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ROCK - Q4 2013 Gibraltar Earnings Conference Call

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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the Gibraltar Industries fourth quarter 2013 earnings conference call.

(Operator Instructions)

I will now turn the call over to your host for today, Mr. David Calusdian of the investor relations firm Sharon Merrill. Please proceed.

David Calusdian - *Sharon Merrill - IR*

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 fourth quarter and full year 2013 performance. These slides also are posted to the Company's website.

Please turn to slide 2 in the presentation. Gibraltar's earnings release and this morning's slide presentation both contain non-GAAP financial measures. Reconciliations of GAAP to adjusted measures have been appended to the earnings release.

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

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

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

Thanks, David. Good morning, everyone, and thank you for joining us on our call today.

I'm going to start off with some highlights on our business for the fourth quarter of 2013 and the full year. Following that, I will turn the call over to Ken Smith, who will review our financial results in greater detail and provide some background information and guidance relative to 2014. Then

I will close our prepared remarks with some thoughts on the year ahead. And at that point, we will open the call to any questions that any of you may have.

With that, I will ask you to turn to slide 3 in our presentation, titled Overview. Gibraltar concluded 2013 with solid growth and profitability momentum in the fourth quarter. Our fourth-quarter and full-year adjusted results surpassed last year's results and exceeded the high end of our most recent guidance.

Net sales for the fourth quarter were up 9% from the fourth quarter of 2012. For the full year, net sales increased 5% to $828 million.

Gibraltar's out-performance versus our guidance for the fourth quarter was driven by organic growth. This was noteworthy, as it was accomplished in the absence of overall end market improvement.

On the bottom line, our adjusted EPS for the fourth quarter increased 60% from Q4 of 2012 to $0.08 per share. For the full year, adjusted EPS grew 6% to $0.69 per share. And 2013 was another strong year for free cash flow, at 5.5% of revenues, or $1.46 per share, positioning the balance sheet with almost [$100 million] (corrected by company after the call) of cash at the end of the year.

The earnings improvement this quarter was driven by initiatives we have undertaken during the past two years to strengthen the performance of our business. As a result, although end market conditions stayed basically flat year over year, 2013 was better for Gibraltar than 2012, and was our third consecutive year of improved earnings, despite historically low levels of activity in our traditional core markets.

Contributing to our profitability this year were improved performance in our West Coast operations, better than expected residential sales, driven by demand for our postal storage products, contributions from acquisitions, and a lower interest expense as a result of our successful debt refinancing in the first quarter of 2013. Looking forward, we believe Gibraltar is well positioned for another year of improvement in 2014. I will have more to say about the outlook after Ken's financial review.

On another note, as we explained in our press release, we have begun presenting our results in two reporting segments, entitled Industrial and Infrastructure Products and Residential Products. The Industrial and Infrastructure Products segment includes bar grating, expanded and perforated metals, bridge bearings and roadway expansion joints, whose primary end markets served include energy, discrete and process manufacturing and transportation infrastructure.

The Residential Products segment consists of a range of products for residential housing. These products include roof and ventilation products, mail storage, both single and cluster units, rain dispersion, trims and flashings for single and multifamily residences, and low rise commercial buildings. We believe the segment details will provide you enhanced transparency into Gibraltar's operating performance.

To supplement today's discussion about segment performance for Q4 and fiscal year 2013, we have also made available additional historical information for segment revenues and margins extending back to the first quarter of 2011. This information can be accessed in the Quarterly Results section of the investor info portion of Gibraltar's website.

At this point, I'll turn the call over to Ken for a financial review of our results, as well as insights into our expectations for 2014. Ken, over to you.

Ken Smith - *Gibraltar Industries Inc - CFO*

Thanks, Brian, and good morning. Let's turn to slide 4, entitled "Gibraltar Year over Year." First, I will remind you that I will be discussing adjusted income and margins, excluding special and non-routine transactions. So starting with the consolidated fourth quarter results and comparisons, revenues increased on the strength of acquisition-related growth, while businesses we owned in both quarters experienced a 3% increase in revenues.

Company-wide, the 3% organic increase was the net result of increased unit volume in both segments. And I will provide more color on the relative strength of market conditions when I discuss each segment. The fourth quarter's adjusted operating margin decreased slightly, by 40 basis points, the net result of a 20 bps increase in consolidated gross margin, led by gains in our Residential Products segment, offset by higher SG&A as a percent of sales, primarily related to equity compensation recorded in corporate expenses.

