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PRESENTATION

Operator

Greeting and welcome to Gibraltar Industries Q2 2022 Earnings Conference Call. (Operator Instructions) A question-and-answer session will follow the formal presentation. (Operator Instructions) As a reminder, this conference is being recorded. I would now like turn the conference over to your host, Caroline Capaccio, LHA Investor Relations. Please go ahead, Ma'am

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Caroline Capaccio

Thank you Operator. Good morning everyone and thank you for joining us today. With me on the call is Bill Bosway, Gibraltar Industries' 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 the slide presentation that management will use during the call, are both available in the Investor section of the company's website, Gibraltar1.com. As noted in the earnings press release issued today, Gibraltar has classified the processing equipment business in the Agtech segment as held for sale with first quarter 2022 results and has removed the related revenues and expenses from the processing business from its adjusted results. Gibraltar's earnings press release and remarks contain non-GAAP financial measures. (inaudible) the reconciliation of GAAP to adjusted financial measures can be found on the earnings press release that was issued today.

Also, as noted on slide 2 of the presentation, the press release and slide presentation contain forward-looking statements with respect to future financial results. These statements does not guarantee the future performance and the company's actual results may differ materially from any 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 we'll turn the call over to Bill Bosway. Bill?

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

Good morning everyone and thank you for joining today's call. We'll start with an overview of second quarter results and financial performance, and we'll talk about our outlook for the rest of the year, and then we'll open the call for your questions. So let's turn to slide 3 and we'll start with second quarter 2022 results. We generated solid revenue growth and margin expansion in the quarter with adjusted revenue up 7%, adjusted operating income up 20%, adjusted EBITDA up 16%, adjusted EPS grew 19% to $0.96 per share.

Renewables, Agtech and Infrastructure margins improve sequentially as expected and our Residential business delivered both strong revenue and margin performance. Our order backlog increased 5% to $408 million and demand drivers remain relatively healthy across our end markets, despite ongoing trade challenges impacting our Renewables customers and continue to drive additional participation gains in our Residential business and Agtech and Infrastructure bookings are accelerating. Renewables customers continue to wait for clarity on panel availability so they can finalize projects and book additional orders for the second half of the year, as well as in 2023.

Our performance reflects our continued focus on 80/20 execution, supply chain optimization, accelerating the digitization of our operations, keeping our organization as healthy and flexible as possible and continue to conduct business the right, responsible way every day. I'd say at the halfway point of the year we are tracking to our full year performance objectives.

Let's turn the slide 4 for an update on commodity price and supply. Just as a reminder, there are really 3 main core commodities we use across the company: steel, aluminum and resin. We focus on 3 drivers relative to each commodity. First, the absolute price of the commodity. Second, the price variability of the commodity. And then third, obviously the availability of the commodity. In general, availability of each core commodity is better than last year, but pricing continues to be dynamic due the macro environment and the geopolitical situation.

Hot-rolled coil steel price fell from its high of $2,000 a ton in Q4 2021 to $1,329 at quarter end, and it continued to fall as we entered the current quarter. Structural and plate steel used in our Renewables and Infrastructure businesses increased during the first half of year, but recently structural steel prices have come down between 3% and 4%. According to the June report from IHS MARKIT, steel prices is forecasted come down further over the next 12 to 18 months. And we'll see how that happens and we'll remain agile as steel prices move.

Aluminum rose to peak level in Q1 2022, and then came down slightly during the second quarter. There are a number of variables impacting aluminum price, including ongoing energy crisis in Europe, which actually started in 2021, the rolling COVID lockdowns in China and the additional energy supply pressure in Europe stemming from the Russia-Ukraine conflict. We do expect aluminum prices to remain elevated and probably through 2023.

Given the current price cost environment, we're just going to continue to execute across our three core initiatives. Number one, just trying to keep our price and input cost balanced and implement changes in a timely, efficient manner. Secondly, just continue to execute and accelerate more 80/20 initiatives to drive productivity and cost reduction. And finally, third, continue to optimize our contract terms and conditions with our customers to try to balance and share potential risk in the current environment.

