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ROCK - Q3 2019 Gibraltar Industries Inc Earnings Call

EVENT DATE/TIME: OCTOBER 25, 2019 / 1:00PM GMT

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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the Gibraltar Industries Third Quarter 2019 Earnings Conference Call. Today's call is being recorded and webcast. My name is Rob, and I'll be your coordinator today. (Operator Instructions)

I would now like to turn the call over to Carolyn Capaccio from the company's Investor Relations firm, LHA Investor Relations. Please proceed, Carolyn.

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

Thanks, Rob. Good morning, everyone, and thank you for joining us today. With me on the call are Bill Bosway, Gibraltar Industries' 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 info section of the company's website, gibraltar1.com. As noted on Slide 2 of the presentation, the earnings press release and slide presentation contain forward-looking statements with respect to future financial results. These statements are not guarantees of future performance and the company's actual results may differ materially from the anticipated events, performance or results expressed or implied by these forward-looking statements. Gibraltar advises you to read the risk factors detailed in its SEC filings, which can also be accessed through the company's website. Additionally, Gibraltar's earnings press release and remarks contain non-GAAP adjusted financial measures. Reconciliations of GAAP to adjusted financial measures have been appended to the earnings release and slides.

Now I will turn the call over to Bill Bosway. Bill?

William T. Bosway - *Gibraltar Industries, Inc. - President, CEO & Director*

Thank you, Carolyn. Good morning, everyone, and thank you for joining us today. Let me begin by sharing our third quarter highlights and then Tim's going to review the results of each of our business segments. After Tim's review, I'll come back and update you on our key initiatives, our current guidance and then we'll take your questions. So let's start with -- start on Slide 3.

Our third quarter results were consistent with our expectations from our Q2 earnings call. As expected, with our strong backlog coming into the quarter and our continued focus on top line execution, we delivered solid revenue growth of 6.8% to nearly $300 million, of which 4.3% was generated through organic growth. The remaining 2.5% came from acquisitions in our Renewable Energy & Conservation segment, including our first strategic investment into extraction processing, part of our conservation business and I'll introduce this acquisition in more detail shortly.

We also delivered solid margin and cash performance during the quarter, GAAP EPS grew 25%, adjusted EPS grew 34% and cash from operations grew 57% up to $66 million.

Operationally, we delivered positive leverage on our incremental volume, we executed our plan, 80/20 and productivity initiatives and improved working capital performance, specifically inventory and payables. But we continue to focus on our top line performance as we build stronger positions in our faster-growing markets, as we optimize our product and service offerings and frankly, continue to execute better.

Our backlog, currently at $241 million, remains robust and is up 45% over last year, which gives us solid momentum as we enter the fourth quarter. Our backlog is driven mainly by 3 businesses, our Renewable Energy & Conservation businesses, both of which continue to accelerate in our infrastructure business. So in all, for the quarter, we delivered solid performance in both growth and margin and -- although we have much work to do, we are pleased with our progress and results.

So now I'll turn the call over to Tim for a review of the results of each of our segments.

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

Thank you, Bill, and good morning, everyone. Let's move to Slide 4 in the presentation entitled Solid Consolidated Financial Performance. Consolidated revenue increased 6.8% above our guidance as Renewable Energy & Conservation segment revenues accelerated and Industrial & Infrastructure and Residential Products segment revenues were essentially flat. Of the 6.8% increase in revenue, 4.3% was driven by organic growth and 2.5% was driven by the prior year acquisition of SolarBos and Apeks Supercritical which we acquired during the third quarter of 2019.

As Bill noted, backlog at quarter end was $241 million, up 45% from the prior year, driven by Renewable Energy & Conservation business. Consolidated GAAP operating margin of 10.5% was equal to the prior year and consolidated adjusted operating margin of 13.3% increased 120 basis points from 12.1% in the prior year. Consolidated GAAP and adjusted EPS grew 25% and 33.8% respectively, with GAAP EPS within and adjusted EPS exceeding the guidance provided on our second quarter earnings call.

