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PRESENTATION

Operator

Good day, ladies and gentlemen and welcome to the Gibraltar Industries Third Quarter 2017 Earnings Conference Call. Today's call is being recorded and webcasted. My name is Bob and I'll be your coordinator today. At this time, all participants are in a listen-only mode. We'll be conducting a question-and-answer session towards the end of the conference call. I would now like to turn the call over to David Calusdian from the company's Investor Relations firm, Sharon Merrill Associates, please proceed.

David C. Calusdian - *Sharon Merrill Associates, Inc. - President*

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 to the company's website.

Please turn to Slide 2 in the presentation. The Company's earnings press release and slide presentation 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. Additionally, Gibraltar's earnings press release and remarks this morning contain adjusted financial measures. Reconciliations of GAAP to adjusted financial measures have been appended to the earnings release. On our call this morning are Gibraltar's Chief Executive Officer, Frank Heard; and Chief Financial Officer, Tim Murphy. At this point, I'll turn the call over to Frank and please turn to Slide 3.

Frank G. Heard - *Gibraltar Industries, Inc. - CEO, President and Director*

Thanks, David, good morning everyone and thank you for joining us on our call today. We delivered another quarter of solid results as we execute on our growth strategy and continue to build positive momentum at Gibraltar. Financially speaking, we exceeded our GAAP and adjusted earnings guidance reporting a 49% increase in GAAP EPS to $0.64, and 22% increase in adjusted EPS to $0.67. These positive results demonstrate the success of our value creation strategy, especially given that our sales remained essentially flat year-over-year. A 10% increase in sales from our Residential Products segment and 7% sales growth in our Renewable Energy and Conservation segment offset a difficult year-over-year comparison due to divested businesses as part of our portfolio management strategy and lower infrastructure activity.

Overall, consolidated revenues of $275 million were at the lower end of our guidance. Return on invested capital continued to improve in Q3, increasing to 11.7% from 11.2% last year on a trailing 12-month basis. During the quarter, we made good progress on our 4-pillar strategy. We delivered 190 basis points of margin improvement from our 80/20 operational initiatives, our innovation efforts are resulting in new product development successes across Gibraltar's businesses, and the integration of Nexus and Package Concierge acquisitions are performing in line with our expectations and enhancing Gibraltar's long-term competitive position. After Tim reviews our financial results, I'll discuss each of the 4 pillars and our updated guidance for the year, Tim?

Timothy F. Murphy - *Gibraltar Industries, Inc. - SVP and CFO*

Thank you, Frank and good morning everyone. Let's move to Slide 4 in the presentation entitled Solid Consolidated Results. We reported solid results with revenues at the lower end of expectations and earnings exceeding our guidance. Strong results from our Residential Products segment, recovery in our Renewable Energy & Conservation segment, and additional benefits from lower performance compensation offset a continuing challenging environment in our Industrial & Infrastructure segment.

Highlighting our performance on an apples-to-apples basis, excluding divestitures and other non-repeating factors, our base revenues were up 4%. While raw material costs to selling prices remained out of alignment during the quarter, reduced corporate expenses due to lower variable compensation and 80/20 simplification initiatives resulted in a 170 basis point increase in adjusted operating margin.

Now let's review each of our 3 reporting segments starting with Slide 5, the Residential Products segment. Demand for commercial package solutions and improvement in the repair and remodel market as well as new housing construction drove higher year-over-year sales in the third quarter. On the bottom line, we benefited from demand for electronic package lockers and the integration of Package Concierge as part of our postal and parcel group. As Frank will detail later in the call, we're making excellent progress driving synergies with the Express Locker team. Adjusted operating margins increased 190 basis points year-over-year due to continued 80/ 20 operational improvements and leverage from increasing volumes. We expect fourth quarter margins to reflect the normal seasonal slowdown in this business.

During the quarter, two major hurricanes hit the U.S. While we do not anticipate a near-term impact on our business from Hurricane Harvey that affected the Texas region, it's still early days to determine the impact of Hurricane Irma, which hit the Florida region. We expect there will be demand for roofing repair, but the scarcity of labor will delay an uplift in the market. So, while these types of natural events typically create some additional demand in the long-term, we do not anticipate any material impact on our business in the short-term.