Let's move to slide 5 for an update on panel supply to the solar industry. The two trade issues the withhold release order, the WRO, which has been succeeded now by the UFLPA, which stands for the Uyghur Forced Labor Prevention Act, and the Department of Commerce's anti-dumping and countervailing terrorist investigation, referred to as the AD/CVD, both remain active and continue to limit visibility and clarity for panel supply.

First, let's start with the UFLPA, which is - which was signed into law last December, was implemented here just recently in late June, and is enforced by the US Customs and Border Protection. Effectively, the law requires importers of record to prove via traceability processes and documentation that quartzite material mined in Xinjiang province is not contained in panels deployed in the US. I'd say the industry's working with the US Customs and Border Protection to understand importing traceability requirements for both successful and efficient importation, and there's a learning curve associated with that.

Second, the Department of Commerce is expected to issue its preliminary ruling in late August, so later this month, with its final ruling in January, 2023. If the Department of Commerce finds in favor of the complainant, future panel imports can be assessed duties and it is possible the DoC will make these duties retroactive to when the petition was accepted, or earlier.

Now, that being said, while the administration instructed the DoC to implement a 2-year waiver on tariffs, the DoC has not yet executed an order to do so. And we believe this will be done in conjunction with or around the time of the DoC's preliminary ruling on the AD/CVD case. As a result, the industry has effectively continued its pause in executing finalizing many existing and future projects as we've expected. We do expect the 2-year tariff waiver to be implemented and provide much needed clarity on tariffs for the industry going forward. Also, in our view, the DoC's preliminary ruling will provide solid direction to the industry on what to expect in its final ruling, again, due in January. We also believe the administration will continue to support the solar industry, given the importance of renewable energy production in creating a balanced energy plan for the US.

For our Renewables business, the scenarios we planned coming into 2022 really do remain consistent, given our experience in Q2, the first half and our current outlook for the second half. I would say the industry really looks forward to the DoC's preliminary decision and getting through the UFLPA learning curve so the industry and our customers can finalize project plans for 2023 and 2024.

With that I'll turn over to Tim for a review of our results.

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

Thanks Bill and good morning, everyone. I'll take you through our consolidated and segment results, starting on slide 6. And as a reminder, my discussion will cover the results from continuing operation and exclude the related revenues and expenses from the Agtech segment's processing equipment business, which have been removed from adjusted for both 2021 and 2022 as a result of the classification of this business as held for sale during the first quarter.

Adjusted second quarter revenue increased 6.8% to $364.2 million. This growth was purely organic and was driven by price management and participation gains in Residential, partially offset by panel supply challenges in Renewables and project delays in Agtech. Backlog at quarter end was $408 million, up over 5% from second quarter 2021, driven by continued end market demand. Adjusted operating income and adjusted EBITDA increased 19.9% and 16.3% respectively in the second quarter, with adjusted EPS up 18.5%. Margin improvements in the quarter were driven by price management, participation gains, business mix and 80/20 initiatives, with Residential and Agtech margins continuing to expand and Renewables and Infrastructure generating sequential improvement. Weighted average diluted shares outstanding decreased 1.2% to $32.7 million in the second quarter due to our share repurchase program.

Now let's review each segment starting with slide 7, the Renewables segment. Segment revenues decreased 5.8%. The decrease reflects movements in project schedules as customers work through trade issues affecting panel supply, as Bill outlined. We continue to work with our customers to ensure panels are in hand before we begin to manufacture racking and mobilize our field installation crews. End market demand in our commercial and industrial space continues to be very active with new project planning discussions despite the general industry pause related to panel issues. The industry pause, as expected, slowed new bookings in the second quarter and our backlog was down 2% as a result. As a reminder, we only include signed contracts with deposits as an actual order. Purchase orders without a signed contract and deposit and/or verbal agreements with customers are not and never have been included in our bookings or backlog results. We do expect the pace of signed orders to resume once the DoC issues its preliminary decision later this month.

As expected, profitability improved from first quarter 2022 with stronger project execution, the completion of a handful of lower-margin projects impacted by price material cost misalignment and labor inefficiency related to severe weather. Segment adjusted operating income was $7.1 million and EBITDA was $9.4 million. This represents an $11.4 million and $11.3 million sequential improvement, respectively, for sequential margin expansion of 1,240 and 1,170 basis points, with margins reaching double-digit levels in both May and June. Versus last year, adjusted operating margin and EBITDA margins decreased 430 and 420 basis points respectively through the aforementioned project inefficiencies and delays due to panel supply, along with price material cost misalignment driven by structural steel inflation.