The EPS improvement from last year's $0.05 per share to the $0.08 this quarter resulted from a $0.05 increase from residential new construction volume and the efficiencies in our West Coast residential business. Plus a $0.02 improvement on lower interest expense, resulting from our successful refinancing of notes in January 2013, and a $0.01 increase from the lower income tax rate. And these three increases were partially offset by a $0.03 decline on lower sales from residential repair and remodeling, which was in line with reduced re-roofing activity, a $0.01 decline from the Industrial Infrastructure products segment related to pricing and, lastly, a $0.01 decline from variable compensation expense.

Now, the full year results and comparisons on slide 4. Full-year revenues increased on the contribution of acquired businesses, the largest of which were purchased in the fourth quarter of 2012. Businesses we owned in both periods experienced a 2% decrease, which was the net result of an increase in residential-related products, offset by lower sales in the industrial and infrastructure products.

The year's adjusted operating margin was down compared to 2012, the net result of improved operational performance from our West Coast residential business, plus accretive acquisitions, plus residential new construction. All of which was more than offset by the Industrial and Infrastructure products results, which experienced a tighter price to commodity cost relationship. In corporate expense, we had some higher equity-based compensation tied to our higher stock price this year.

Translating these key items into their effect on adjusted EPS and reconciling from last year's $0.65 per share to $0.69 per share this year, the key changes were, a $0.14 increase from our residential products segment, which included the more efficient West Coast business, and the net higher unit volume, led by postal products, plus a $0.06 increase from the recent acquisitions. Plus a $0.07 increase on the lower interest expense on the refinancing of notes, and a $0.01 increase on the small change in the year-to-date income tax rate. And these four improvements were offset primarily by two other factors: a $0.17 decline from the Industrial and Infrastructure Products segment, as weak demand affected pricing and compressed its margins, and a $0.07 per share decrease on higher equity comp.

I will talk about each of our two reporting segments, now starting with slide 5, Residential Products. Its fourth-quarter sales increased, reflecting 6% organic growth plus 3% growth related to acquisitions. This was another quarter of solid growth in revenue related to residential activity.

The strength of the positive organic growth in the fourth quarter was driven by continued demand for our postal storage products, and this demand exceeded the reduction that we had in sales from roof-related products. Our postal storage solutions include a variety of new secured cluster mailbox designs for apartments and condominiums, as well as low rise commercial delivery locations. Centralized cluster mailboxes not only benefit the business objectives of property owners and managers by eliminating the need to have someone staffing the front desk to handle and safe-keep deliveries, but also aligns with the US Postal Service's drive to create a self-sustaining business model that includes minimizing the cost of delivery.

Residential repair and remodeling activity in the fourth quarter was down 5%. Demand for our roof-related products does correlate with the bigger-ticket re-roofing activity. In general, re-roofing activity was lower in the fourth quarter compared to the fourth quarter 2012.

This segment's operating income for the quarter climbed to 20%, with margin expansion driven by the leverage on the incremental unit volume. For the full year 2013, Residential Products sales grew 5% year over year, and the reasons for the organic growth are the same as we had for the fourth quarter. Sales rose from postal products, based on new construction and the conversion efforts of the postal authorities, and that rise in demand for postal products exceeded that of the sales decrease for roof-related products, such as rain dispersion and attic ventilation.

Overall, our residential repair and remodeling sales, including roofing, were down 6% year over year. 2013 was a year of comparatively fewer storms, so less storm damage to be repaired, and the underlying demand for replacing roofs that had reached the end of their useful life also was lower than 2012.

While Gibraltar does not sell asphalt shingles, we do sell attic ventilation and rain dispersion products, which are frequently replaced when a homeowner replaces or repairs their roof. Operating income for the year increased, showing excellent margin expansion on a 5% revenue rise, again led by the leverage on the additional unit volume.

I am now going to turn to slide 6, our Industrial and Infrastructure Products segment. Its fourth-quarter sales were up 10% from 4Q 2012, largely due to two acquisitions in the fourth quarter of 2012. The smaller organic growth was from mid single digit percentage increase of transportation infrastructure products, plus slightly positive unit growth of products sold into the industrial markets, including discrete and process manufacturing in both North America and Europe.

