Gibraltar

First-Quarter 2009
Earnings Conference Call

May 7, 2009

KEN H.

Thank you Karma, and welcome to Gibraltar's first-quarter 2009 conference call.

Before we begin, I want to remind you that this call contains forward-looking statements about future financial results. Our actual results may differ materially, as a result of factors over which Gibraltar has no control. These factors are detailed in the Company's 10-K, which can be viewed on Gibraltar's Web site, at www.gibraltar1.com.

If you did not receive the news release on our first-quarter results, you can get a copy on our Web site. A set of the presentation slides that we will be referring to during this call is also available on our site.

On our call this morning are Brian Lipke, our Chairman and CEO; Henning Kornbrekke, our

President and COO; and Ken Smith, our CFO. Thanks for joining us.

At this point, I’d like to turn the call over to Brian.

BRIAN

Thanks, Ken. Good morning everyone, and thanks for being on our call this morning.

Before I turn the call over to Henning and Ken Smith for the operational and financial review of our first-quarter results and our outlook, I want to talk about the current operating environment and our aggressive and continuing actions to deal with it. Following Ken and Henning's presentations, I will provide some wrap-up comments before opening the call to any questions you may have.

The first quarter was the most difficult in our history without a doubt, but also one in which we responded to the current conditions and made progress in many areas.

During the first quarter, global economic conditions deteriorated much more severely than expected, with the slowdowns intensifying in all of our major end markets. Housing starts decreased by 50%, the North American auto build fell by 51%, and the non-residential building market – which grew through the first ten months of last year – contracted by an estimated 10% compared to the first quarter of 2008.

Against that backdrop, customer demand weakened from fourth-quarter levels and dropped significantly on a year-over-year basis.

We responded to this change in conditions by launching a deeper round of cost-cutting and cash-preservation actions.

The cost-cutting and streamlining actions taken during 2007 contributed to our improved results in 2008 in spite of weaker housing and auto markets. And our actions during 2008 and in the first quarter of 2009 have further lowered our cost structure and our breakeven point to a level at which we anticipate a significant sequential improvement in earnings in the second quarter in spite of unprecedented low levels of economic activity – especially in the auto, housing, and commercial construction markets.

Furthermore, we made progress strengthening our balance sheet and lowering our working capital in the first quarter. This enabled us to pay down another 8% in debt, or $27 million – and we have now lowered our debt by $224 million, or 41%, in the last 18 months.

Our strategy to position Gibraltar as the low-cost provider and market-share leader in niche product areas that individually or collectively offer the opportunity for margin enhancement and sales growth over time has benefited from our intensified focus on cost reductions, streamlining operations, and reducing working capital.

All of the steps that we are taking are necessary for Gibraltar to withstand this historic downturn, and at the same time they are part of solidifying a foundation for record-setting performance once economic and end-market conditions return to more normal levels. So, we are not just weathering the storm, we are setting the course for improved performance on a long-term basis.

As we sit today, the leveraging of any incremental volume improvements against a much lower cost structure will drive profit improvements at a far greater rate.

Keep in mind that through the first nine months of 2008, we were on track for what could have been a record year – and our costs now are substantially lower from what they were then – so you can see how a move back in the direction of even the very weak volume levels of 2008 can have a significant impact on our results.

Our first quarter was a difficult one to be sure, but we have reacted aggressively to the reduced levels of economic activity and are positioned to show a significant improvement in bottom-line performance in the second quarter. Henning and Ken will be discussing some of the more specific actions taken to deal with the current level of business during this section of the call.

With that back drop, I will turn the call over to Ken Smith for a review of our first quarter results.

Ken…

KEN S.

Thank you, Brian.

I'll begin with **Slide # 3**, which looks at key categories of Gibraltar's first-quarter results.

The P&L amounts shown on this slide are Gibraltar's Continuing Operations…which means the divestiture of our SCM copper powder metal business in early October 2008 has been reclassified to Discontinued Operations.