Turning to Slide 6, the Industrial & Infrastructure Products segment, our top line performance reflects our exit of the bar grating business at the end of 2016, accounting for $15 million of the year-over-year sales decline. Lower activity in the marketplace also affected infrastructure sales on a year-over-year basis. Backlog and bookings for the infrastructure business increased year-over-year and we expect backlog from our infrastructure business will continue to improve in the fourth quarter. Sales from our industrial business did not meet our expectations this quarter as continued competitive pressure caused slower than expected recovery in both volumes and margins. The bottom line was pressured by expected material cost misalignment, lower volume and mix in the infrastructure business, and the longer sales cycle in the perimeter security business. We expect challenges facing this business to have a similar impact during the fourth quarter. However, with 80/20 projects showing good results and with the benefits of our exit of the U.S. bar grating business, we saw our GAAP operating margins improve 190 basis points over the prior year.

Now turning to Slide 7, the Renewable Energy and Conservation segment. On the top line, growth in domestic revenues and revenues from our recently acquired Nexus business offset a decline in the international revenues and a $2 million impact from the exit of our European solar racking business. On a pro-forma basis, backlog for Q3 is up year-over-year and we continue to expect top-line improvement for the balance of 2017. Lower margins due to higher material costs, net of pricing actions affected our bottom line. Adjusted operating margin for this segment expanded to 13.6% for the quarter as expected, a 550-basis point improvement from the second quarter. We expect margins in this segment to remain consistent as we move through the fourth quarter. In the conservation business, with RBI and Nexus positioned as the first and second leading brands in the U.S. market, we are well positioned to take advantage of the rising tide in the food production, seed development and cannabis markets. While we are still in the early stages of the medical marijuana industry, with just a few states having passed legislation and established regulations, this industry is poised to experience tremendous growth and we are ready to capitalize on this opportunity.

In the solar business, we're encouraged by the market response to our new tracker solution, which Frank will expand on later in the call. As you may know, on October 31, the U.S. International Trade Commission released its suggested remedies for the Suniva/SolarWorld claim that imported PV (Photo Voltaic) cells damaged the domestic PV industry. Once the ITC delivers its recommendation, the President has 60 days to make a final decision on what, if any, action will be taken. We suspect the uncertainty in the domestic market caused by this decision is driving current market demand for solar projects. Overall in this segment, we continue to work on the 80/20 simplification projects to improve margins and expect further benefits as we continue to integrate Nexus.

Please turn to Slide 8, Capturing the Opportunity. We continue to be well positioned to execute on our acquisition strategy with low leverage and high liquidity. Cash increased $38 million from $178 million at December 31, 2016 to $208 million at the end of the third quarter of 2017. We're targeting companies with EBITDA from $25 million up to $100 million that would be material to our performance, although we'll still consider smaller acquisitions that can benefit us from a technology standpoint.

For the fourth quarter of 2017, our financial priorities will be to effectively manage higher raw material costs and to advance our 80/20 initiatives. We also expect progress from our new product development initiatives and continue to seek material acquisitions. At this point, I'll turn it back to Frank. Please turn to Slide 9, 4 Pillars Driving Value Creation. Frank?

Frank G. Heard - *Gibraltar Industries, Inc. - CEO, President and Director*

Thank you, Tim. Our five-year, four-pillar value creation strategy continues to gain momentum and deliver results. Our first pillar of Operational Excellence is focused on reducing complexity, adjusting costs and simplifying our product offering through the 80/20 initiatives across the organization. In Q3, 80/20 projects contributed 190 basis points of operating margin improvement. Overall in 2017, we continue to expect a $0.23 per share increase from these projects. During the quarter, we advanced our outsourcing initiatives across the organization for our "B products" and we continue to make progress on in-lining activities, particularly in two of our business.

To demonstrate our progress in these efforts, we have tracked a number of metrics including line fill, or percentage of complete orders delivered on time, to our "80" customers. In 2014, when we launched our transformation plan, line fill approximated 65%. Today, we're tracking north of 95%, further demonstrating our commitment to align our resources to support our key customer partnerships. In the fourth quarter, we'll continue to work on in-lining and outsourcing initiatives and expect to begin implementing simplification projects in our newly acquired businesses.

Next is our Portfolio Management pillar focused on evaluating product lines, customers and end markets to best allocate leadership time and resources to the highest-potential platforms and businesses. In 2016, we exited two industrial platforms as well as our European solar racking business serving the residential rooftop market. While we do not have any planned activities for the remainder of 2017, we view portfolio management as a continuous process that will remain an important part of our strategy as we look to improve Gibraltar's long-term financial performance.