For sales to North American industrial markets, 4Q 2013 was our first quarter in the past six quarters showing a favorable revenue comparison to the prior-year period. And for European sales to industrial markets, 4Q 2013 marked the first quarter in the past seven quarters showing a favorable revenue comparison. So we are hopeful that a recovery in industrial markets becomes sustainable throughout 2014.

This segment's operating income for the quarter increased, but not commensurate with the revenue increase. There was an increase on higher volumes, plus the benefit from a better mix of special orders. But competitive pricing on standard industrial products provided an offset that pushed down slightly the operating margin by 20 bps, to 7.5%.

For the full year 2013, Industrial and Infrastructure Products segment sales increased 5%, which is a 5% decline organically, but more than offset by the acquisition growth of 10%. The organic decrease in sales within this segment was 5% down on price, while unit volume in 2013 was nearly equivalent to 2012.

Industrial end markets, which provided incremental volume for our products included agricultural equipment, refining and automotive. Markets with little volume change included oil and gas production, while lower volume came from transportation infrastructure, coal mining and architectural facades for leisure and public sector buildings. Operating income for the full year decreased, and the operating margin moved down 190 bps to [6.8%] (corrected by company after the call), largely due to a tighter relationship between pricing and commodity costs.

Now I will turn to slide 7, titled Cash Flow Remains Strong. We generated cash in 2013, a notable improvement over 2012's cash flow from operations. And I would like to point out in the second footnote that, in addition to the cash flow represented by the bars, we also received an additional $12 million in cash from the sale of one of our larger manufacturing plants, located in California.

This transaction was a result of restructuring efforts put in place by our team on the West Coast over the past two years, and will allow us to further reduce costs going forward. Days of net working capital for 2013 was 65 days, equivalent to the same low level in 2012, and I expect that this shortened cash conversion time is sustainable in the periods of higher economic growth which lie ahead. Although not shown on slide 7, we ended 2013 with cash on hand, plus availability of our undrawn revolver, both of which sum to $200 million of liquidity at year end, all earmarked for funding the growth of the Company.

Now turning to slide 8, titled 2014 Financial Guidance. Our sales growth for 2014 is expected to be driven to a large extent by continued strength in residential new construction and a firming of demand from residential remodeling activity.

Growth in general industrial activity, and the easing of pricing pressures as market growth improves, are expected to be weighted to the second half of 2014. And all of this contributes to our expectation for a full-year 2014 consolidated revenue growth in the mid single digits.

For the residential products segment, the latest industry indices, such as the National Association of Homebuilders Housing Market Index, Harvard's Leading Indicator of Remodeling Activity, the Architectural Billings Index, as well as the latest Census Bureau reports on housing sales and starts, all point toward a gradually improving market for new construction in 2014. While roof-related demand correlated to repair and remodeling, we expect it to provide single digit growth.

We are working on a range of customer initiatives to leverage these underlying trends. Our goal for these initiatives is to keep making evolutionary change to our product lineups and keep them fresh and differentiated in the marketplace. For example, we have introduced new postal solutions, which have been well received by customers, and are expected to contribute to a year of organic revenue growth in 2014.

In our Industrial and Infrastructure Products segment, we are hopeful that our 4Q proves to be an inflection point and a positive signal for the year ahead. We saw less volatility in industrial demand and pricing during the fourth quarter than we experienced earlier in 2013.

The latest industry indices, such as the PMI index and the Architectural Billings Index, point towards varying degrees of improvement this year. And several economic forecasts for Europe point to GDP growth after recent periods of contraction.

After a slow start to 2014, the industrial end markets expected to have modest growth include manufacturing, automotive and refining. And oil and gas production could increase, driven by intensified horizontal drilling.

Regarding the transportation infrastructure market, there is less certainty in the outlook for federal government spending for transportation projects. The current two-year federal transportation appropriation expires this coming September 30. While there is growing dialogue regarding a new bill at the federal level, including how to raise new sources of revenue, state and local governments are embracing the idea of coming up with funding sources of their own to supplement the federal spending.