Our integration remains on track. We went live with our common ERP system across the segment and we're on schedule to execute our insourcing synergy plans during the second half of the year. These investments will further simplify our business and increase service levels with our customers.

Let's move to slide 8 to review our Residential segment. Segment revenue increased 21.9%, all organic, and this quarter marks our eighth consecutive quarter of double-digit growth. Revenue was driven by price cost management and participation gains, both new and carryover, in the Building Products and Mail and Package businesses. Our Residential segment continues to see solid demand with 80% to 90% of its business driven by existing home repair, either because home aging or weather damage. Historically home repair has not seen significant impact from changing interest rates. Repairs, especially to a roof, typically occur, regardless.

Segment adjusted operating income and EBITDA grew 36% and 32.2% respectively. Adjusted operating and EBITDA margin improved 190 and 150 basis points respectively through effective price cost management, continued supply chain initiatives, labor management, and 80/20 activities. We went live with a new ERP system in our Mail and Package business during the quarter. And the system's designed to provide better visibility into the business and allow for greater automation as we work through change management and mature in the use of the system. We'll continue to implement this [ERP] (corrected by company after the call) system across the remainder of our Residential operations to create stronger customer connections, drive speed and agility of service, win participation gains and increase productivity across the entire organization.

Let's move to slide 9 to review our Agtech segment. Adjusted segment revenue decreased 11.9% as produce and cannabis projects shifted into the second half of the year. The commercial business continues to be robust with good momentum as we head into the second half. Despite second quarter demand shifting, backlog was up 30% in the quarter and given the number and size of projects currently in final planning stages, we expect demand momentum to accelerate into the second half and for 2023.

Segment adjusted operating and EBITDA margin improved 80 and 100 basis points respectively on improved business mix, effective price cost management, benefits from continued supply chain optimization, continued 80/20 and lean initiatives and our integration activities. We're set up well for continued performance improvement in this business and expect positive margin momentum through the year as we convert our backlog, make additional system improvements and benefit from improved business mix. With respect to the potential processing equipment sale, we're in active discussions and we'll provide updates as appropriate.

Let's move to slide 10 to review our Infrastructure segment. Segment revenue decreased 5.3% against a very strong Q2 2021, which benefited from timing of projects. Quarter backlog was essentially flat in the quarter versus last year due again to the timing of orders, while engineering backlog activity was very strong. Bookings accelerated early in the third quarter with beneficial mix and we continue to expect incremental government spending from the infrastructure bill towards the end of 2022. Segment adjusted operating and EBITDA margins improved sequentially 690 and 600 basis points respectively as we work through fixed price projects with state department of transportations that were signed in 2020 and 2021, and have been affected by structural steel and plate steel inflation. On a year-over-year basis, operating and EBITDA margins were down due to the unfavorable product mix. We continue to expect margins to improve through 2022 as lower margin projects are completed, business mix improves and volume growth adds leverage.

Let's move to slide 11 to discuss our balance sheet and cash flow. At June 30th, we had $302 million available on our revolver and cash on hand of $17 million. We generated $8.3 million in cash from continuing operations in the quarter and our working capital investment increased $31.4 million, primarily in receivables as a result of our normal seasonal build. This increase normally reverses in the second half of the year as revenues peak and begin their seasonal decline.

We also continue to make small investments in inventory as our season ramps to ensure strong customer support during the current challenging supply chain and inflationary environment which has enabled us to continue to support our customer's needs. Payables were affected by the timing of inventory purchases and growth in other liabilities was driven by an increase in billings in excess of costs, which results in the timing of billings based on contractual project billing schedules.

During the quarter, we drew $51 million on our revolver, primarily for share repurchases. Our net leverage at quarter end was approximately one half of a turn. Given our first half performance, customer activity levels and backlog coming out of the second quarter, we continue to expect strong cash generation in the second half of this year, with strong earnings and a reduction in our working capital investment. Our target for free cash flow generation in 2022 remains approximately 10% of revenue.

