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PRESENTATION

Operator

Greetings, and welcome to the Gibraltar Industries Fourth Quarter 2022 Earnings Conference Call. (Operator Instructions) As a reminder, this conference is being recorded.

It is now my pleasure to introduce your host, Carolyn Capaccio of LHA Investor Relations. Thank you. You may begin.

Carolyn M. Capaccio - *LHA Investor Relations - SVP*

Thanks, operator. Good morning, everyone, and thank you for joining us today. With me on the call is Bill Bosway, Gibraltar's Chairman, President and Chief Executive Officer; and Tim Murphy, Gibraltar's Chief Financial Officer.

The earnings press release that was issued this morning as well as a slide presentation that management will use during the call are both available in the Investors section of the company's website, gibraltar1.com. As previously noted, Gibraltar classified the processing equipment business in the Agtech segment as held for sale with first quarter 2022 results has removed the related revenues and expenses from the processing business from its adjusted results and has taken a fourth quarter 2022 charge to write down the carrying value of related assets.

Gibraltar's earnings press release and remarks contain non-GAAP financial measures and tables of the reconciliation of GAAP to adjusted financial measures can be found in the earnings press release that was issued today.

Also, as noted on Slide 2 of the presentation, the earnings press release and slide presentation contain forward-looking statements with respect to future financial results. These statements are not guarantees of future performance and 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.

Now I'll turn the call over to Bill Bosway. Bill?

William T. Bosway - *Gibraltar Industries, Inc. - Chairman of the Board, President & CEO*

Good morning, everybody, and thank you for joining today's call. We'll start with an overview of fourth quarter and full year 2022 results, and Tim will take you through our financial performance, then I'll walk you through our 2023 outlook, and then we'll open the call for some questions.

So let's turn to Slide 3 titled 2022 Year in Review. The fourth quarter capped off a good year for Gibraltar as we stayed focused on execution of our key initiatives while operating in a very fluid and challenging external environment. Our team continued to demonstrate speed and agility and quickly pivoted in response to changes in dynamics in our end markets. Our focus on what we can control resulted in profitability and margin improvement in the fourth quarter and for the full year.

For the year, we improved adjusted operating income 18% and adjusted EPS 19% on 5% revenue growth. We generated 6% free cash flow with sequential improvement in both margin and working capital and expect our cash performance momentum to continue into 2023. As expected, our backlog decreased 12% during the quarter to $299 million, driven mainly by lower backlog in our renewables business. The solar industry continues to be impacted by panel availability as panel suppliers go through the learning curve with UFLPA importation requirements.

And while demand in solar remains very robust, which is reflected by project design activity, customer verbal commitments and master supply agreement discussions, customers still remain in a holding pattern with actual contract signing and project scheduling. And as a reminder, our order backlog only includes signed purchase agreements with contracts and contracts with deposits. We do see some movement in signs that panel supply efficiency will strengthen as we move through 2023. And we know our customers are working diligently every day to develop new and/or additional channel sourcing options to offset the impact of the ULFPA.

While backlog was also down in our Agtech business, project design and quote activity and the project pipeline is very strong, specifically for produce growers needing to expand capacity. Many of these projects were originally targeted for final release in Q4 2022 but were delayed due to rescoping both for scale and technology requirements. We anticipate backlog to build as purchase agreements are finalized throughout the year.

Switching gears to discuss our 5 key initiatives. We stayed very focused on these initiatives throughout the year, and we'll continue to build momentum on these same initiatives in 2023. 80/20 in operations execution helped us expand margin, drive service levels and increase participation. And this effort is even more important when operating in today's environment, which has an overall slower economy and one with unique headwinds faced in some of our end markets.

As a result, we executed structural changes in rightsizing actions across the company in the fourth quarter of 2022 to better prepare for the macro environment in 2023. We also improved our supply chain in the second half of the year as the economy began to slow. Commodity prices continue to shift downward and demand seasonality returned in our end markets, particularly in the residential market. With supply chain reliability and consistency improving, we began to drive inventory levels down, and in combination with strong margin performance, improved cash flow -- free cash flow sequentially.

Our digital transformation continued in 2022 with another successful go-live ERP implementation, this one in our residential business. Over the last 3 years, we have been upgrading and commonizing our ERP and CRM systems across our businesses, and we'll continue to make additional investments in 2023.