At present, state and local governments are contending with a narrowing window of current federal funding for new projects, which has led to projects of shorter duration and smaller dollar amounts, and has contributed to our lower backlog of transportation projects entering 2014. As a result, the first half of 2014's revenues and profits for our transportation infrastructure products is expected to be unfavorable compared to the strong first half of 2013.

Our plan for the upcoming first and second quarters is to focus on rebuilding our backlog. And this should position us for a stronger second half of 2014, with the potential for upside when Congress approves a new transportation appropriations bill and states generate additional funding of their own.

Regarding our unallocated corporate expenses for the full year 2014, we expect it to approximate $18 million, or 2% of sales, and adjusted net interest expense to approximate $15.5 million for the year, and the adjusted effective tax rate to approximate 38%. As a result, we now expect Gibraltar will deliver sales growth between 4% and 7% this year, led by momentum in residential demand, while increases in demand for our industrial and infrastructure products are expected to be weighted toward the second half of the year.

With modest margin expansion on full year consolidated sales growth, we expect an adjusted EPS this year to be in the range of $0.76 to $0.90, which compares to $0.69 reported for 2013. This wider than usual EPS range reflects our uncertainty as to the timing and strength of the market restoration in residential repair and remodeling activity, as well as the broader industrial markets. Longer term, Gibraltar is well-positioned to deliver a more significant improvement on both the top and bottom line, as a more broad-based end market rebound occurs.

Now slide 9, titled "1Q14 Preview." The first quarter is historically one of the two quarters each year with lower sales volume, as cold weather reduces construction activity. And to that point this winter, particularly January and for much of February, weather has been harsher. At one point, I understand snow covered 60% of the US.

The weather, combined with weak conditions in certain markets, are likely to result in lower first quarter consolidated revenues, with Residential Products down slightly and Industrial and Infrastructure Product revenues equivalent to the first quarter of last year. Concerning adjusted EPS, we expect the first quarter of 2014 to be slightly less than last year's $0.04, due to the effects of harsher weather slowing the residential construction activity, and continuing weakness in industrial and transportation infrastructure markets.

And at this point, I'd like to turn the call back to Brian.

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

Thanks, Ken. Before we open the call to your questions, I wanted to comment on 2014, referencing slide 10, entitled "Summary." 2013 was Gibraltar's third straight year of improved performance, both on the top and bottom lines, as well as from a cash perspective. As reflected in the guidance that Ken just outlined, our goal is to extend this record in 2014.

Our highest near-term priority is organic growth. The industry indexes have been up and down during the course of the past year, but in general, they point to varying degrees of improvement across our end market spectrum.

Our optimism about the outlook also reflects the success we are seeing in our internal growth initiatives, which we believe will help drive our sales regardless of the swings in end market activity. In our residential products segment, the leading indicators for new housing construction and repair and remodeling point to a year of favorable end market conditions.

While we are starting 2014 on a relatively slow pace, given the cold and harsh weather in much of the country since the New Year, we believe the US housing market will continue its long-term recovery as the year progresses. Also, severe weather conditions generally drive the need for a higher level of repair and maintenance for our residential building products. We expect to quickly put the weather-related issues behind us and resume building residential momentum, as we did last year.

The outlook for sustained growth in markets served by our industrial and infrastructure products segment is not quite as clear. First, while the need to repair or replace our aging bridge stock in the US is very clear, we are facing a renewal of the federal transportation funding in the US that Ken discussed, which, until a new bill is put in place, will alter the planning process for bridge projects.

And second, there seems to be continued choppiness in industrial demand. After rising almost nonstop since April 2011, the ISM's Purchasing Managers Index was down in January, reflecting a pullback across the manufacturing sector. According to the ISM, adverse weather conditions were a factor for a range of businesses they surveyed, while others were more optimistic, reporting increasing volumes early in 2014.

We believe the challenges that we are facing in our industrial end markets are largely short term in nature, setting the stage for a stronger performance in our industrial business, weighted to the second half of the year. Consequently, and on balance, we're expecting that a continuation of the stronger demand for our residential products experienced in Q4, and improving demand in industrial products in the second half of the year, will lead to a significantly higher organic sales in 2014.

On the bottom line, in 2014, we will reap a full year's benefit from our West Coast consolidation, as we continue to reduce costs and enhance operational efficiencies across the rest of the business. On top of these improvements, we have approximately $200 million to $300 million of available manufacturing capacity to support this growth. As a result, we expect 2014 to be a stronger year for Gibraltar then 2013, in terms of both sales and profitability.

