secondly, we are comfortable with the leverage levels that we are at today. And while we are still going to be looking for acquisition opportunities, we don't want to stretch the leverage much beyond where we are today.

Seth Yeager - *Jefferies & Company - Analyst*

If I could just have a quick follow-up, on the public infrastructure side, have you guys started to see more projects open up now that we have a couple of years of federal funding in place, and what do backlogs look like in that business?

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

With the passage of the new transportation bill and a longer duration of that bill than the previous bills have afforded in the past, they were talking about six month or one quarter reinstatements of the past spending bill. This two-year bill certainly has helped because it gives states and local municipalities a longer timeframe to look at, when they consider what kind of projects they're going to undertake.

So this has increased the quoting activity for larger scale jobs, which is a positive for our business. I don't think there's any doubt in anybody's mind that there is a need for -- a long-term need for infrastructure spending here in the United States. There are 600,000 bridges in the US and the US DOT has evaluated those bridges and said that 25% of the bridges are either structurally deficient or functionally obsolete and are in need of repair.

So there's long-term demand there, and that's even before consideration is given to building any new bridges. So, we see the long-term demand as being there. I think there is a recognition in Congress that the $50 billion, plus a little bit of inflation spending, is a good level, but there is a need for higher spending levels and we'll see how Congress reacts to that in the future.

But for now, with the lengthened duration of the current bill, it definitely bodes well for longer-term projects coming into the mix.

Seth Yeager - *Jefferies & Company - Analyst*

Great, thanks a lot.

Operator

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

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

Thank you, operator, and thanks to everyone for listening in on the call today. We look forward to speaking with you again next quarter, and I have to say we are optimistic about our future. Thank you.

Operator

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