Digitizing our operations is helping scale our businesses, drive speed and agility and connect with our customers, suppliers and our people more effectively. And finally, organization, it continues to get stronger. It is more diverse in thought, experience and capability through education and development and with the addition of new team members to the team.

Safety performance is improving as we continue to invest in dedicated resources, education, training, better processes in both our facilities, but also in the field. And finally, nothing matters more than conducting business in the right and responsible way each day and doing it with discipline and focus.

Let's turn to Slide 4. I'd give you a quick update on dynamics in today's operating environment. There have been 5, I would say, very fluid core operating dynamics we've continuously had to address in real time over the last 24 months. Supply chain, commodities, labor, transportation and our solar business, solar panel supply situation. Each has created both a cost and an availability challenge and each has moved or changed direction with incredible speed and pace more than once.

So here's how I see things currently with each of these dynamics. Let's start with supply chain. There has been general improvement in reliability and performance consistency. This has allowed our customers and markets to adjust inventory levels to support and reflect historical seasonal demand.

As an example, in the residential market, the fourth and first quarters have represented lower demand periods, and the second and third quarters have tended to reflect peak demand periods. In 2022, for the first time since 2019, we returned to historical seasonal demand as we exited the third quarter and entered the fourth.

Secondly, commodities. Pricing, particularly for steel, aluminum and resin has been correcting since mid-2022. And although we are seeing more stability, I want to emphasize it is really important we stay prepared for sudden or unexpected price movement.

Third, labor. It has improved overall as the economy has slowed and demand seasonality has returned to more normal patterns. We also continue to drive productivity improvements to lessen our dependency on the amount of labor needed to support our businesses.

Fourth transportation freight rates have improved significantly, particularly ocean container rates and availability and reliability for over-the-road and ocean transportation has improved as well. And then finally, panel supply. Panel suppliers continue to slowly come up the UFLPA learning curve, and we look for panel availability to improve later in the year. At the same time, customers are finding some panel supply through other sources not necessarily subjected to the UFLPA requirements. And the contracts we finalized and signed in 2022 and in 2023 reflect this.

These panels are typically more expensive for customers, but the incremental investment tax benefits from the inflation Reduction Act can make the overall economics of sourcing higher-cost panels more palatable for customers than prior to the IRA being in place.

Let's turn to Slide 5. We'll talk a little bit more about commodities. Hot-rolled coil steel, plate steel and aluminum spot prices have shifted downward as true demand and supplier are in better alignment. That being said, we are prepared with better processes and tools to react to unexpected price movement if it occurs.

Structural steel spot prices have reduced slightly as well. But interesting enough, prices for all of these commodities continue to remain above pre-pandemic levels. When commodity inflation accelerated over 50 consecutive weeks in 2021, we worked with our customers to implement price actions accordingly, which took 3 quarters to read through in our margin performance.

In the case of residential, our customer contracts also include price indexing for changes in commodity prices. And as commodity prices quickly shifted downward in 2022, we made some price adjustments in the second half of the year. In parallel, we stayed focused on managing our overall cost and aggressively started reducing higher cost inventory on hand. This is a positive development for us and the industry and has driven healthy alignment of inventory and demand as we move into 2023.

In general, the price cost alignment process is impacted most by the speed and magnitude of the change in commodity prices and as experienced in 2021 can take 2 to 3 quarters to achieve. So we will continue to accelerate our 80/20 and material labor productivity initiatives as well as closely manage this process with our customers.

Let's move to Slide 6 for an update on the panel supply issue in the solar industry. So as many of you are aware, we've talked about this a lot. There are 2 trade issues impacting the solar panel supply for the U.S. market. The Uyghur Forced Labor Prevention Act, known as UFLPA, and the Department of Commerce's antidumping countervailing duties investigation. So of the 2, the UFLPA continues to materially impact panel suppliers' ability to import their panels into the U.S. And as a result, customers' ability to move forward with some projects.

Since June of 2022, when UFLPA was implemented and enforcement by the U.S. customer order protection started, analyst suppliers have worked with the [CBP] to understand documentation requirements in the CBP's process. Roughly 15 suppliers serve the U.S. market in 3 tiers and 80% of U.S. solar panel demand is supported effectively by 5 Tier 1 suppliers. The industry started seeing progress in January with one of the largest suppliers having success on a few shipments, and we're looking for continued progress across additional suppliers in 2023.