We expect to use generated cash flow to fund repayments on our revolver and 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 during the year.

So let's move to slide 12 to update you on our share repurchase program. Last quarter, our board of directors granted our request to authorize a common stock repurchase program for the first time in Gibraltar's history. This program authorizes the repurchases of $200 million over three years, ending May 2nd, 2025. During the quarter, we repurchased 1.2 million shares with a market value of $50 million for an average price of $41.84. As

I mentioned, we funded this repurchase through the revolver. At quarter end, we had 31.6 million shares outstanding with a weighted average shares of 32.7 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 13. I just want to give a quick update on our five key priorities. This year has been for us a theme around simplify and focus. It's been consistent since the beginning of the year and as commonsensical as this sounds, I think the lessons learned and the challenges over the last two and a half years have really heightened the need for us to simplify and focus on execution even more, and on things that we can control.

So as a reminder, our five priorities: first, execute 80/20, to really drive higher service levels, expand our margin and win new business with existing new customers. That's in each of our segments. Secondly, manage supply chain to support customers, minimize disruption across both manufacturing and field operations and to optimize our cost position and, finally, to reduce working capital. Third, really want to accelerate our digitization in our operations. We did complete 2 ERP implementations in the quarter. This is consistent with what we've been doing the last couple years. We did one in Residential and one in Renewables. We will continue to invest in digitization and cybersecurity to support our customers as well as our suppliers, and, of course, our business strategy. Fourth, support and maintain organizational health, remain agile and flexible in today's operating environment and really continue to attract and retain the best talent we can. And then, finally, really work on the best environment we can for our team. And then, finally, conduct business the right responsible way, every day, not only for our teams, but for our customers and suppliers.

Let's move to slide 14 and we'll talk about 2022 guidance. Now, our first half results were in line with our expectations and our current demand profile and focus on execution, including supply chain optimization, price cost alignment, labor management, and simplification initiatives, really do give us confidence in delivering our full year performance commitments.

Overall, the continued strength and durability of each of our businesses' underlying fundamentals, the power of our leadership positions in each of these markets, as well as our long-term partnerships with our customers remain intact and I think support this year's outlook and our long-term strategy. As a result, we reaffirm both revenue and earnings guidance for the full year 2022. As a reminder, consolidated revenue is expected to range between $1.38 billion and $1.43 billion compared to $1.3 billion in 2021. GAAP EPS is expected to range between $2.80 and $3.00 compared to $2.25 in 2021. Now, on an adjusted base, adjusted EPS is expected to range between $3.20 and $3.40 compared to $2.86 in 2021.

Lastly, and most importantly, I'd like to thank everyone on the Gibraltar team. This is the team that has continued to find great opportunities for our future and do so while plowing through really the last two and a half years and today's challenges and market dynamics. I'm very grateful for the team we have and remain super excited to be on the journey that we're on as well.

So with that, now let's open the call up and we'll take your questions.

QUESTIONS AND ANSWERS

Operator

Thank you. At this time, we will be conducting our question-and-answer session. (Operator Instructions) Our first question comes from Dan Moore with CJS Securities. Please go ahead.

Stefanos Chambous Crist - *CJS Securities, Inc. - Equity Research Associate*

Good morning. This is Stefanos Crist calling in for Dan. Thanks for taking our questions.

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

Good morning.

Stefanos Chambous Crist - *CJS Securities, Inc. - Equity Research Associate*

First, could we just start with the Renewables? What's your visibility into 2023 and beyond, and what would give you more clarity there?

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

Well, the two big issues we talked about, Stefanos, 1 is really the UFLPA, which went into play, I think June 21st, somewhere around there. And that's really this importation process, and [issues] going up the learning curve and how to get those in efficiently and effectively is really important to the industry. And secondly, the DoC decision at the end of this month will be very helpful. And I think regardless of that decision, because the administration has issued an executive order, the DoC will find a way to neutralize any tariffs. So, therefore, I think tariffs are expected not to happen but it comes back to the UFLPA and importers being able to bring panels in an efficient, effective way. And I think that's what the industry is looking forward to see how that plays out. And by the end of August, we'll have about six or seven weeks of experience with the UFLPA. Assuming tariffs don't impact the industry, then I think customers will start working on finalizing projects for the end of this year, as well as the next year or two as well. So that that's the current outlook. We'll know a lot more, I think, in the next three to four weeks is, I guess is the short answer.