As Brian indicated, the first quarter was very difficult. Revenues were down significantly from a year ago and, although not shown on this slide, sequential revenues were down 18% compared to Q4 2008. Slowdowns in the automotive, housing, and non-residential building markets all worsened in the first quarter amid very weak economic conditions…which led to our significantly lower unit volume, the largest factor in the unfavorable revenue comparison on slide #3.

Regarding <u>operating earnings</u>, our Q1 2009 operating loss was largely the result of significantly lower unit volumes…and…the sale of higher-cost inventory.

To counter the P&L effects of the declining volume and higher inventory cost, our business leaders have taken a number of additional aggressive cost reduction actions and other cash-saving steps…and Henning will cover these on a later slide.

Regarding EPS, the Company incurred a loss of $12.0 million or $0.40 per diluted share. The significant volume drop and higher inventory costs more than offset our cost reductions and lower interest expense.

Free Cash Flow in Q1 2009 was very solid despite a 30% decline in revenues. The largest source of cash came from improved working capital.

Moving ahead to **Slide #4,** Net Income & EPS, Henning will review the performance of each segment in a couple of minutes, so I'll discuss the other significant P&L differences.

Starting with corporate expense…which decreased 17% …principally on lower compensation costs from staffing reductions at the Home Office and lower variable incentive compensation expense.

Net Interest Expense decreased 26% from lower average borrowings as we de-levered by nearly 30 percent during the past 12 months.

Regarding Income Tax Expense, it was a benefit here in first quarter of 2009 due to the pre-tax loss…at an effective tax rate of 44%, compared with a provision for income taxes in Q1 2008 at an effective rate of 34%. The increase in the 2009 tax rate results came from 3 major factors:

1.) non-deductible expenses having a larger effect on a smaller amount of taxable income in 2009 versus 2008;
2.) a lower U.S. manufacturing deduction expected in 2009; plus
3.) discrete state tax credits related to prior periods recorded in Q1 2009.

Moving to **Slide # 5**, our free cash flow was very solid. Despite the lower profitability this quarter, working capital generated a big source of cash. Inside that working capital total was an inventory reduction of nearly $48 million, or 25 percent, in the 90 days ended March 31, 2009.

Now, let's turn to **Slide #6,** the Balance Sheet, where the use of free cash flow was applied. In Q109, Total Debt was paid down 8%, or $27 million, and by 32% in the last 15 months. The debt reduction has significantly lowered our debt-to-capitalization and leverage over those same time periods.

And, regarding our loan covenants, we were in full compliance with each covenant as of March 31, 2009.

At this point, Henning will review the results of our two segments and outline the steps we have taken to improve our performance.

Henning…

HENNING

Thanks, Ken.

The further deterioration of conditions in our major end markets during the first quarter, and the resulting unit volume decline of 33%, yielded a gross margin decline of 11.3 percentage points to 6.4%. Our operating margin decreased to a loss of 8.3%, driven by the lower gross margin and partially offset with a 30% reduction in SG&A spending.

For each segment's performance, let's turn to **Slide #7**, our Building Products segment, where there was a sharp first-quarter sales decline, which is directly tied to the deepening slowdown in the new-build housing market and the downturn in the commercial, architectural, industrial, and international markets, all of which had been resilient through the first nine months of last year.

The first-quarter gross margin in this segment was 12.2%, a decrease of 8.6 percentage points from the first quarter of 2008.

The margins were hurt by much lower unit volumes and the FIFO effect on margins in some of our product lines, as material costs and product pricing continued to decline.

Turning now to **Slide #8**, our Processed Metals segment had another difficult quarter, primarily the result of steep unit volume declines resulting from the 51% drop in first-quarter auto production and pricing decreases on certain sales linked to commodity costs.

The first-quarter gross margin was (18.8)%, a decrease of 25.6 percentage points from 2008.

The decrease in this segment's first-quarter operating margin was the result of precipitous unit-volume declines and the unfavorable FIFO impact I just discussed.

At this point, I'll offer a few comments on current business conditions…and please refer to **Slide # 9**.