On the second issue, the Department of Commerce issued a preliminary ruling in December that a number of Chinese solar panel manufacturers have been circumventing AD.CVD orders by moving assembly operations from China to Thailand, Cambodia and Vietnam and Malaysia. Final Ruling is now expected in May of 2023. Administration has instructed the DOC to implement a 2-year waiver on tariffs, which went into effect shortly before the preliminary ruling was announced.

We've been in the sole industry for 8 years and 12-plus years when you take into account when the companies were acquired -- when the companies we acquired actually started in this business. And so we remain very excited and committed to this industry. There's strong demand both globally and in the U.S., and solar energy is and will continue to play a foundational role in U.S. energy policy going forward. As well, the new inflation Reduction Act provides even greater incentives, which will drive more investment and stronger financial returns for the industry over the next 10 years.

We see momentum accelerating every day as existing customers share plans to expand and new investors are starting to enter the market again. We are well positioned, and we remain focused on the C&I segment, and I expect industry in our business to flourish as panel supply improves. Our 2023 plan assumes customers continue to find creative ways to source panels are able to gain incremental benefits from their projects from the IRA and overall panel supply through the UFLPA improves in the second half of the year.

And with that, I'll turn it over to Tim for a review of our financial results.

Timothy F. Murphy - *Gibraltar Industries, Inc. - Senior VP & CFO*

Thanks, Bill, and good morning, everyone. Take you through our consolidated segment results, starting on Slide 7. Adjusted fourth quarter revenue decreased 5.2% to $312.9 million. Organic revenue decreased 9.8%, partially offset by a full quarter of quality aluminum products revenue in the Residential segment and revenue growth in the infrastructure business.

The organic decrease related to volume impacts from the markets returned to historically lower fourth quarter seasonal demand patterns as supply chain reliability improved, along with market prices beginning to align with changes in commodity indexes in residential, along with continued impacts from project rescoping and rescheduling in our Renewables and Agtech businesses.

Backlog at quarter end was $299 million, down approximately 12% for fourth quarter 2021, with continued impacts from renewables customers owing greater visibility on near-term solar panel availability and project rescoping and rescheduling at Agtech, partially offset by continued demand in infrastructure. Adjusted operating income and adjusted EBITDA dollars increased 17.8% and 16.6%, respectively, in the fourth quarter with adjusted EPS up 28.6%.

Quality aluminum products added $0.01 to our adjusted EPS in the quarter. Margin improvement in the quarter was driven by material cost alignment, additional field operations efficiency, price management, business mix and 80/20 initiatives in the renewables and infrastructure segments. Weighted average shares outstanding decreased 5.4% to 31.3 million shares in the fourth quarter, and I'll review our share repurchase program in a moment.

Now let's review each segment starting with Slide 8, the Renewable segment. Revenues decreased 20.8% and backlog was down 17% as strong customer demand for solar products and services was impacted by solar panel suppliers navigation of panel importation guidelines covered by the UFLPA is enforced by the U.S. Customs and Border Protection Agency. That's affecting scoping and scheduling projects.

With customers in a holding pattern until visibility on panel availability improves, customer project planning and pipeline activity remains firm and our pool of contracts in process but as yet unsigned continues to build. And as a reminder, our backlog consists only of signed contracts with deposits. We do not include purchase orders without a signed contract and deposit, MSAs without specific work orders or verbal agreements with customers in our new bookings or backlog.

We further improved profitability despite importation issues impacting revenue with adjusted operating margin of 15.2%, increasing 1,390 basis points year-over-year and 230 basis points sequentially. Similarly, adjusted EBITDA margins increased 1,440 basis points to 17.9%. Margins were driven by field operations productivity, 80/20 project management, business mix and materials productivity.

Our outlook for 2023 expects progressive revenue growth throughout the year based on our assumption that panel supply will improve in the second half of the year as suppliers move up the UFLPA importation process learning curve, and we expect margins will continue to show improvement through 2023.

We continue to improve efficiencies through further integration with common ERP systems by accelerating best practices and supply chain, allowing us to capitalize on material efficiency and realize lower cost rate and in-sourcing initiatives as we continue to invest in manufacturing capabilities to improve our ability to meet our customers' needs.