This improvement was a result of increased profitability in Renewable Energy & Conservation and Industrial & Infrastructure Product segment, continued benefit of operational excellence actions as well as lower interest expense related to the repayment of our outstanding debt in the first quarter.

Included in GAAP results, our expenses were $6.7 million or $0.20 per share, associated with restructuring, senior leadership transition and acquisitions. During the quarter, we achieved $2.9 million in interest savings from the first quarter repayment of our outstanding debt.

Now let's review each of our 3 reporting segments starting with Slide 5, the Renewable Energy & Conservation segment. Segment revenue increased 18.6%, driven by organic growth of 11.3% and 7.3% growth from the third quarter acquisition of SolarBos in 2018 and a third quarter 2019 acquisition of Apeks Supercritical. Organic growth was driven by strong demand for our commercial greenhouse growing solutions, including design, structures, system integration, field project management and general contracting services.

Operating margins expanded over last year, we put operating leverage and increased volume and favorable mix in both products and vertical markets along with improved operating execution. We continue to make good progress with field modification and our tracker installations, with 90% of site modifications completed and 65% of these operating, with the remaining sites waiting to be turned on. Incoming order volumes are improving as customers experienced good results from the field modifications.

We entered Q4 with a solid backlog across the segment, up 72% over the prior year as we continue to gain participation and see strong customer activity in both end markets. Backlog from conservation more than doubled and renewables is up over 40% from the prior year quarter.

Let's move to Slide 6 to review our Residential Product segment. Residential Products segment revenues increased slightly from last year as modest increases in volume were partially offset by market pricing. Operating margin declined as a result of selling price to material cost alignment as the prior year benefited from timing as well as an unfavorable shift in product and customer mix, partially offset by benefits from 80/20 simplification initiatives. Looking ahead, we expect market demand to be similar to the prior year during the fourth quarter.

Let's move to Slide 7 to review our Industrial & Infrastructure Products segment. Segment revenues increased nearly 1% as higher volume in our infrastructure business was partially offset by lower industrial revenue as lower steel prices impacted core products. The significant increase in operating margin was driven by stronger operating execution, 80/20 initiatives and a better sales mix of higher-margin product. As we enter the fourth quarter, we expect to see solid margin performance continue.

Let's move to Slide 8, titled Balance Sheet Continues to Strengthen to discuss our liquidity position. During the third quarter, we generated cash from operations of $66 million, up 50% -- up 57% over the prior year and improved liquidity by $56 million or 12% from the second quarter, driven by improved working capital management. We continue to optimize inventory levels and work with our suppliers to more closely match payment terms with those offered our customers. While we used net cash of $8.7 million for acquisitions this year, at September 30, we had cash on hand of $137.6 million and an undrawn revolving credit facility of $400 million. Our untapped liquidity supports the execution of both our organic and inorganic growth strategies.

With that, I'll turn it over to Bill. Please turn to Slide 9, 5 Key Initiatives.

William T. Bosway - *Gibraltar Industries, Inc. - President, CEO & Director*

Thanks, Tim. So as I mentioned in our last call that the next phase of our transformation is really focused on enhancing the growth and margin profile of our company, and although we're on a journey, we are making some progress across our 5 key initiatives.

So let me start with accelerating our operations excellence. We are building a stronger business system across Gibraltar, effectively institutionalizing our 80/20 initiatives, but also adding more focus on customer experience, new product development, working capital, safety and organization development. We're starting to see some positive results. Our third quarter adjusted operating income grew 120 basis points, so that's 13.3%, which is really driven by better operational execution and some good favorable product mix and obviously, volume leverage. On a full year basis, we expect to improve adjusted operating margin 50 to 70 basis points, so it will take us to 10.6% to 10.8%.