Here you can see the significant downturn to our current GDP forecast – along with the outlook for housing starts and vehicle sales – as compared with our expectations just three months ago. This graphically illustrates the continued deterioration in economic and market conditions well beyond anything experienced in recent history.

Looking at **Slide # 10**…we outline the actions we have taken to maximize cash. We will continue to control our spending throughout 2009 to ensure that our costs are appropriate for our existing sales volumes amid the continued deterioration of global economic conditions.

In the first quarter, we initiated a series of additional actions to aggressively lower our cost structure, further reduce working capital, maximize cash, and continue to pay down debt. To provide some detail behind the summary amounts on slide #10, we have made:

1. Staffing reductions of 17% in the first quarter (staffing has been reduced by 25% in the last six months). Total headcount has been reduced by approximately 32% in the last 12 months.
2. Ten percent salary reductions have been taken by Brian and myself, in addition to the likely total elimination of cash incentive compensation for the year, and the significant reduction in equity incentive plan values. Similar actions have been mirrored throughout the management team;
3. The Board of Directors also initiated a ten percent cut in their 2009 fees;
4. We have postponed 2009 salary increases;
5. We suspended the "company match" to our 401(k) plan;

6. Furloughs in many of our business units have been and are continuing to be utilized, we have scaled the workforce to current customer order rates; and
7. Travel restrictions and many other discretionary spending reductions have been instituted.

We project annualized cash savings exceeding $80 million from the actions initiated thus far.

Moving to **Slide # 11**, we have been and will continue to be very focused on strengthening our cash flow, from our sales and from improving our balance sheet.

In 2009, we are expecting less cash flow from profitability compared to 2008, as the economy and credit markets will likely weigh heavily on our end markets through all of 2009. So we have equally focused on measures we can use to improve our balance sheet and liquidity position.

On slide #11, we have outlined the aggressive steps we have taken to help maximize cash and liquidity during this unexpectedly severe economic contraction.

Looking ahead, we are anticipating a significant improvement in profitability in the second quarter as compared to the first quarter operating loss of $0.40, due to:

1) A modest seasonal increase in demand, although sales will certainly be unfavorable compared to sales in the second quarter of 2008;
2) The incremental effect of cost-reduction measures instituted in the first quarter; and
3) Lower-cost of goods sold as compared to the first quarter.

In summary, we continue our aggressive efforts to maximize liquidity, pay down debt, and reduce costs, which included reducing our employment level by 32% in the last 12 months, and we will take additional actions as market conditions warrant.

We will continue to streamline and consolidate our businesses, match capacity to demand, relentlessly attack costs, evaluate our portfolio of businesses, and make further adjustments if market conditions fall below our current expectations.

At this point, I'll turn the call back over to Brian.

BRIAN

Thanks, Henning.

A couple of closing comments: our products are viable; we are a niche product leader in many of our products; our products are competitively priced; and our sales declines are purely market driven.

The additional cost-cutting activities that Henning just discussed – and the numerous supply chain and operational cost-saving initiatives already in place – build on the substantial progress we made during 2007 and 2008 when we either closed, consolidated, or sold 31 facilities, and we reduced our staffing levels by 32% in the last 12 months alone, as part of our strategy to be the low-cost producer of our products.

While some of the aggressive actions were driven by the current volume levels, the structural changes are a key component of our strategy to be the low-cost provider of our products. It is important to emphasize that, our streamlining and cost-reduction activities leave us with an estimated productive capacity of between $1.5 and $1.6 billion. So we have substantial upside capacity to utilize as business conditions improve.

In the near term, with signs for a modest seasonal improvement in volume in the second and third quarters compared to the first quarter – along with the aggressive actions undertaken in the fourth and first quarters to lower costs to be in line with current volume levels – we anticipate a significant sequential improvement in earnings in the second quarter.

With that, we'll open the call to any questions that any of you may have.

Q & A Session

Thank you all for your continued support and we look forward to talking with you again in three months.