At the same time, our strong balance sheet, positive cash position, improved liquidity and positive cash flow generation position us to continue participating in the acquisition arena. We plan to stay aggressive in looking for acquisitions that meet the disciplined criteria we have developed. Our goals are to accelerate revenue and earnings growth, which also contribute to improving return on invested capital over the mid-term.

Our focus is to acquire companies that build on existing product leadership positions where possible, as we have done in our four most recent acquisitions. We look forward to reporting on our continued favorable outlook, in terms of both growth and profitability, on our conference call next quarter. In the meantime, please keep in mind that we will be presenting at the Sidoti Emerging Growth Conference on March 18. We hope to see you there.

At this point, we will open the call up to any questions that any of you may have.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Josh Chan, Robert W. Baird.

Josh Chan - *Robert W. Baird & Co. - Analyst*

You mentioned the very strong performance in the postal business. And I was just wondering how you were thinking about the growth profile forward in this business? Because on the one hand, you have an improving new construction market, and this drive towards efficiency. But on the other hand, the end customer is probably in somewhat of a distressed situation. So I was wondering how you think about the growth looking forward?

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

I think your questions were primarily focused on the single-family mailbox, if I understood your question well. And I think the key thing to note there is we are producing 4 million to 4.5 million to 5 million mailbox units per year, each and every year. So clearly, that market is not driven by new construction. It's driven more by replacement of existing products. And that has been a consistent pattern for many, many years. So we are expecting that to stay consistent, as it has been throughout this entire downturn in the housing market.

Ken Smith - *Gibraltar Industries Inc - CFO*

And also, there is sustaining legs to the postal authorities' initiatives to reduce the cost of delivery. So whether they are converting commercial mail delivery points or continued residential single and multi family, I think that's -- there's still quite a bit of single point deliveries that the postal authorities would like to reduce. So I think that is going to be a continuing trend, with advantages.

Josh Chan - *Robert W. Baird & Co. - Analyst*

All right, that's good to hear. And if I switch over to the industrial segment, you did a good job describing the dynamics of the infrastructure side. But I was wondering what you're seeing in terms of, on the Industrial Products, what is your visibility towards this kind of improving demand in the second half? Is there anything you can tell us from quoting activities or things like that, that show you that things could improve in the second half?

Ken Smith - *Gibraltar Industries Inc - CFO*

Our industrial business does not benefit largely from a backlog, whereas our transportation products do benefit from a backlog, because of the long lead times to build and fulfill the order. So we don't have a backlog statistic that will be able to guide us on our expectations for second half 2014 improvement. But judging from public remarks and economic expectations and forecasts, it will give us anticipated expectations that we are going to be improving demand across end markets. And it's certainly seeing an uptick in GDP in Europe after a year of negative GDP. Here in the US, there continues to be bright spots in automotive. Manufacturing seems to be having a stronger base, including in-sourcing, it's coming back from offshore. So I would say there are more anecdotal points and references that suggest that we could benefit from a second half improvement.

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

There are things like what appears to be a growing sentiment in favor of launching the Keystone pipeline and other projects of that nature, all of -- any of which could have a meaningful improvement in our Industrial Products sales as well. So there are growing signs that more larger term projects will be freed up this year than in 2013, which gives us hope for greater sales in the second half of the year.

Josh Chan - *Robert W. Baird & Co. - Analyst*

Okay, that makes sense. And lastly, you mentioned that you have $200 million to $300 million of capacity, but then I think I saw that you're also taking up your CapEx by $10 million next year. Could you reconcile those two comments?

Ken Smith - *Gibraltar Industries Inc - CFO*

The increased CapEx is directed to replacement, because there's a fair amount of replacement of equipment in our remaining manufacturing capacity that is -- needs to be replaced. It is machines and go through effective preventive maintenance programs, are in need of replacement to keep their tolerances and particularly towards the acting specs that we have for many of our customers. So there's another significant portion of increased CapEx for new products. Not only do we have new products being developed in our postal product category, but there are other categories where we are changing metallurgy and styling and functionality to help with customers' demands. So I would say that increase is split almost evenly between those two categories of replacement and new products.