As well, we generate $66 million of cash that's up 57% over last year, and that's been driven by our improved margin and working capital performance. So I'd tell you we're getting better. I'm excited with our progress, and I really believe in our team's ability to deliver improved, consistent performance over time.

Our second item or second initiative is creating a more direct relationship with our customers. For us, it's critical we have a strong, direct relationship with all our customers, those that we actually sell to and all our channel partners. A direct connection typically creates more clarity in identifying customer and marketing opportunities, while facilitating a little more efficient ideation in development of new solution sets. And in the quarter, over half -- 51% of our revenue was direct to customers. That's up from 41% in Q2 and up from 47% in Q3 of 2018. The 10 point increase over Q2 is actually driven by growth in our Renewable Energy & Conservation, Infrastructure and perimeter security businesses, all of which are supporting our customers through our direct-to-customer business model. Where we're not deploying a direct-to-customer model, we are continuing to deploy resources for a strategic -- for our trade-focused initiatives. Again, it's really important we connect with the folks that use or apply our products. So as an example of connecting with roofing contractors is really helping us identify and prioritize our new product development plans in our Residential Business.

Our third initiative really is -- revolves around new products and innovation. During the quarter, our patented products represented 11.1% of our sales, that's up from 10.4% in 2018. And with the recent launch of our next-generation tracker product line, a percent of patented product sales will reach higher levels as we move forward. As well in 2020, we're going to start measuring the percentage of sales related to new products and services, which will include our patented products. And we believe this metric illustrates a -- better illustrates a company's ability to successfully bring new solution sets to market and it also tends to correlate quite strongly with both growth and margin performance.

Our fourth initiative, portfolio optimization. We continue to deploy our strategic rubric model and process to evaluate our markets, but also our businesses, business models, product lines and customers. I'm excited with the attractiveness of many of our end markets. And frankly, the leadership positions we continue to build, particularly in our Renewable Energy & Conservation, residential and infrastructure businesses. I'm also confident, we have opportunity to create additional value across Gibraltar in each of our businesses and our teams are focused in doing so. And we're going to continue to evaluate our portfolio as we strive to enhance, as we mentioned earlier, the growth and margin profile of the overall business.

And then lastly, our fifth initiative, acquisitions as a strategic accelerator. We continue to be very active in the end markets we believe are the most attractive to strengthen our platforms, build relative with our customers and establish a strong, industry-leading position. Acquisitions are an important part of our strategy. And they remain the primary focus of capital allocation. The acquisition of Apeks Supercritical, I mentioned earlier, is a good example of how we're trying to strengthen our conservations platform.

So with that, let's move to Slide 10. And I'll share with you a little bit more on Apeks Supercritical. So Gibraltar has established a strong leadership position in the commercial greenhouse growing and cultivation space. We've got, I believe, the industry's best portfolio of products and services focused on designing and building as well as optimizing, growing and cultivation operations. But once a plant has finished growing, it typically goes through a processing stage to create a variety of end products for consumers. And as with growing and cultivation, processing uses multiple technologies, intelligent integrated systems, highly controlled processes, and it really requires scalable, efficient, reliable operations, and that's our experience and strength. As well, many of our customers are growers and processors, so making -- entering the processing market is a good fit for us. So in Q3, we took our first step with the acquisition of Apeks Supercritical, a leading extraction processing company, with a strong leadership team, patented technology and leading-edge, clean-extraction technology. Apeks Supercritical is a designer and manufacturer of botanical oil extraction technologies, utilizing subcritical and supercritical CO2. Its trailing 12 months revenues as of June 30, 2019 were $17.7 million, selling mostly to customers primarily in the cannabis industry. Growing and processing are both high-growth markets, and we're going to continue to broaden our capabilities and invest in this space.