Our third pillar is Innovation where we focused on products with patent protection developed internally or through acquired product lines. These products represent 7% of our sales, up from 5% in 2016, and 4% in 2014. During the quarter, all 3 of our segments made excellent progress with new product development. In our Residential segment, with recent acquisition of Package Concierge, we've successfully expanded our parcel delivery solution. In combination with Express Locker and our newly introduced Package Room, we're now able to target both Class A and Class B-type properties in the high-density multifamily residential market with offerings that are faster and easier to install. When we launched Express Locker in 2014, our initial target was to complete 50 installations. To date, we've installed 740 systems and by the end of 2017, we expect to reach north of 850 installations strengthening our position as the market leader in this space.

Our systems have facilitated the delivery of over 10 million packages and our currently installed base serves over 200,000 tenants with a system that is open to all retailers and all carriers. We're encouraged by the synergies we've created with Package Concierge and expect new solutions to be developed in the coming months to extend our ability to supply safe and secure storage at the user's convenience. Also in our Residential segment, our new metal roofing installation system that can withstand hurricane-force winds is being well accepted in the market. In fact, all our installed roofs in Florida withstood Hurricane Irma. In our Industrial segment, we continued to gain traction in our perimeter security products initiative where our goal is to capitalize on the increasing demand for solutions that protect high-value physical assets. We're now engaging with large customers and are actively bidding on contracts. We expect this product will have a meaningful effect on the financial performance of our Industrial business going forward.

In our Renewable Energy and Conservation segment, our new Solar Tracking solution, which is an exciting new disruptive technology, continues to gain momentum. This allows us to participate in the larger adjacent space relative to our current Fixed Tilt solutions. We installed our first system in Q2 and expect to complete a handful more by the end of the year. In combination with RBI's unique value proposition, we believe this solution will be a material part of our growth in the solar market in 2017 and future years.

Our fourth pillar is Growing through Acquisitions and we continue to make good progress in this area. In our Residential Products segment, we're continuing the integration of Package Concierge as I detailed earlier and we're already seeing results from the synergies with our Express Locker product line. Package Concierge's proprietary software solution and deep understanding of the multifamily market is helping us develop new integrated solutions for the broader storage space. In our Renewable Energy & Conservation segment, we continue to benefit from our recent Nexus acquisition, which has been accretive since day one. We're currently in the integration period and we expect further benefits from identified synergies in the coming quarters and look forward to participating in new and rapidly developing markets.

Separately, we continue to search for M&A prospects in attractive end markets with unique technologies. Our target markets for M&A continue to be postal and parcel solutions, residential building products, perimeter security and infrastructure, renewable energy and conservation. We'll continue to focus our attention on completing financially meaningful acquisitions as it relates to unique value propositions with patented products.

Turning to Slide 10, 2017 Guidance. We have performed well so far in 2017 and with one quarter left of the year, we're adjusting our full year revenue guidance and narrowing the range of our earnings guidance. We continue to expect favorable market conditions for our businesses and increased bidding activity and continued backlog growth in our Infrastructure business and Renewable Energy & Conservation segment. That said, we've identified certain new end market conditions that give us reason for some level of caution as we close out the year. Recovery in our Industrial business is occurring at a slower pace than we anticipated at the end of the second quarter as competitive pressures combined with longer sales cycles in the Perimeter Security market has impacted both third quarter actual, and fourth quarter forecasted sales in this segment. Secondly, we expect continued uncertainty in the domestic solar market until the government finalizes a review of the impact of imported solar panels and potential tariffs or minimum price guarantees on solar energy equipment and we see continued softness in the related international business. With that said, for the full year 2017, we expect sales in the range of $960 million to $965 million and we expect GAAP EPS between $1.40 and $1.47 per diluted share, up from $1.05 in the prior year or $1.60 to $1.67 on an adjusted basis, compared with $1.67 in 2016. For the fourth quarter, we expect revenues of between $231 million and $236 million, up slightly from Q4 2016 and we expect consolidated GAAP EPS between $0.23 and $0.30 per diluted share or between $0.29 and $0.36 on an adjusted basis.

Please turn to Slide 11 and you can see a detailed bridge from our 2016 adjusted EPS to our guidance for 2017. We've provided an updated bridge, which includes an additional $0.10 of market conditions, reflecting the adjustment in our revenue forecast. This reduction in net income will be partially offset by an additional $0.08 reduction in our variable compensation programs. Our performance compensation programs were redesigned to reward making more money at a higher rate of return with more efficient use of capital. We expect earnings to be relatively flat with ROIC improving modestly on a year-over-year basis.