Josh Chan - *Robert W. Baird & Co. - Analyst*

Sounds good.

Operator

Ken Zener, KeyBanc Capital Markets.

Ken Zener - *KeyBanc Capital Markets - Analyst*

I do appreciate your segment information, as well as the prompt quarterly historical. Could you talk about how you got to that decision? If it was of your own volition? And then if you could just broadly talk about the upside and downside within your guidance? Within the res and the industrial segment, please?

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

Ken is going to provide a more fulsome discussion on this, but I can tell you that it was completely of our own volition. We decided that it would help our shareholders understand the business better if we segmented along these lines, more -- giving a fuller description of residential, and then separating out the industrial and the infrastructure, which we feel pretty much go hand-in-hand with one another. And most of the trends that one of those business experience, so does the other. So we made that decision completely on our own. And hope -- and I'm glad to hear that you appreciate it, that the investors and the analysts appreciate this effort on our part.

Ken Smith - *Gibraltar Industries Inc - CFO*

And I would supplement that by saying that increasingly, we are looking at how we deploy new capital to each of these two categories, products and market served. So there has been a growing trend inside Gibraltar as to how we evaluate performance and the allocation of new capital to keep these businesses -- these two categories -- segments growing. So a lot of that contributes to what Brian said in reaching this decision to bifurcate the business for your understanding.

Ken Zener - *KeyBanc Capital Markets - Analyst*

Good.

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

Part B of your question was, the upside and downside? Or are you going to forgo that question?

Ken Zener - *KeyBanc Capital Markets - Analyst*

Right, by segment. It is a big range there that you have, and it is obviously, now that we have segment data, we can get a better understanding of how you're thinking about it, and model that. Is it based -- is your range based on a back half recovery in industrial being stronger? Or is it really residential? How should we think about that?

Ken Smith - *Gibraltar Industries Inc - CFO*

Let's start with the Industrial and Infrastructure Product segment. I do -- the lower side of that range anticipates a more modest recovery in the second half of 2014, where other -- whether markets don't restore themselves in any meaningful way, and/or were not able to secure as much orders as we want or become available for transportation infrastructure products. Over on the Residential Products segment, I would say the lower end of the range would be influenced by -- maybe no change in residential repair and remodeling activity. Considering not any improvement.

Ken Zener - *KeyBanc Capital Markets - Analyst*

And that would bring us to the 4% top line that would translate to the lower end of the range? As opposed to 7%, which is the higher end?

Ken Smith - *Gibraltar Industries Inc - CFO*

Yes, which was our consolidated percentages.

Ken Zener - *KeyBanc Capital Markets - Analyst*

Correct. And then I guess the operating leverage. Now that we have your segments, could you describe how you would like us to think about operating leverage within residential and the industrial infrastructure? Should that be, both of them following through with that -- 20 -- I believe 30% range that you have talked about? Or is there some impacts that we should be sensitive to? West Coast restructuring benefiting residential more, for example?

Ken Smith - *Gibraltar Industries Inc - CFO*

I would say generally, for residential products, I would say their contribution margin there is probably on or around 30%. For all products [rolls] and sell a lot of by the same degrees. And over in industrial and infrastructure products, I would say the contribution margin there is in the 25% to 30%. Again, assuming all proportionate sub-families change in the same degree, up or down.

Ken Zener - *KeyBanc Capital Markets - Analyst*

Right. And then the last question, I do appreciate this, but your reporting certainly helps us understand the business better today. Your 4% to 7% revenue growth includes what component of price?

Ken Smith - *Gibraltar Industries Inc - CFO*

I would say it is very little to none. Improvement.

Ken Zener - *KeyBanc Capital Markets - Analyst*

Great.

Operator

(Operator Instructions)

Robert Kelly, Sidoti and Company.

Robert Kelly - *Sidoti & Company - Analyst*

Question on the full-year adjusted operating margin for Residential Products. Almost 10% in 2013, is there some sort of outsized benefit from mix in 2013 results?

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

No, I would say not. We have had an acceleration of postal products, which are among of the higher margin generating areas of the business, but we also saw somewhat of a slight decline in some of our roofing products that also carry a similar margin. So there was offset there. But one, there was no outstanding glaring addition that shapes that 10% outcome. We have been focused on taking steps to reduce our costs, drive efficiencies, streamline our operations, all in an effort to move those products to 10% or better. And I think a lot of the actions that we have taken over the last couple of years rose to the top in 2013. And we are expecting to be able to push that higher as we go forward.