So finally, let's move to Slide 11 and discuss our guidance. So given our year-to-date performance, we're narrowing our guidance for full-year revenues and earnings to the upper end of our previous ranges. We now expect 2019 consolidated revenues in the range of $1.040 billion to $1.050 billion. GAAP EPS Between $2.03 and $2.10 or $2.48 to $2.55 on an adjusted basis, compared with the $1.96 and $2.14 respectively in 2018.

For the fourth quarter, we expect revenue between $251 million to $261 million. That compares with $241 million in the fourth quarter of 2018. And GAAP EPS between $0.48 and $0.55 or $0.52 to $0.59 on an adjusted basis. And that's compared with $0.40 and $0.47, respectively.

So at this time, let's open it up for questions.

QUESTIONS AND ANSWERS

Operator

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

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

Starting with renewables, where margins were pretty exceptionally strong. How -- talk about the sustainability of those levels. Is there anything unusual in the quarter other than just strong execution? And whether SolarBos was meaningfully accretive? Or just generally sort of in line with the overall? And a quick follow-up.

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

Dan, I would say, strong execution, you've got pretty high volume, that's helping, and quite honestly, the conservation business, that side of the business really had a great quarter. So I don't know that I would say expect this level of margin every quarter going forward yet. I think it's probably something we can achieve if conditions are right and what we strive to achieve over time as we continue to improve the business. And then I wouldn't say SolarBos was the driver of that.

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

Helpful. And switching gears to Apeks. Can you talk a little bit about what organic revenue growth has look like over the last few years, margin profile? And really you started touch on it, Bill, but really, what differentiates them in terms of technology, patents, customer relationships, et cetera?

William T. Bosway - *Gibraltar Industries, Inc. - President, CEO & Director*

So -- thanks, Dan. The -- couple of things. Inside the processing market, when you do extraction, there's really 3 technologies that are deployed today and CO2 -- using CO2 is one of those. And they are the leading company in CO2 extraction, #1. And there are -- they had developed technology and are patents with their technology in that space. So # 1. I think we have the best and the big leader in this space using CO2 technology.

We continue to look at that marketplace, more to come there. And there are other technologies to consider, but we thought that was a good start for us. Very strong team, as I mentioned earlier, very well respected and known in the industry. So that's a good fit for what we're trying to do as we build relevance with our platform, particularly as we're doing more and more direct work with customers, helping them not only build out their growing sites, but actually trying to help them with processing, which tends to happen on-site as well and then optimizing those operations.

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

And Dan, again, growth has been strong.

William T. Bosway - *Gibraltar Industries, Inc. - President, CEO & Director*

Yes. And I think it's consistent with what we're seeing in the industry and reflective very similar to what we're seeing in our traditional core growing business, growing solutions business, if you will.

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

And margins generally comparable with the renewable segment? A little better? A little worse? How do we think about that?

William T. Bosway - *Gibraltar Industries, Inc. - President, CEO & Director*

I think, they are comparable and what we're -- as I mentioned earlier, and we've talked before, one of the things we're trying to do is enhance those growth and margin profile of overall Gibraltar and I would say this fits in our approach to doing so. So we're -- we feel good about margin opportunity with this business and what it brings to the table.

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

And lastly, along the same lines, is this -- do we think about this as a beachhead for additional acquisitions in the space? How -- I assume it's a pretty fragmented industry, just help us think about this as a maybe a first step, if you will?

William T. Bosway - *Gibraltar Industries, Inc. - President, CEO & Director*

Yes. I think it is a first step as we said. And as I also mentioned, we're going to continue to invest in building out our platform. So we have both organic and inorganic opportunities that are in front of us in this area. So we're going to remain active, as I mentioned, in the markets and so more to come.

Operator

The next question is from the line of Ken Zener with KeyBanc Capital Markets.