Stefanos Chambous Crist - *CJS Securities, Inc. - Equity Research Associate*

Got it. Perfect. And then just staying on Renewables, can you just talk about the cadence of margins for Q3 and Q4, and then how we should think about margins in 2023?

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

Yeah. So we've mentioned this before that we feel like this business has turned the corner. We ran double-digit margins in May and June, and we expect to run double digits in the second half as well. That's barring any major shift in outlook on demand side that we're not anticipating, but as I mentioned earlier, I think the scenarios we've painted, we feel pretty good that we've got that understood, but you never know in this world right now. But we feel pretty good about double-digit margins in 3 and 4. And I think if you assume then that that's eight months in a row of double-digit margins, that should carry into 2023 at a similar level that you see us finished 2022 at. That's the way I would think about it for now.

Stefanos Chambous Crist - *CJS Securities, Inc. - Equity Research Associate*

Perfect. Thanks for taking my questions.

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

Sure.

Operator

Thank you. Our next question comes from Kenneth Zener with KeyBanc. Please go ahead.

Kenneth Robinson Zener - *KeyBanc Capital Markets Inc., Research Division - Director & Equity Research Analyst*

Good morning, gentlemen.

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

Good morning, Ken.

Kenneth Robinson Zener - *KeyBanc Capital Markets Inc., Research Division - Director & Equity Research Analyst*

So this solar stuff, obviously it's good to update on the margins. Hopefully, we'll get clarity here so we can start getting visibility into next year for your customers and for you guys. But I wonder if we could just go back to, kind of, the basics on Residential, which has been doing quite well in terms of margins, which was one of the first real businesses that turned around in the 80/20. So the reason I want to focus on this is the growth you're having, the 20%, could you - and the 28% you saw in the first half, could you be a little more clear? I mean, you did lead with commodity costs in your presentations slide, obviously touching metal. So how much of this is price? I mean, are you doing a couple points of volume, which could be share gains and demand, and the rest is this price? I just want to get a better baseline of how we think this growth, the volume trends are going because in most of the categories we cover, there's very moderate unit growth and it's all priced. And I just want to get better clarity as we think about the end of 2022, into 2023.

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

Yeah. So Ken, we said last year, the second half last year - well, the first half of last year was heavily driven on volume with a little bit of price. And the second half was driven more by price and less volume. Coming into this year, we had projected volumes to be relatively flat on a market basis. And I would say that what we've seen on volumes is consistent from a market perspective. Where our volumes have, kind of, come in a little bit higher than that is related to participation. So we're winning more business. And then, of course, we get the benefit of the price on the more business on top of the price off of the base business.

So it's still more weighted towards price. But I would say we have more volume coming into our business now than what we had thought originally. And that's, kind of, connecting back to the participation gains.

Kenneth Robinson Zener - *KeyBanc Capital Markets Inc., Research Division - Director & Equity Research Analyst*

Right. And then I guess, I mean, to level set that, given you had [22%] in the quarter, does that - I mean, it sounds like that's perhaps a couple (inaudible) flat, you might have 2% to 4% unit volume, and I'm trying - I'm asking because I'm trying to discern where price, kind of, neutralizes as we exit the year, right? So are we going to basically be 1Q '23 where today price would be basically flat? So you're just getting down to that core volume that's in your Residential business. I'm just trying to see how that curve is, because it's such high [growth] and it seems like a lot of it would be price.

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

Yeah. It's a good question. I would say there's not - we have a lot of - we have not had a lot of incremental price versus the start of the year. That's for sure. I think (inaudible) a price increase around aluminum-based products, but effectively we've not had a lot of price - incremental price increases this year. So - but we have a carryover, we have some carryover pricing from last year because there were multiple price increases so you're getting the effect of that. So it does carry into this year and you're getting this participation volume full-year effect from last year and new participation this year. So right now, we feel pretty solid with where the volume position is on the demand side, going into the second half. We'll see how the fourth quarter evolves. But right now, we're holding relatively steady on volume demand relative to where we thought we would be.