Let's move to Slide 9 to review our Residential segment. Segment revenue increased 7.8% with a full quarter QAP revenue contributing 9.4% and organic revenue down 1.6%. As I mentioned, organic revenue is impacted by the markets return to its usual lower fourth quarter seasonal demand patterns with supply chain reliability improving and market prices beginning to align with commodity indexes.

QAP, which was acquired in August, performed as expected. As a reminder, about 75% to 85% of our residential business is driven by existing home repair, either because of aging or weather damage. And historically, home repair, particularly to the roof has not seen significant impacts from changing interest rates. And while market expectations indicate a slowdown in new homebuilding, we expect repair markets that we serve to remain solid.

Segment adjusted operating income and adjusted EBITDA decreased 13.2%, 10.1%, respectively, and adjusted operating and EBITDA margin contracted 320 basis points and 300 basis points, respectively. The inclusion of a full quarter of QAP contributed about 110 basis points of the decrease. And on an organic basis, the alignment of price and material cost and timing of changes in commodity indexes impacted margin in the quarter.

The integration of QAP is proceeding well, and our combined team is finding additional opportunities to integrate and improve the business. We expect segment margins to expand this year as price cost alignment improves and QAP integration benefits are realized. We also plan on 2 additional ERP implementations this year as we continue to migrate to a common solution in our residential business.

Let's move to Slide 10 to review our Agtech segment. Adjusted revenue decreased 17.4% due to project rescoping and rescheduling of large produce growing projects into 2023. Our commercial greenhouse business remains strong with a solid mix of business. While backlog decreased 13%, quote activity remains robust, and we expect produce projects that have been delayed with our key customers to move forward.

Segment adjusted operating and EBITDA margin decreased 420 and 350 basis points, respectively, as project rescheduling delayed project revenue recognition, partially offset by better project execution. We expect margin to recover as we execute during 2023. And as announced in January, we recorded a $14 million pretax charge to write down assets associated with our processing equipment business, which was classified as held for sale last March to estimated fair market value. And we expect to pursue the sale of the business, and we'll provide updates as we have them.

Let's move to Slide 11 to review our Infrastructure segment. Segment revenue increased 4.8%, driven primarily by increased demand for non-fabricated products. Order backlog increased 23% as State Departments of transportation gain visibility on federal funding bidding activity increases. We're enter 2023 with solid momentum, expect to see spending increases as the states take advantage of the additional funding available through the infrastructure investment and Jobs Act.

Segment-adjusted operating income more than doubled and adjusted operating and EBITDA margin increased 720 and 700 basis points, respectively, driven by improved price material cost alignment, particularly from plate steel pricing, improved operating execution, product mix and volume leverage. We expect continued margin improvements in 2023.

Let's move to Slide 12 to discuss our balance sheet and cash flow. At December 31, we had $305 million available on our revolver and cash on hand of $18 million. During the quarter, we generated $64 million in cash from continuing operations, including $32 million generated from reductions in working capital. This represents a reversal of the use of cash for working capital that we experienced over the past few quarters that resulted from supply chain disruptions and our drive to remain in stock for our customers.

Fourth quarter saw a return to historical seasonality in accounts receivable. We reduced material orders during the third quarter as supply chains began to recover and lead times normalized, and these actions provided an accelerated reduction of inventory levels during the fourth quarter. Accounts payable also came down as we limited purchase of inventory and other liabilities came down in line really with progress on projects and the decline in backlog.

As a result, we improved our free cash flow generation during the fourth quarter to 19% of revenue, ending the year at our updated target of 6% of revenue. We paid down $38 million on our revolver during the quarter, and we also renewed and extended our $400 million revolver with favorable terms and conditions during the quarter.

At quarter end, we had $91 million outstanding on our revolver for net leverage of under one-half turn. We're focused on driving continued improvement in our operating cash generation in 2023 with lower investment in working capital as we work down inventory further, and we're targeting free cash flow about 10% of revenue for the year.

We continue to expect to use generated cash flow to fund investments in organic and inorganic growth along with opportunistic stock repurchases, supplemented as needed by the use of our revolver depending on timing of any M&A or repurchases.