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

So Bill, first acquisition here. Really, after spending some time with you earlier in the quarter, it kind of feels like this is almost the beginning of the third iteration of Gibraltar as a company. Because you're basically still a metal-bending company. Obviously, under the prior CEO, the margins got righted, generated a lot of cash, which you still have on your balance sheet, yet now you're talking about things like backlog, you're talking about renewable and specifically you're deploying capital in renewable and that's where your highest growth rates are. I assume -- I think you -- and time will give us a broader view of the company, I assume, within a more formal setting like an analyst day or something but the implied growth rates in the renewable, if you look out a couple of years, I mean, it seems like you're going to be potentially much more of a renewable company than you are a metal bender in industrial and residential. Can you just take a second to comment on your kind of vision there because the math implies you're going to be much more of a renewable company than what you are today. And I'm not sure investors really understand that, and I just want you to see if you'd agree with that?

William T. Bosway - *Gibraltar Industries, Inc. - President, CEO & Director*

It's a good observation, Ken. And as we've discussed with you as well, things are evolving. We've talked about one of our core pillars being this ongoing assessment of the portfolio, portfolio management and just to remind everybody if you think back -- go back 3 years ago, we made our first step into the renewable space, which gave us the renewables as well as conservation business. And there's some foresight there and I think now that we're seeing the markets evolve, we can take advantage of that and build that out. And during that time, we -- just to remind everybody, we actually exited some of our traditional metal-oriented businesses. So I would say that there is a trend and there is a movement here towards evolving the portfolio, and it so happens that it's because of some good end-market dynamics right now that we anticipate continuing, we'll just see more and more of that in the renewables and conservation space. It doesn't mean necessarily though that we're not happy with some of the other pieces that are in the portfolio still, and we're working pretty hard on that as well, but clearly, I think we're going to become a little more oriented towards some of the market -- some of the end markets that, we believe, give us the best opportunity for growth, which hopefully also will translate into a different growth and margin profile for us as a company. And I think over time, you'll see more and more of that as the portfolio evolves. So I think it's a fair observation, but it's not the only thing we're going to be doing, but clearly right now, it's a pretty interesting space.

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

Okay. I do appreciate that, understand your constraints. Like when you're looking at this recent acquisition, can you help us think about -- I mean this wasn't huge in terms of the revenue side, which -- but I think you've implied these acquisitions are more likely to be bolt-on, not transformative. But how should we think about what your targeted returns on capital are? I mean -- and are these dilutive to margins and you'll kind of be up towards where you are today, after 2 or 3 years? Or how should we think about your capital going out? And the potential impact on the segment margins and your 2- or 3-year return on capital targets?

William T. Bosway - *Gibraltar Industries, Inc. - President, CEO & Director*

So we always target 16% in year 3 and then on larger technology-based acquisitions, they might stretch that a little bit, but generally, we're looking strong. I would say this, Ken, the size of this business at the day of acquisition doesn't have much of an impact on margins either way, it's just not -- it's not big enough to make a difference. So in this instance, I think, it's going to be margin positive over time, as we continue to improve what we acquire and that business continues to grow and then our core portfolio increases.

And I think it's -- you said it wasn't large, more of a bolt-on, but it is moving us across this value chain. We've historically focused, first, just on structures. We expanded that to do this general contracting project management services for our customers, where we really given them a turnkey growing environment and after they finish growing, they have to process whatever it is they grew and this is an area of that value chain that we thought was pretty attractive. So it expands our service offering to that group of customers that we find very active right now.

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

And the Renewable Energy & Conservation, what is that split between solar and greenhouse again?

William T. Bosway - *Gibraltar Industries, Inc. - President, CEO & Director*

It's about a 1/3 conservation, 2/3 renewable energy.

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

Okay. And my last question, I'll get back in queue. But the industrial top line 3Q versus 2Q, I mean how much of the sales change was price versus volume? Because obviously there is a big swing in 2Q when people didn't take in volumes just because of the falling steel prices. But could you kind of break that out for 3 and 2Q just so we can understand the dynamics?

William T. Bosway - *Gibraltar Industries, Inc. - President, CEO & Director*

Yes. I think it's more volume than price.