Ken Smith - *Gibraltar Industries Inc - CFO*

Just to tag onto that answer, Robert, besides the sales dynamics that Brian described, inside our Residential Products segment, the West Coast-based operation, which has been restructured over the last couple of years, and a notable improvement in their efficiencies, and moving forward on operational excellence. So that contributed to the margin improve -- also contributed to the margin improvement for 2013.

Robert Kelly - *Sidoti & Company - Analyst*

Sure. So you've done a lot of work over the past five or six years to get the margins up across both businesses, and we really haven't had a measurable improvement in demand. Here you are in 2013 with a 10% adjusted op margin for the segment, and a couple hundred million dollars in excess capacity. If we are to fill that, is residential a mid-teen operating margin business, normalized?

Ken Smith - *Gibraltar Industries Inc - CFO*

You took Brian's breath away right there. (laughter) It is certainly going to be moving in that direction.

Ken Smith - *Gibraltar Industries Inc - CFO*

I think we could get into certainly low double digits (multiple speakers) as a mid-term target.

Robert Kelly - *Sidoti & Company - Analyst*

Sure. Okay. So as far as the normalized target for industrial and infrastructure, a little bit less of a contribution margin, but price and mix, I think you have upside there. What is the normalized target for Industrial and Infrastructure, as you see it?

Ken Smith - *Gibraltar Industries Inc - CFO*

I would like to think that we could get into the 9%, 10% range, particularly with infrastructure transportation funding being a lot more liberated by the funding sources at the state and federal levels.

Robert Kelly - *Sidoti & Company - Analyst*

Okay.

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

Keep in mind our long-term target, and we have talked about this for a number of years, was to get to the whole company, including corporate costs, to a 10% operating margin arena, and we're continuing to stay focused on that.

Robert Kelly - *Sidoti & Company - Analyst*

Right. Understood. Switching over to free cash flow. Another strong free cash flow year in 2013. You are stepping up your CapEx in 2014, but your profitability should improve. Do you want to help us with a goal for percent of sales for free cash flow in 2014?

Ken Smith - *Gibraltar Industries Inc - CFO*

I thought we were around 4.5% in one of our slides. Yes, on slide 8 of our presentation this morning, the bottom row, our target for 2014 is 4.5% of revenues.

Robert Kelly - *Sidoti & Company - Analyst*

Okay, great. And then just one final one on the industrial outlook. You alluded to some pipeline expansion opportunities there. How far off is that work? And how far off are -- I think the question I'm trying to ask is, how long before you start to feel the orders, should that work start to move forward? What is the lag time for your industrial business in the oil and gas arena?

Ken Smith - *Gibraltar Industries Inc - CFO*

There's a little headwind that got reported yesterday. Apparently, a judge somewhere in Nebraska or one of the Midwestern states declared unconstitutional the regulations or laws that were going to permit the Keystone pipeline to come down through that state. So I think there is going to be some regulatory wrangling until final approval of that pipeline occurs. But I would imagine, if it were to occur today, as approved, by the time it is constructed, it could benefit some of our grading products in 6 to 9 months, 10 months, out of a pool.

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

A lot of our products are used for pipeline activity, or even mining in the early phases of construction. Many times, the bar grading products are used for -- you can imagine it can probably be pretty muddy and difficult to move around. And what they actually do is lay our grading down on the ground for roads. So in the early stages, we can expect to feel that. Keep in mind, too, we made an acquisition of a company out in that part of the country, Edvan Industries a couple of years ago, and we are optimistic that something like this get started, they will an early stage beneficiary.

Robert Kelly - *Sidoti & Company - Analyst*

Great. And based on that lag, given that the second half optimism that industrial turns around, are there projects now moving forward that you're expected to get orders from in a couple of quarters? Or can you just talk about your expectations there?

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

Yes, we have two main channels that we put our industrial products through. One is through a distribution channel and. And they buy, based on -- they buy in large quantities from us, break them down into small quantities, and sell them as demand comes in.