In conclusion, with growing momentum in our four-pillar strategy, we expect to deliver another year of solid financial improvement in terms of absolute profit dollars, returns and cash flow. While remaining focused on achieving meaningful acquisitions, we're confident that our strategic plan combined with an improving balance sheet will build a sustainable long-term value for our shareholders. At this point, we'll open the call up for any questions that you may have.

QUESTIONS AND ANSWERS

Operator

Thank you. Ladies and gentlemen, we'll now be conducting a question-and-answer session. (Operator Instructions) Our first question comes from the line of Ken Zener with KeyBanc Capital Markets.

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

Lots of things happening this quarter, so I want to start with solar because I think that was causing some of the greatest earnings loss and your 13% EBIT, I think Tim you talked about that being kind of flat sequentially into 4Q, is that correct?

Timothy F. Murphy - *Gibraltar Industries, Inc. - SVP and CFO*

Yes, correct.

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

Okay, you talked about solar having some pull forward because the uncertainty around the ITC ruling, yet, I believe Frank, when you were kind of closing out your comments, you talked about solar softness a little bit. Could you kind of, well, match -- bridge those two comments there. I mean is it just the third quarter you had some pull forward in demand, but you said your backlog was up, so I'm trying to understand what the outlook is there specifically for sales?

Timothy F. Murphy - *Gibraltar Industries, Inc. - SVP and CFO*

Let me, Ken, let me address that. So, we think fourth quarter, some of the activity that we're seeing coming in the fourth quarter may be people pulling forward demand in advance of any kind of tariffs going on panels and it's a suspicion. We don't know that, but we're seeing activity at higher levels, so our backlog is up.

Frank G. Heard - *Gibraltar Industries, Inc. - CEO, President and Director*

Ken, just an additional comment around that. Typically, the fourth quarter since we've owned this business has always been kind of a really strong quarter simply because of the way the financing works is people try to close out by the end of the year. So, it always has a lot of activity. I think what we are seeing that's kind of an increased level is the amount of engineering bidding activity proportional to that same quarter that's new and different, that we think is tied to maybe companies trying to position themselves for -- maybe a less than favorable ruling on the Suniva case. That being said, I think by and large the actual revenue stream that's transforming the third quarter and the fourth -- that's showing up in the fourth quarter is not atypical than prior years. It's the increased bidding activity and engineering activity that gives us some pause as to is that really going to be pulled forward in early '18 because maybe people have bought forward on panels. At the end of the day, we suspect it, we don't know it, but it's --

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

Okay, so the seasonality of sales is in line, the bidding in engineering appears to be greater. So if you have whatever 100 bids out there, you're seeing conversion of a higher percent than normal, which will be more of a front half '18 event, if anything is what you're suggesting?

Frank G. Heard - *Gibraltar Industries, Inc. - CEO, President and Director*

Yes, at some point, as Tim will articulate, we've had recent releases of directionally where Suniva is going over the last 24 to 48 hours and then that's going to be confirmed or adjusted by the President at some point after the middle of the month. So it's still kind of shifting sands a little bit, but directionally, it seems to be appropriate at this point, Tim?

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

Okay. If I -- I apologize, but solar is just obviously so important. Now I think 13% is good, it certainly surprised us, but if you take a step back into the beginning of the year when I think the back half was going to be -- if we have 13% and 13% in 3Q and 4Q, that will be 100 basis points or 200 basis points below your initial expectations, obviously a lot above Q2. Could you put in context what is exactly driving that? I mean how much compensation and I apologize, is compensation running through EBIT lines in the segment or is that a separate line? Because it sounded like compensation expense was helping you all -- the lack of compensation expense. Is that running through the EBIT, but for example in solar and what led to that pick up and why didn't it reach the 15% versus your initial expectations?

Timothy F. Murphy - *Gibraltar Industries, Inc. - SVP and CFO*

The compensation, there is a little bit of compensation in the business units, but the bulk of -- it's at the corporate office. So, really if you look from beginning of the year to where we are now on margins, its material costs that are higher than we had anticipated when we originally set our guidance.