Let's move to Slide 13. In I'll give you an update on our share repurchase program. During the fourth quarter, we repurchased 664,000 shares with a market value of $30.3 million for an average price of $45.69. We funded this repurchase through our revolver. In 2022, we expended approximately 43% of our $200 million authorization. And at quarter end, we had 30.9 million shares outstanding with a weighted average shares of $31.3 million during the quarter.

Now I'll turn the call back to Bill.

William T. Bosway - *Gibraltar Industries, Inc. - Chairman of the Board, President & CEO*

Thanks, Tim. Let's move to Slide 14, and we'll talk about our 2023 priorities. In the past 3 years and certainly in 2022, I'd say we successfully managed through a number of external challenges by focusing on what we can control and simplifying our business. The external environment continues to be very fluid, requiring we stay this course. And so as I mentioned earlier, our priorities and focus are unchanged. We have plenty of opportunity in front of us to generate growth to drive quality earnings further, enhance our margin and generate good cash performance.

So let's move to Slide 15, and then we'll move on to '16 to discuss key trends and initiatives that support the 2023 outlook for each of the businesses. Let's start with renewables. Our outlook overall assumes panel supply does improve in the second half of the year to support the robust demand pipeline of projects waiting to finalize sign and execute.

We had a good bookings month in January as some of our customers continue to source panels through additional sources. We also expect the IRA guidelines for new and additional incentives to be finalized in the first half of 2023. That takes us to our key initiatives for renewables.

First, the launch and ramp of our new 1P tracker product, which really complements our 2P offering, giving us a broad tracker solution portfolio for customers. Our EBOS growth initiative with C&I and utility customers is gaining momentum, supported by good and growing order backlog. And our 80/20 initiatives, customer line simplification, product line simplification and project estimating management are improving our ability to efficiently scale and drive better margin performance as we execute on demand.

Switching to residential. We expect the repair end market to remain relatively consistent with 2022. We expect the continuation of downward pressure on new housing construction, and we expect demand seasonality to return to historical levels given the general performance improvement of the supply chain. Our key initiatives are really to execute on our participation playbook like we have over the last 2 years, continue to execute 80/20 and productivity initiatives and integrate QAP according to our acquisition plan.

On Slide 16, for Agtech, we expect a number of our produce growers to move forward with capacity expansion projects that were previously earmarked for 2022. We also expect the momentum in our commercial business to continue and investments in cannabis growing to restart at facilities in states where license approvals are now moving forward.

Our initiatives in this business first support produce customers with their capacity expansions, execute the rollout of retail greenhouse additions and deliver our 80/20 CLS and PLS projects and finally drive margin performance of 10% plus for the year.

And finally, infrastructure. This business has strong momentum entering the year with both engineering and order backlog growing at a strong pace and is executing one of the largest customer projects in the history of the company, which recently was awarded in Q4 of 2022. We see the infrastructure investment and jobs act of driving demand in 2023 and beyond, bolstered by state and federal DOT funding now in place. As well, airport authorities are also funding runway surface repair and maintenance initiatives.

So our key initiatives for this business are expanding engineering capacity to support our growing order backlog, leverage the 80-20 investments made in 2022 and the new initiatives currently in process in 2023 and deliver growth and margin expansion for the year.

So let's now turn to Slide 17, and we'll discuss our 2023 guidance. Our outlook for 2023 assumes modest growth, continued margin expansion and strong cash performance. Outlook for consolidated revenues in the range of $1.36 billion to $1.41 billion compared to $1.38 billion in 2022. Given the continued fluidity of our end markets, this range assumes a down organic scenario at the low end and modest growth at the high end.

GAAP operating margin should range between 9.9% and 10.1% compared to 9.4% in 2022 and adjusted operating margins should range between 11% and 11.2% compared to 10.9% in 2022. GAAP EPS should range between $3.04 and $3.24 compared to $2.56 in 2022, and adjusted EPS should range between $3.46 and $3.66 compared to $3.40 in 2022.

Free cash flow as a percent of revenue will reach 10% compared to 6% in 2022. We are -- Confident we will execute and deliver solid performance despite the fluid environment impacting some of our end markets. And our confidence is bolstered by the progress made in our market positioning, our new product introductions, our systems and process improvements, our ability to drive participation and margin expansion and the strength of our organization. We have proven our ability to manage constant change and adjust our operating paradigms as needed to drive results, and we expect to get off to a solid start in the first quarter.