Kenneth Robinson Zener - *KeyBanc Capital Markets Inc., Research Division - Director & Equity Research Analyst*

I appreciate your patience with those questions. I guess on the Renewables, you said obviously, end of August, the next weeks are going to be really important. Is there any kind of perspective that you're getting from people in the industry about this, I don't want to call it a hiccup or a bump because it's getting - it's pretty impactful. But obviously there's the long-term demand. Are you seeing any capital stress from installers or developers that took down [land]? I mean, are you starting to see this slow demand and uncertainty really start to squeeze the industry - ?

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

No. Yeah, we really haven't.

Kenneth Robinson Zener - *KeyBanc Capital Markets Inc., Research Division - Director & Equity Research Analyst*

- (inaudible) viability.

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

Yeah, it's a good question. Inflation, in general, is - price points, cost points are much different today than they were two years ago. But I will tell you, we look at the number of projects that we have, we call them red line. A lot of people throw that into backlog. We don't. Those are (inaudible) issue to us, but they're in red line. So that red line activity is, kind of, our leading indicator and that's remained very robust. The issue that you have at this stage for everybody is everybody's waiting. If you think about whether you had financing already lined up, or you still had to get financing, you're not going to pull that final, final trigger until you get the most expensive component understood as to when you're going to have it and what the price point's going to be, which is the first one is UFLPA. When am I going to get it in? And can I get it in? And the second one is at what price and is it going to have a tariff or not? And so those are the two elements that people are thinking about. But in terms of planning and what's on the docket, that remains quite robust.

Another way to think about this [2 can] (inaudible) in the [phone], when the Department of Commerce took (inaudible) investigation in March or end of April, everybody placed orders for panels because the demand is out there. It's just a matter of knowing when you're going to get them so they can plan accordingly for the next six months, a year or two, depending if you're in utility or [C&I] space. So that's, ultimately, at the end of the day, the way to think about it.

I will add one other thought. I mean, this is not one of those things where you flip a switch and everything's back to where it was overnight. We've effectively shut down a portion of the industry for six months by the time August, end of August rolls around. And it's going to take some time for people to reenergize and flex their muscles and start running again. But it's not a demand issue. The issue is, frankly, supply. So whether you're talking about the Inflation Reduction Act or whatever we're going to call that, if you talk about the executive order from the administration, that's all demand, which is great, and that'll help us long term for sure, but it's not an issue of demand. It's an issue of supply coming in on a consistent basis so our industry can actually continue to work on a cadence. So that will come and I think in the next three or four weeks, you'll get a better - a much better feel for that. I wish I could tell you something different, but to me, that's what I'm looking for.

Kenneth Robinson Zener - *KeyBanc Capital Markets Inc., Research Division - Director & Equity Research Analyst*

Thank you.

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

Yep.

Operator

Thank you. Our next question comes from Julio Romero with Sidoti & Co. Please go ahead.

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

Hey, good morning, Bill and Tim.

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

Hey Julio.

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

Just to start on Residential, very nice performance in the quarter. What are you seeing or hearing from your customers regarding inventory levels, and just speak about any potential destocking risk that you may or may not be hearing?

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

Yeah, we haven't seen a lot of that, Julio. As you know, from our discussions in the past, we have access to point-of-sale information every week with our big-box customers. So we know what our outgoing sales are from those stores and we can see if inventory's building. We saw an adjustment of inventory levels, excuse me, start probably 6 to 9 months ago coming into the year and then subsequent to that. So it's been -I'd say, been happening, but at the same time, that's been a bit offset for us by additional participation gains. So, right now, it feels like levels have been adjusting consistently for a period of time, as we've being seeing. I don't think there's a shock and awe kind of situation in front of us on that front.

I think we have pretty decent visibility to anticipate that, but we've not seen a lot of that at this stage. We've just seen a continuous slowing - I'd say right sizing is a better way to say it as opposed to slowing. And a lot of that's related to just supply chain has been so dynamic the last two years across the world, but if you think about that in the Residential world, for each year [and] 2021, the industry, kind of, got caught for different reasons. And I think people were making sure that that didn't happen in '22. And then - and I think inventories had been sized and adjusted accordingly as the years gone on, but nothing too extreme one way or the other.