Frank G. Heard - *Gibraltar Industries, Inc. - CEO, President and Director*

I think the other thing to put in perspective Ken, we bought this business, we bought it with the expectation over the 5 years that we would manage it towards a -- we thought it had a 15% operating margin, a 15% return on invested capital potential, which is one of the reasons we bought into that rising tide and space and what we thought was there and continue to believe is a unique value proposition. The fact that we accomplished and got out in front of our original expectations in our first operating year 2016 was, as we have articulated in several calls before, people executed what we thought were difficult projects faster and we brought online in-house roll forming and other types of things and that allowed us to move quicker. The reality is a certain amount of that gets given back into our contribution in the balance of systems to make sure the industry gets to grid parity, which we in effect are. So being at, now tracking in sort of I think we're at 13% and change, in terms of operating margin for this group. If we go back to our acquisition model, we're about a 1.5 points ahead of where we expected to be originally, and we feel pretty good that as we grow this business now going forward, and the market has come down to pretty much grid parity, we've got the business that we expected when we originally justified its acquisition. So I guess in retrospect one could argue, maybe we accomplished a little bit too much early with this business, earning higher margins, but you take the opportunities as they present themselves and our people did some great work faster than we expected to be quite honest, but where we are today, we feel very good about where we are and directionally how stable the margins are going forward in the absence of the flat spot we had early in the year because we kind of choked their backlog a little bit and had some -- they were still carrying some fixed costs that weren't supported, but that was kind of a self-imposed action on our part.

Operator

Thank you. Our next question comes from the line of Dan Moore with CJS Securities.

Pete Lucas - *CJS Securities - Analyst*

It's Pete Lucas for Dan. Sticking with solar, just wanted to get your thoughts on as far as the recent proposals from ITC, still lot of unknown in terms of what the President will do, but what do you think the current proposals would mean for overall demand. I know you're seeing a slight pick up, but just your thoughts on, if that was, what it was going forward, how do you see that impacting demand?

Timothy F. Murphy - *Gibraltar Industries, Inc. - SVP and CFO*

There is a range right now of proposals that would have some impact on future demand. So, we're really waiting to see what the President will do to get a better view of what would happen. I will say that the proposals that came out were much lower than what the petitioners asked for. So that's encouraging, but we'll see what the President does.

Frank G. Heard - *Gibraltar Industries, Inc. - CEO, President and Director*

I would only add two words, maybe you can quote me. I would say "directionally encouraging" for the industry, the players within it, and ourselves and I think that's where we are today and I think probably the industry would have a similar view.

Pete Lucas - *CJS Securities - Analyst*

Okay, great, thanks and talking about your progress with the tracker products, you mentioned gaining momentum, first system installed in Q2 and a handful more hopefully by year-end. I just wanted to understand how those projects are being received, and what type of mix between fixed and tilt tracker products is reasonable to think about over the next two to three years?

Frank G. Heard - *Gibraltar Industries, Inc. - CEO, President and Director*

Yes, I think that, you know I've personally walked some of the early installations and sat with one of our key developers and partners on the installation side and we designed this product to be disruptive in terms of its technology and how you could cost a site in regards to the energy produced. But also the cost that went into both the racking system, but also the site itself in terms of grading and I think the general response has been through all those different stakeholders, is that people believe it's a disruptive approach to producing the most power out of a fixed geographic site with the lowest possible cost and the lowest OEM cost. So we feel pretty good so far about it. Like in fixed-tilt, we participated in the lower end of the market in terms of scale, the 1 to 10 megawatts and in the tracker space, which is 2x or 3x larger than the fixed tilt space. We expect to participate in the lower scale size of that space as well. We think it's going to be, and continues to be, well accepted. Our view of the tracker, of this technology relative to our core businesses, is that it will begin to have a material impact on our business in 2018 going forward and it will become a bigger and bigger part of the business over the next 3 to 5 years.

Pete Lucas - *CJS Securities - Analyst*

Okay, great and jumping to the electronic package lockers, you talk about growing I think it was towards 850 units you'd said and being a market leader there. Just wanted to know if you could update us on the competitive landscape, as Amazon recently appears to be more aggressive promoting the roll out of their lockers built by lower cost overseas suppliers?