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

Is price neutral year-over-year?

William T. Bosway - *Gibraltar Industries, Inc. - President, CEO & Director*

What's that?

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

Are you talking...

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

Is the price neutral in industrial?

William T. Bosway - *Gibraltar Industries, Inc. - President, CEO & Director*

Ken, are you taking sequential or quarter-over-quarter?

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

Well, year-over-year.

William T. Bosway - *Gibraltar Industries, Inc. - President, CEO & Director*

Yes. It's still...

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

Basically the flat sales that you had in industrial, was that flat price, flat volume, whereas 2Q was flat price, down volume?

William T. Bosway - *Gibraltar Industries, Inc. - President, CEO & Director*

Yes. So year-over-year it's generally -- it's infrastructure up, that's volume. And then really, on the industrial side, it's price because again, steel price was sort of peaking second, third quarter last year, into the fourth, and this year it's down a lot. So this is -- on the core products, the price adjusts regularly.

Operator

Our next question is from the line of Julio Romero with Sidoti.

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

I wanted to ask about raw material costs, just to put your outlook on maybe the commodity side going forward, understanding the steel as kind of continuing to maybe trend down directionally. When do you expect to maybe cycle through some of the higher-priced inventory? And when does that maybe start to become a tailwind for you?

William T. Bosway - *Gibraltar Industries, Inc. - President, CEO & Director*

We don't have much in the way of high-priced inventory at hand. I mean not -- I wouldn't say that's a drag right now. When we look out at steel, every time you look at it, the future look is it's going to come down a little bit more. It's not abnormal for steel in the fourth quarter to decline a little bit if you just look at the normal seasonal curves. So it's been -- and I know some of the mills have taken capacity out. So we -- it's hard to predict where steel is going to go for us. I mean we look at everything, we look at it. We really manage it by just staying pretty close to flow-through, so we don't carry a ton of raw material. And then we tend to work with our customers to adjust price as needed. So on a yearly basis, it doesn't usually have much of an impact. There'll be -- if it moves a lot in one quarter, you could see an impact in that quarter or the next quarter, but generally we just manage through it. And you could see that. If I remember last year, when it really moved around a lot, didn't have much of an impact on us on a full-year basis.

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

Okay. Understood. And on the residential side, can you just talk about volumes there? I had seen the national ARMA numbers were pretty strong and understanding that I have a national number and you guys have a different geographic exposure, can you just maybe talk about volumes in the quarter? And if labor availability or anything on that side kind of impacted you there?

William T. Bosway - *Gibraltar Industries, Inc. - President, CEO & Director*

We saw a modest volume increase. And I think it's not direct to us, labor availability so much. It's a market condition for the roofers that impacts that. We believe that, that continues where roofers can't get enough crews to do all the work that's available. So I think as we head into the fourth quarter, we sit here thinking there is good end market demand for work and we'll have to see how the weather plays out. I'd agree with your ARMA, I think it's a modest -- I think depending on which of the single values you look at, there's some participation changes going on. There's some regional strength in some of the markets. But overall, I think it's pretty consistent with last year across the country and that's more or less that we've been seeing is relatively consistent markets. We saw, like you said, a little volume, we gave a little price.

Operator

(Operator Instructions) The next question is from the line of Walter Liptak of Seaport Global.

Walter Scott Liptak - *Seaport Global Securities LLC, Research Division - MD & Senior Industrials Analyst*

Good quarter. So I wanted to ask -- I joined in the call a little bit late. But I wanted to ask you about in the commentary that you made that third quarter was in line with [consensus] numbers and our numbers. And for the fourth quarter your guidance looks fine for revenue but a little bit lower for profit. So I wonder, what is it about fourth quarter profit mix or product mix or timing of projects that we should be thinking about? And with the backlog up significantly what does that mean for you in 2020 growth rates?