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

Okay. That's very helpful. And then I think you guys made a good point in the prepared remarks that on Residential, you're mostly R&R versus new construction. And even within R&R, you're most - you're more repair than you are remodel. Is there a way to quantify that, like how much within your R&R exposure in Residential, how much is repair versus how much is remodeled?

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

Well, if you think about remodel for us, it's mainly our HIG business, the awnings and the - and I would say awnings only. So it's a very small percentage of our total within R&R, I'd say we're 95+% within Residential, if you think about that way. Now, you could say, well, what about mailboxes? And that there's a debate on that internally, but I would say within repair and remodel, we're very high percentages repair, I'd say 80% to 90% at the minimum.

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

That's 80% to 90% in mailboxes or within R&R in general?

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

Yeah, within R&R. So between R&R for Residential, it's 80% to 90% is R&R. Within R&R, there's - a high percentage is repair, is the way we would think about that.

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

Okay, perfect. Thanks so much for segmenting that for us. And then maybe the last one for me is on the Agtech side. Are any of your end-market Cannabis, Produce, maybe your legacy, performing better or worse than the other? And can you maybe expand on the positive margin momentum you expect for Agtech in the back half?

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

Yeah, so Commercial business, which is our traditional business - and you guys know, if you go back to '19, that's the business that always run double digit - continues to run well on both top and bottom line. There's a lot of activity and that business is spread across a number of end applications. So that 1's been running well for some time and Produce [is] where our backlog is starting to build. We've got some backlog building in Cannabis as well, but ultimately, at the end of the day, as Produce continues to drive backlog and accelerate on the demand side, that's what's really going to drive the top line of the overall business. Those are large projects. And if you look at our pipeline of projects that are in those final stages, it's a substantial amount that we don't include in backlog, but that will - as those come across the finish line, it really sets us up for a strong end of the year, as well as good start into next year.

So Produce is a big engine for us. It's starting to really improve both top and bottom line. That's part of what you see in the sequential improvement. Commercial's been steady and rock solid force. And then Cannabis, it's been lumpy mainly due to the demand side of that business, but as that backlog continues to stabilize and grow, we think that will generate the double-digit margins we've seen in the past as well. So that's how I break those 3 out.

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

Okay. That's very helpful. Thanks very much for taking the questions.

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

Yep.

Operator

Thank you. Our next question comes from Walter Liptak of Seaport Global. Please go ahead.

Walter Scott Liptak - *Seaport Research Partners - MD & Senior Industrials Analyst*

Hi, thanks. Good morning guys. (inaudible) probably one on the Residential side and maybe you've already talked about this, but just for clarity's sake. So in Residential, let's say that the volumes are stable over the next year and some of these material - these industrial metals prices [at] HRC come down, with the things that you're doing with participation gains, 80/20, and other things, would you be able to maintain the same profit level or improve the profit level from where you are?

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

Yeah, it's a good question and frankly, at the forefront of our discussion coming into this year with the Residential group. So Walter, you know how our - as we've talked in the past, our customer contracts work with indexing around inflation. So as they go up, we lag with price covering that cost and catch up. And you saw that last year where the first three quarters, we were running behind on margin. Then we flipped the switch in Q4, and that's continued as we've come into this year. And we have planned on, and are planning on pricing coming down as those indexes kick in with commodity costs coming down. So how you manage on the way down is really, in my view, a potential to expand margins if you manage your input cost in a more proactive or timely manner than obviously when you have to drive your prices, or change prices accordingly. So, on the way up, you get hurt by it and on the way down, you can expand if you manage your supply chain appropriately and your input costs.

So we're laser focused on that. I'm not saying we're perfect at it, but we have it - we've got it. It's been on the table and people are managing to that appropriately. And we do expect and have planned for prices to come down over time. It just has to happen and our contracts call for that.

So coupled with that, there's also a mix between big box and wholesale. And so there's some business mix things there and levers that are available for us to pull and work through. And so we're fairly confident that we can 1) continue to grow in a down cycle. I'm not saying we can grow 20% a quarter, like we have the last 8 or so, but I think we can grow. And I think we can manage our margins for improvement as we go through that as well. So we have work to do, but I think we're in a better position today than we were a few years ago to make that happen.