Frank G. Heard - *Gibraltar Industries, Inc. - CEO, President and Director*

Yes, I'll maybe start and if Tim wants to add, I mean, here's what we do, our primary focus is solve the pain point for the end user and we define the end user as the tenant or resident in a multi-family Class A or Class B property. So first and foremost, we think we're unique in that we're trying to provide a safe and secure location at the consumer's convenience to receive packages, and we don't believe everybody else in the competitive landscape approaches it in the same way, targeting the same pain points, understanding that it's really the residents who need to be helped. We do that by making sure that what we design, both in terms of the software integration aspect of our business that interfaces with the building software and our product, is designed very specifically for that particular building, with that group of residents, that have a certain demographic. So, we go in and we design a series of locker systems that are customized to the age of the population in the building and the number of residents, and the size of the footprint and the different sizes of the lockers are statistically analyzed to ensure that we get the right fit for that building population. We're the only ones who do that. Other people have a "this is our program, this is what it looks like" and it gets in every building the same way, and whether it fits for the age of the population or the number of people in the building, the rest of it will end up somewhere else, if there's peaking values in flow. The other thing is that by the nature of how we designed our program, the data relative to the individual residents and the related transaction data remains in the ownership of the consumer and the property developer and we have no access to that and don't want to access to that. Our reason for being in business is to provide that safe and secure location at the consumer's convenience to get their package. The other aspect is our system is agnostic to any retailer that you want to buy from and any carrier that you want to use. So we think we're unique in that respect as well. We don't ask people to sign long-term contracts or NDAs because we think that at some point in time, if they want to review the value of our system in the context of our competitors, we think that's a good thing that helps drive us to get better, so we're open to that type of process on an annual basis or whatever time they want to do it. We look after both Class A and Class B properties, differently with two differently designed products that are custom fit to a property owner who may have 1,000 properties and 200 of them are Class A that are very high-end and 800 that are Class B that are more rental properties that require a different type of product and service. With those two product offerings, not just one, and we support it with an overflow Package Room that's integrated into the same software system so when a carrier comes in, if there's an overflow on a seasonal basis, there's no manual exercise by the carrier or the property management or the concierge to have to throw a package in a room, the same system controls the room, the access, and the security of it that the actual locker system. We're unique in that regard as well. I think the other thing is we understand that we sell high-end Class A properties, which is our main focus. So our lockers are designed aesthetically to accommodate the interest of the architect in terms of the building they are building. So our systems are aesthetically attractive and customized to the space and the type of lobby or space they are going to be put in. Lastly, it's our understanding that we are the only manufacturer in Continental United States of electronic locker systems. So if the employment of local Americans is important to the builder, then they have one choice in addition to the other seven characteristics that we offer.

Operator

Next question comes from the line of Walter Liptak with Seaport Global.

Walter Liptak - *Seaport Global Securities LLC, Research Division - Managing Director & Senior Industrials Analyst*

Wanted to ask a follow on with price/costs and ask about pricing strategies and maybe to start with, I think you talked about the raw material costs in the solar business, how are you addressing material costs, it sounds like you're not going to get to that 15% margin in the fourth quarter, but all things being equal as you get into 2018, is 15% still the target, do you have pricing strategies to pass through those higher material costs and maybe talk about the other businesses too? Residential, what are you seeing from roofing material and pricing, and pricing strategies as well as Industrial?

Frank G. Heard - *Gibraltar Industries, Inc. - CEO, President and Director*

So Walt, just at a high level, I'll give our philosophy around it, then I'll let Tim dig into the segments. Our price recovery approach is every month starting in early '14, we track our Top 80 customers against the Top 80 SKUs they buy, and reconcile our raw material costs for those products monthly, and then we kind of look at trying to recover or adjust pricing up or down to ensure a certain gap in terms of our targeted margin profile. So, every month we kind of have a bottom right hand corner as to whether or not we're running above or behind and we can break it back down by segment and you can break it down to business unit, then we can break it down by customer and key products. So, it's a fairly sophisticated tracking program, but also, it's very accountable, very visible. The other thing is that we try to recover price and we also try to recover margin. That being said, we do that in a way that we ensure that we can allocate the most amount of I guess price compromise or margin to our Top 80 customers in a way that helps them be the most competitive in the marketplace to grow their share and in return it's beneficial to us. So one of the things the 80/20 process has helped us with is instead of blanket price increases, where it could do some harm to our key customer base, we have tried to ensure that our price management programs support our key customers where we want to grow share in key markets. So that's our overall philosophy and how we go about managing it and overseeing it from a corporate office perspective and then we have active conversations with the Group Presidents and their related businesses to how they are implementing recovery programs or give-back programs as raw material shifts. So Tim, I don't know if you want to address the part B of that.

Timothy F. Murphy - *Gibraltar Industries, Inc. - SVP and CFO*

Yes, Walt, when I think about the remainder of the year, I expect very similar to what we saw in the third quarter and we're beginning to roll up '18 as we speak. So we don't really have a great view of '18. The share, we'll be sharing that guidance in February, but in general, to Frank's point, we try to do everything we can to fairly allocate material cost changes between our customers.

Frank G. Heard - *Gibraltar Industries, Inc. - CEO, President and Director*

And Walt just to wrap up, I don't see anything in our current performance and the activities going on this quarter that would suggest that we have an inability to recover price sort of overall in the Gibraltar portfolio, or within specific areas today, that would take away from our long-term goals in terms of margin profile. I think the one that we continue to struggle with and we've said publicly here as well, is that the Industrial area continues to lag our expectations.