I want to thank our entire team for a good performance in 2022. I'm proud of what we have accomplished, the challenges we have overcome and the agility and resiliency of the organization. The entire team looks forward to another good year in 2023.

And with that, let's open the call for your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from the line of Daniel Moore with CJS Securities.

Daniel Joseph Moore - *CJS Securities, Inc. - MD of Research*

Bill, Tim. I apologize for the background noise here. Maybe start with residential. Margins a little lower than we've seen. Can you kind of break that out? I think you said QAP was about 110 bps. Is that right? How much was absorption versus misalignment of input costs? And what's your outlook for Q1? And how quickly we can get back to those kind of mid- to high teens margins we've seen over the last couple of years?

Timothy F. Murphy - *Gibraltar Industries, Inc. - Senior VP & CFO*

Yes, I can. So you're right on the 110 decline due to the QAP. That's just blending in a lower margin business before we complete the integration. Dan, it's mainly -- I mean, there's a bit of absorption, right? Volumes are (inaudible) always had that. But it was mainly really the material cost alignment as prices declined, and we had to give price in some places and just getting the right cost material back in.

Expectations are first quarter is going to be seasonally impacted again, but we expect for a full year that will be higher than we were.

Daniel Joseph Moore - *CJS Securities, Inc. - MD of Research*

Sorry, Tim, you said you expect for the full year to be higher than I mind the last one than Q4 or than last year?

Timothy F. Murphy - *Gibraltar Industries, Inc. - Senior VP & CFO*

Than last year, right? So year-over-year will be up.

Daniel Joseph Moore - *CJS Securities, Inc. - MD of Research*

Got it. Perfect. Switching to renewables. Just talk a little bit more about activity. I thought I heard you say a solid booking in January. I know it's early and the expectations, obviously, for much more improvement in H2, but anything you can talk to in terms of what discussions have looked like year-to-date and what your visibility looks like and to when would you expect backlog to start to improve, that would support the fiscal overall 2023 guide?

William T. Bosway - *Gibraltar Industries, Inc. - Chairman of the Board, President & CEO*

Yes. So Dan, we -- our renewables business is not projected to grow a lot in 2023 just because the way the plan is built due to the UFLPA and the ramp in the second half. What's been good news around this front is customers are finding ways to source panels that are not necessarily governed by the UFLPA panels coming from different countries or different sources that are not sourcing raw material that is the subject of the entire import process in the first place.

But what that means is the spicket still hasn't turned all the way on for the industry. But if you're aligned with the right customers, you have the potential to continue to drive backlog improvement. And I would expect that to start picking back up as we go forward in the year and a lot of -- I can't tell you how robust activity is as if we don't have a panel supply issue in the industry. It's just a lot of pent-up demand. But I think our backlog will continue to build and you start to see it turn as we move later into the first quarter into the second quarter, first half of the year, I think you'll start to see improvement. As UFLPA opens up, hopefully, you'll see that really start to take off.

Backlog is one thing. And then the question is when the panels start to flow in, how quick can industry respond to that opportunity. And it won't be flip to switch because it's -- you got to get the engine going again across the industry, but I do think second half will build as we have built in the plan. So backlog shouldn't start improving in the first half to some degree. And then hopefully, we'll continue to build in the second half as we build the plan around that.

Daniel Joseph Moore - *CJS Securities, Inc. - MD of Research*

Perfect. And maybe last, just talk a little bit about, obviously, the guide is a little bit more weighted toward the back half, given probably near-term softness in renewables as well as the seasonality in residential. Any guidance in terms of either revenue growth or kind of EPS Q1 and H1 relative to H2?

William T. Bosway - *Gibraltar Industries, Inc. - Chairman of the Board, President & CEO*

Yes, I would just say we're going to -- we feel like we're going off to a solid start. We expect to get off to a solid start in Q1, and we'll have more and more visibility on timing of how things will flow by quarter as we go into the year versus kind of how we built the plan. So as we said up front for the full year, we feel in both top line and bottom line, we can grow a little bit and we can drive margin expansion and EPS improvement. How that flows in the year, I think we'll learn a little bit more as we go through each quarter, but we feel like we'll get off to a good start, our solid start, and we'll take it from there.