The other side of that is our fabricated industrial products, where we get quotes from end users who are either upgrading equipment in their plant, building new plants, oil and gas and mining operations of all sorts, where they have a configured structure that they are looking for and we quote on those. We had seen more quoting activity. However, the release of the projects is still relatively slow. But an improvement in quoting activity is generally considered to be a precursor of -- or a foreshadowing of more activity. We have seen that beginning.

Robert Kelly - *Sidoti & Company - Analyst*

Sure, that is an encouraging development, and we have heard that elsewhere in my coverage. So when did the improved quoting activity begin, just to give us a timeline?

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

Actually, we started seeing that in the third, coming into the fourth quarter of 2013.

Robert Kelly - *Sidoti & Company - Analyst*

Great.

Operator

(Operator Instructions)

Seth Yeager, Jefferies.

Seth Yeager - *Jefferies & Company - Analyst*

Thanks for the additional segment details. Can you give us a sense of the backlogs for infrastructure projects sitting today? And what is the total exposure to Europe at this point? The last I recall, it was around $50 million in revenue. How are you seeing demand there? And could that market be a tailwind for you guys in the coming year?

Ken Smith - *Gibraltar Industries Inc - CFO*

Part one, the backlogs for infrastructure approximately $45 million at the moment. And regarding European, I actually forgot that question.

Ken Smith - *Gibraltar Industries Inc - CFO*

What's the percentage of our total sales, so --

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

Percentage of sales, it's -- I think it's about 5% or 6% of our consolidated sales

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Seth Yeager - *Jefferies & Company - Analyst*

Got it. And how are you --

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

And that is an important distinction that Ken just made. Sales from locations in Europe are the 5% or 6%, but we sold products in 50 countries last year, on six different continents. So our international sales are not significant, I think, in total, including that 5% or 6%, it's about 10% of total sales outside of the United States. But I get excited because it points to the fact that we can be competitive on a worldwide basis with many of our products.

Seth Yeager - *Jefferies & Company - Analyst*

Yes. Absolutely. And with the US, it is seemingly chugging along here fairly well. How are you seeing demand, just generally speaking, outside of the US at this point?

Ken Smith - *Gibraltar Industries Inc - CFO*

Europe specifically, it's starting to pick up, particularly across automotive and security applications and products. So we are hopeful that the economy is healed in the UK and on the continent, that will continue to have some strength of demand.

Seth Yeager - *Jefferies & Company - Analyst*

Okay. And then just -- looks like your estimating a range of key free cash flow right around $40 million or so, just at the midpoint of your guidance. You mentioned the focus on organic growth, spending a little more on CapEx this year. Can talk about M&A, just as a use of cash that is being generated? And I guess, where do you stand, in terms of, maybe, re-leveraging the balance sheet a little bit? And if I recall, your target leverage historically was at times around 3, 3.5 times. Is that still where you stand today?

Ken Smith - *Gibraltar Industries Inc - CFO*

Yes. It's adjacent for the right strategic acquisitions, we think we could stay underneath -- at or beneath that target level. Of course today, we are at a net leverage that's South of 2 times.

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

So it gives us the enrollment to increase our capital expenditures, and to participate actively and fairly aggressively in the acquisition arena.

After having used that term aggressively, I want to be clear. We have established very clear characteristics for any acquisition that we want to make, both in terms of how they fit in with our current operations, and also a very detailed set of financial performance metrics that we apply to every acquisition candidate.

So while we have the wherewithal to get aggressive, and plan to, we're still going to be very systematic in how we evaluate any acquisition opportunities. And a key focus has got to be that the acquisitions have -- not only will be immediately accretive to our earnings per share, but also have a longer-term growth potential. And that we have a host of identified operating synergies that we can extract beginning day one, once we have acquired that business.

So we have got an enhanced set of criteria that we use when we're looking at acquisitions. So we have got the wherewithal, and we have got a set pattern and a set template that we use to evaluate each acquisition. But clearly, we've stepped up the funding of capital projects inside the business. And we are going to use our available cash to go out and look for acquisitions as well.

Seth Yeager - *Jefferies & Company - Analyst*

Okay, great. Good luck.

Operator

At this time, I will turn the floor back over to Mr. Lipke for any closing comments.

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

Thank you all for participating in the call today. We look forward to getting back together with you again at the end of our first quarter, and being able to report improving results as we look forward. Thank you.

Operator

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