Walter Liptak - *Seaport Global Securities LLC, Research Division - Managing Director & Senior Industrials Analyst*

Great and if I can just get another follow-on the renewables, you mentioned backlog is up year-over-year and quarter-over-quarter. Were orders up year-over-year and are you expecting organic growth in the fourth quarter?

Timothy F. Murphy - *Gibraltar Industries, Inc. - SVP and CFO*

Orders are up year-over-year and organic growth yes. So, the backlog numbers are pro forma. So we treated the backlog as if the acquisition that occurred in the third -- during the fourth quarter had occurred at the beginning or at the end of third. So we took its backlog and added it in when we compared the backlogs.

Operator

(Operator Instructions). Our next question comes from the line of Brad Meikle with Coker Palmer.

Brad Meikle - *Coker Palmer Institutional - Senior Analyst -- Renewable Energy*

I don't understand the logic of the solar commentary in terms of the pull-ins because the price spike happened really at the end of Q2. So how is it possible really that demand got pulled into Q3 because in fact what we're seeing is if anything, projects getting pushed out or the other bill of systems getting more competitive due to the $0.10 increase in module prices and then, that's the first question. The second is just that with the transition of tracking, do you have the Black & Veatch certification, usually we've seen that suppliers get traction about a year after getting a Black & Veatch certification and what are you just seeing in price trends in the fixed tilt? Thank you.

Frank G. Heard - *Gibraltar Industries, Inc. - CEO, President and Director*

Yes, first question, what we're seeing pull forward is not in terms of core activity, other than sort of the bidding engineering activity is up and new and different than what we've seen in prior years. So what we see in terms of the actual business in terms of the order book and sales is similar to prior years, and I think we referenced that earlier in the call. The second question is, relative to our tracker, early days in terms of our tracker, there are test fields with existing customers and that's about what we're prepared to share at this point for competitive reasons, understanding that it's a fairly small market of players. So, once we come out of test and we feel comfortable sharing more of that from a local business perspective, we'd be happy to do that in future quarters.

Brad Meikle - *Coker Palmer Institutional - Senior Analyst -- Renewable Energy*

Do you have the Black & Veatch certification for tracking yet?

Frank G. Heard - *Gibraltar Industries, Inc. - CEO, President and Director*

That's a question we're not prepared to answer at this point in time.

Brad Meikle - *Coker Palmer Institutional - Senior Analyst -- Renewable Energy*

Oh okay, and then -- did the backlog grow for renewables sequentially?

Timothy F. Murphy - *Gibraltar Industries, Inc. - SVP and CFO*

Correct, yes.

Brad Meikle - *Coker Palmer Institutional - Senior Analyst -- Renewable Energy*

How much did it grow?

Timothy F. Murphy - *Gibraltar Industries, Inc. - SVP and CFO*

It's up over the prior period, supports our forecast for the fourth quarter and our outlook.

Brad Meikle - *Coker Palmer Institutional - Senior Analyst -- Renewable Energy*

Okay because when I look at 2018, I see probably 10% to 15% increase in utility scale, but overall, the market seems to be shifting really rapidly. I think the fixed tilt business overall for the market will be down probably 50% next year because developers are getting squeezed on module prices, looking at bill of systems costs, the next biggest line item is tracking or your mounting systems, but obviously switching to tracking increases your revenues by probably 20% for the average project. So that's the trend we see happening next year and so do you think you'll be able to get enough tracking business to offset the steep drop in the fixed tilt business?

Frank G. Heard - *Gibraltar Industries, Inc. - CEO, President and Director*

I think that sort of the reference stats that you're sharing with us are trends I think are right, specific numbers we would suggest that they don't apply specifically to how we participate in the business and the types of customers and products that we use to participate in the market. But that being said, I think directionally we would agree with your statements and then I think the second part of your questions, do we believe that we can continue to grow and enhance our margins relative to our original justification to get in the space? Yes, the answers is yes, to that question.

Brad Meikle - *Coker Palmer Institutional - Senior Analyst -- Renewable Energy*

Okay, thanks for that. And then could you talk about just the impact on steel costs increasing. Do you think you'd be able to pass that through -- I could see it possibly in residential, but in renewables where it's more of a competitive business?