William T. Bosway - *Gibraltar Industries, Inc. - President, CEO & Director*

Yes. Well, I think given that we have a fair amount of the business that's just project-based stuff, we came in sort of high end of revenue. Closed some -- had some pretty profitable work completed. So I think it's not necessarily we see something different in the fourth quarter versus the third, or that the mix of work that we had in the second half of the year, the timing of it might have shifted a little bit. But we're going into the fourth quarter with strong backlog across the business. You get into seasonally slower periods depending on weather. It's -- some of this is dependent on construction season, but it's going pretty good.

Walter Scott Liptak - *Seaport Global Securities LLC, Research Division - MD & Senior Industrials Analyst*

Helpful. In your fourth quarter guidance, did you factor in like a normal weather trend? Or didn't put [some] in this stage for work because of potential weather?

William T. Bosway - *Gibraltar Industries, Inc. - President, CEO & Director*

Well, I struggled to hear the details that you ended with.

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

Yes, Walt, can you -- you are a little muffled. Can you repeat that please?

Walter Scott Liptak - *Seaport Global Securities LLC, Research Division - MD & Senior Industrials Analyst*

Yes. Okay. Sorry about that. Yes, I guess what kind of seasonality and weather assumptions that you made for the fourth quarter? Were you conservative about the kind of workdays that you have because of weather…

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

No. I think we -- I think normal is the way I would put it. I mean it's hard to predict.

William T. Bosway - *Gibraltar Industries, Inc. - President, CEO & Director*

Yes, we're not good at weather predictions. I would -- my reaction is, hey, we plan, whatever normal is, we don't have any exceptions made to the plan based on a weather forecast or whatever. We're hoping that the weather stays reasonable, so much of the work that we have in front of us, we have a shot at. So we'll see how it goes, but nothing in our forecast for some exception to weather or what have you.

Walter Scott Liptak - *Seaport Global Securities LLC, Research Division - MD & Senior Industrials Analyst*

Oh, okay. Great, okay. Well I'll switch gears for now. With the backlog up significantly, presumably part of that is because of the renewables business. I wonder if you could talk about utility project backlog versus community backlog. Are they both up? Is one up but not the other? And timing of those projects?

William T. Bosway - *Gibraltar Industries, Inc. - President, CEO & Director*

Yes, Walt, so the backlog that we called out -- the conservation backlog is almost -- it's more than doubled from last year. And the renewables' up over 40%. In renewables, we're not utility focused, so what you're going to see in there is a lot of community, the smaller-sized projects. That's just -- that's our real assets where we replay.

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

It's a very big space right now.

Walter Scott Liptak - *Seaport Global Securities LLC, Research Division - MD & Senior Industrials Analyst*

Okay. Why is that community solar market doing so well right now?

William T. Bosway - *Gibraltar Industries, Inc. - President, CEO & Director*

I think it's just a combination of -- there's end-market demand but the price of solar-generated energy continues to decline. There is the ITC step-down at the end of this year, goes from 30% to 26%. But you have to have a percentage of the project invested to take advantage of that. And I can't imagine that we will start all of these projects, that's not necessarily the plan. So hard to say. It's just up, there's a lot of interest. Our guys continue to really do a good job executing and...

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

And I think -- I was just at the annual solar show a few weeks ago, and I think there's a participation gain opportunity for us if we continue to execute well. So we've got a good end market. We've got a good array of products, if you will, from both tracker and fixed-tilt. And we're excited with the activity we're seeing. And we'll see about the ITC, I mean, it's not clear yet, I don't think, in the industry of how people are going to actually deal with that. I think as you find in most situations like this, industries tend to wait and wait and wait. So we'll have some moments, we don't have clarity on that yet. But we're starting to see more -- have more and more discussions with customers on how to transition through that. But putting that aside, it's been, again, continued -- I would say, consistent growth in the industry. And we're doing our best to participate in as much of it as we can and make money.