Operator

(Operator Instructions) Our next question comes from the line of Julio Romero with Sidoti.

Julio Alberto Romero - *Sidoti & Company, LLC - Equity Analyst*

Bill and Tim, maybe to start off on the Renewables segment. If you could maybe talk about the revenue mix you saw in the fourth quarter, just the 15% op margin was -- seemed really impressive there. I'm just curious what kind of mix changes you saw?

William T. Bosway - *Gibraltar Industries, Inc. - Chairman of the Board, President & CEO*

I wouldn't say there's a whole lot of mix changes fully as much as it was just the continuation of the effort the team was putting forth and driving execution. So if you recall, going back to the beginning of the year, where we're struggling with -- when the panel situation really hit the industry, and we had a lot of field operational inefficiency associated with project movements and so forth. That starts to settle down as the year goes on. You get your arms around the projects that are actually have panels associated with them, you're working directly to customers. And we've just done a tremendous amount of work on our ability to execute in this environment differently than we would have a year prior.

So a lot of 80/20 associated with starting from estimating all the way through project management down into the field working the supply chain and working on material productivity. It's a combination of a lot of things that started to build over the last 8 months that just drove better productivity and better performance on the margin side.

I don't think -- we did all that in a down environment in the second half, which we expected -- if you guys recall, we expected revenue to slow in the second half of the year as bookings did because of panel availability and we shifted our focus to make sure that we could drive better performance even in a down environment, but it had really nothing to do with sales mix, if you will.

Julio Alberto Romero - *Sidoti & Company, LLC - Equity Analyst*

Okay. No, that's really helpful. And I appreciate the color or the alleviation of the field op inefficiencies there. I guess when you talk about how you're thinking about the segment for '23, I think you mentioned in the prepared remarks you expect progressive revenue growth in the renewable segment throughout the year. How about on the margin front? I mean can you maybe speak to the cadence of margins expected and how that should flow throughout the year?

William T. Bosway - *Gibraltar Industries, Inc. - Chairman of the Board, President & CEO*

Yes. I would -- our plan is built on margin improvement in that segment for the year. And it will correspond somewhat with -- as the revenue flows as well. So our hope at the end of the day is that our plan at the end of the day is as the volume starts to come back, the top line starts to accelerate, we'll be able to leverage that incremental or leverage that growth in a better way than we could have a year or so ago because of what I just described in terms of improvements that are being made. But I think that will build in the course of the year just as the -- it will correlate with the, I think, the sales growth that comes throughout the course of the year as well.

Julio Alberto Romero - *Sidoti & Company, LLC - Equity Analyst*

Okay. That's helpful. And I guess, just last one for me. You saw some very solid free cash flow in the fourth quarter. I guess the 10% guide for '23 is based on additional reduction of inventory? Or are there any moving parts (inaudible) available.

William T. Bosway - *Gibraltar Industries, Inc. - Chairman of the Board, President & CEO*

Two things that drive for us. One, just margin expansion, that's the core. And then two, just with supply chain situation much different than it was. It enables us, along with some things we've done internally to just drive down the amount of inventory that we've had to invest in the last 2 years. So those 2 things really are what's going to drive cash performance. And frankly, we expected the supply chain to get a little bit better sooner than it did in 2022. It did it took probably an extra quarter again, as we're going through yet another shift in the macro world. But we see that much more stable, and that's going to drive, as we mentioned in the prepared remarks, the ability to align inventory and demand to seasonal demand in a different way. And so we've been working on that for the last 6 months. We have more work to do, but that's where the cash performance comes from those 2.

Operator

We have reached the end of the question-and-answer session. Mr. Bosway I would now like to turn the floor back over to you for closing comments.

William T. Bosway - *Gibraltar Industries, Inc. - Chairman of the Board, President & CEO*

Well, thanks, everyone, again, for joining us today. We will attend the Bank of America Clean Energy Leaders Conference next week in Boston. And we also expect to present at the Sidoti Small Cap Conference in late March. And of course, we look forward to updating you again when we report our first quarter results. So with that, I want to say thank you once again, and have a great rest of your day.

Operator

Ladies and gentlemen, this does conclude today's teleconference. You may disconnect your lines at this time. Thank you for your participation, and have a wonderful day.