Frank G. Heard - *Gibraltar Industries, Inc. - CEO, President and Director*

Yes, I think that as I said overall on a prior call what our philosophy was on sort of price management and certainly I think your comment relative to Residential. I mean the residential market is not easier, but I think it's made up of a wide range of components in terms of new builds, segment between single and multiple and it also has a major component of renovation and repair and if you look at our distribution of revenue in Residential, you've got the postal and parcel deliveries aspect that makes up a pretty good part, a roofing driven ventilation piece and then a building products piece within it that's made up of rain management products and metal roofing and so on and so forth. So a lot more -- not complexity, but aspects to the markets and then we definitely focus on allocating if there is price recovery programs, we certainly do it in a way that minimizes the impact of our distribution or retail customer partnerships within all those businesses to compete in the marketplace, but generally in the end, we end up in a spot where our customers are happy, they continue to maintain and grow their share and we're happy with being able to continue to gain the kind of margin that we need to fund the businesses and the returns for our shareholders. When you get into the Renewable Energy & Conservation segment, it's a different type of business 2/3, 1/3. Two thirds is kind of solar and 1/3 the greenhouse conservation segment. They are both design engineered and manufacture installed, the nice thing about that is we get a margin profile at all different aspects of the value proposition, we're not just selling a piece of bent metal in either one of those spaces. So we get opportunities to make money at different aspects of that value proposition versus some of our competitors who are just dropping off a piece of bent metal in a fairly simple form. So that additional complexity in terms of the value proposition kind of offsets the sort of the clarity I guess, in terms or a simpler approach to the market that it has versus Residential. In the end, we've been quite successful working, again, in a smaller part of the market. We're not large-scale utility. We generally focus at smaller-scale opportunities historically in fixed tilt. Certainly, we have a fast growing cannabis market that is more complex and has less visibility and in the test aspects of the tracker, we're not doing that in large scale utility where maybe our value proposition has less value to the smaller opportunities that we think are material enough. So, at the end of the day, we feel very confident. We've seen the trend over the last couple of quarters. We continue to have the ability to adjust our cost and absorb raw material increases and appropriately price for our developers and partners in the Renewable Energy and also the Conservation space. So, our thesis for buying into this space, we are quite comfortable with.

Brad Meikle - *Coker Palmer Institutional - Senior Analyst -- Renewable Energy*

Thank you very much for those questions. Just last one is impressive cost management with SG&A declining by about $4 million while revenues grew $35 million. Could you just talk about the moving parts in that, and then also accrued expenses increased by $14 million sequentially. So just wondering how those fit together? Thank you.

Timothy F. Murphy - *Gibraltar Industries, Inc. - SVP and CFO*

Yes, if you are thinking SG&A, Brad, the biggest driver there is going to be our performance comp programs and most of that is driven by the stock price. So a decline in stock price can drive most of that change. What I think about accrued expenses... just taking a quick look.

Frank G. Heard - *Gibraltar Industries, Inc. - CEO, President and Director*

Brad, while we look for some reference material in accrued expenses, prior to you joining us, back in '14, we changed the comp program at the beginning of our transformation strategy launch where we aligned our comp program with what we think is a better reflection of shareholder value. So, it's tied to making more real-dollar income year over year, and to get into the money you got to be up 15% to 20% depending on the business where they are relative to competitors in a particular space, at a higher rate of operating margin percent year over year with a higher and more efficient use of capital, so specifically return on invested capital. So, this year, on a GAAP basis, we're going to make more money in a significant way, and on an adjusted basis, which is where we really have our target, it's going to be about the same. Our latest forecast guidance kind of takes us to a similar number. Our operating margin of 10% prior year is about the same number forecast this year and our return on invested capital is forecasted up a little bit into I think the 12% range versus 3 years ago of 3.9%. So nice progress, but the expectation for comp, variable comp is that we continue to make more money at higher rate of return, more efficient use of capital, and there has not been a material improvement from '16 to '17. So we basically have tried to align our variable comp to our execution. So, if shareholders can't see a vast improvement, then our people won't see a vast improvement, including the people sitting on this call. So, Tim you got --

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Timothy F. Murphy - *Gibraltar Industries, Inc. - SVP and CFO*

Brad, to your question on the accrued expenses, it's really related just to timing of pre-payments from customers on contracts. So, during the quarter, we collected additional pre-payments from customers for work that we're going to do in the next quarter or two.

Operator

Thank you. I'd like to turn the call back to Mr. Heard for closing comments.

Frank G. Heard - *Gibraltar Industries, Inc. - CEO, President and Director*

Thank you everyone for joining us today and we look forward to talking to you again next quarter. That concludes our call.

Operator

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