Walter Scott Liptak - *Seaport Global Securities LLC, Research Division - MD & Senior Industrials Analyst*

Okay. Sounds good. And just a last one for me with Apeks acquisition. Just with 80/20, do you start 80/20 right away with companies? Or do you leave them alone for a little while and then start introducing them to the company culture?

William T. Bosway - *Gibraltar Industries, Inc. - President, CEO & Director*

So it's a great question and for us, it's an immediate integration process and -- so there's various pieces of integration and there's certain different levels depending on the company we're acquiring will want to do. This is a very complementary business to us. So that's good. So the initial efforts are back end, which that would include operating cadences and processes as well as financial. And then it's front end. How are we actually going out and talking to the industry because, as I mentioned earlier, a lot of our customers are doing both growing/cultivation and processing at the same site. So being able to go to a customer and have a broader discussion has been very helpful. Frankly, a lot of our customers have been pushing and pulling on us to help them in that part of the world -- in that part of the process, but most of our integration well upfront right now, with Apeks is the back end. So we have dedicated people that are responsible for making that happen. And then on the front end where we're go-to-market and having discussions a little differently. So roundabout answer to your question, but I think the answer is yes, we would like to go more immediate than otherwise. Otherwise if you let it sit for a time on end you never get there, right? So...

Operator

We have a follow-up question from the line of Ken Zener with KeyBanc Capital Markets.

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

Tim, Bill, could you just comment generically, I know you give guidance by segment for the year but, I mean, how should someone think about a certain growth rate, therefore, EBIT leverage in your company? Obviously with 80/20 you guys got a lot of lift there but, I mean, to the extent someone wanted to forecast 2% or 5% growth rates, should we be thinking about your EBIT leverage in the 25% range or 30% range consistent with your gross margin? Or is there going to be excess investment cost as you work out some of these investments that you're doing?

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

I would say, if the growth came across the same product mix that we have today, you would see a flow-through higher than gross margin. It's modest because we're not capacity constrained generally. So in any investments we would have to make would be pretty modest, and I think we have alluded to for growth. So when you look at our CapEx, a portion of that is maintenance, a portion of that is cost reduction and a portion of that's capacity and we've been spending $12 million, $13 million a year for the last 3 or 4. So I'd expect the flow-through better than gross margin.

William T. Bosway - *Gibraltar Industries, Inc. - President, CEO & Director*

Yes. And Ken, I'd say one other thing to add to that. I think internally, it's -- our team has clarity around our expectations. And as you described, look, any time that you have incremental volume, you should be targeting -- levering that at levels consistent with your existing or better than your gross margin, right? So I think everybody knows that, that's what we expect. I think, how we're institutionalizing our operating business system, I've mentioned earlier, is really important to us. And that kind of gets add back. So if you get the variables that Tim mentioned, that you got to manage through, but ultimately at the end of the of day, the incremental volume comes forward where our expectation is we perform better on that incremental dollar than we would otherwise. So we're working that really hard. We're making some progress I referenced earlier, more work to be done. But boy, what a good problem to have if we can be in some good solid end markets that forward us the growth. And we hope to see that, boy, we're looking forward to executing on it better in the future than we have in the past. So that's our objective.

Operator

Thank you. We have reached the end of the question-and-answer session. I will now turn the call over to Bill Bosway for closing remarks.

William T. Bosway - *Gibraltar Industries, Inc. - President, CEO & Director*

So guys, thanks again for joining us today. Just to let you know, we do plan on attending the Baird Global Industrial Conference in Chicago, that's in November. We're going to be at SunTrust Industrial Summit in New York in December and the CGS Winter Conference in New York in January. And we look forward to seeing many of you at these events. I would say also there -- we're thinking about an Investor Day. We do not have it on the calendar, but that will probably be sometime early in the year 2020. I'm looking forward to hopefully hosting you and many others there as well. So thanks again, and have a great day.

Operator

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