Walter Scott Liptak - *Seaport Research Partners - MD & Senior Industrials Analyst*

Okay, great. Okay, thank you for that. I'll ask one on Infrastructure. You talked about orders picking up in the third quarter around the infrastructure bill and maybe getting better in the fourth quarter. It's a small segment, but is that going to be enough to maybe - what does that do for the visibility in 2023?

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

It'll be very helpful. I mean, I think Tim mentioned in his remarks, the new orders that have recently come in just at the start of the quarter are quite substantial. So the backlog is growing. I think that'll be impactful in the second half of this year, but it's the start of the momentum going into next year. The leading indicator for Infrastructure, when you think about backlog, is we capture, kind of, 2 - we measure 2 things, the actual order backlog, new bookings, which we traditionally talk about externally. And then internally, there's an engineering backlog. That is at a peak right now, that's probably higher than we've ever seen. And I think that's a reflection of the investments a lot of state and federal DoTs are - the federal DoT and state DoTs are planning on and starting to [ink] projects or get those projects in focus. So we're definitely starting to see that activity accelerate and that should bode well for 2023.

Walter Scott Liptak - *Seaport Research Partners - MD & Senior Industrials Analyst*

Okay, great. And then maybe the last one for me around the Renewables segment, is that you guys did a press release a few days ago about a Connecticut solar plant that was utility scale. It looked like it was a little bit larger. I wonder if you could give us an update on the 2 different markets, on the community solar as well as the utility scale, and any participation gains that we might be able to look forward to in the utility part.

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

Yeah. So the C&I space, which we've traditionally in, which is really community, if you look at our industry [association], they'll track 3 buckets within C&I. We'll call it community - sorry, C&I, community industrial and commercial. So those are the 3 that, kind of, we refer to as C&I. We think of it as

2 but it's really measured as 3. And the distinction between community and the other, there's a lot of gray there, but I'd say in general, most of my comments earlier about activity and project planning and so forth, is all around C&I and that's where we continue to spend 95+% of our effort. And we do have some customers that are expanding into larger size projects like utility, but we just don't play in that space a whole lot.

And in terms of market status, I can't speak too clearly about utility, as I said, because we're not in it, but just from reading and listening to others, that's - with today's market situation, it's, kind of, a challenge with this panel issue. And once that gets cleared up, I think things will accelerate for utility as they will for C&I. But what we see on in the forefront, going forward with C&I, is a lot of activity and we're excited about that. And we always say, hey, think about where the population exists in the country and think about where renewables will land and think of the type of solar solution sets that will go in those spaces. And that's a very, very heavy mix towards C&I. And that's, kind of, right where we're set up to run with.

So I do think that C&I will have, as a market, a good runway in front of it. I think all the incentives that are being talked about now, if they do get passed, will help it even further over the next 10 years. But we're well positioned to activate around that. One thing that we are working diligently on is expanding our tracker platform and really to get into utility space, you need what we call a 1P configuration, which is a single panel in portrait mode. And that's what the majority of utility scale projects use. We will have that in Q4, ready to go in Q1. So we'll have the option to expand into, or pick and choose where we want to play in utility if a customer or 2 want to go down that path. But that's how I would characterize - long answer to your question, sorry, but that's, kind of, how I think about it.

Walter Scott Liptak - *Seaport Research Partners - MD & Senior Industrials Analyst*

Great. Thanks. Okay. Thank you very much.

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

Yep.

Operator

Thank you, ladies and gentlemen, we have reached the end of the question-and-answer session, and I would like to turn the call back to Bill Bosway for closing remarks.

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

So guys, thanks again for joining us. We're going to be presenting at the Seaport Global Summer Conference later this month, as well as upcoming conferences and audio roadshows. We'll speak to you again in a few months and when we report third quarter progress. I hope everyone stays safe and healthy, and look forward to catching you up. Have a good rest of the day. Thank you.

Operator

Thank you. This concludes today's conference. You may disconnect your lines at this time. Thank you for your participation.
