

Gibraltar

First-Quarter 2010  
Earnings Conference Call

May 6, 2010

KEN H.

Thank you Jen, and welcome to Gibraltar's first-quarter 2010 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 and will be updated in the first-quarter 10-Q, which will both be available later today on Gibraltar's Web site, at [www.gibraltar1.com](http://www.gibraltar1.com).

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

Thank you, Ken. Good morning everyone, and thanks for being on our call.

Since Henning and Ken Smith will describe our first-quarter results in detail, my opening remarks this morning will focus on Gibraltar's strategic direction...its ongoing business, the markets we serve, our distribution channels, and product portfolio.

Following our prepared remarks, we will respond to any questions you might have.

We have strategically reshaped Gibraltar in recent years. Since 2006, in addition to streamlining and restructuring our Building Products businesses, we have disposed of the businesses in our Processed Metal Products segment, with the last one being eliminated in Q1 2010.

The processed metals businesses had lower growth profiles and we had no synergistic coupling for future enhancement. We are now solely focused on the building markets, which we believe have much higher growth and performance-improvement potential.

Now, let's take a closer look at what Gibraltar looks like today, which is highlighted on Slide #3.

We are a manufacturer and distributor of products for building markets, with an annual sales capacity of \$1.6 billion, prior to any acquisition activity. The point I want to emphasize here is that, as demand levels in our markets continue to rebound, we have ample capacity for growth. And given our new, significantly lowered cost structure, incremental sales will generate even stronger improvements in our earnings and margins.

As you can see from this slide, the combination of the repair and remodel portion of our residential market and the replacement portion of our non-

residential market comprises approximately 65% of our sales.

This is important due to the fact that repair and remodel and replacement activity is historically first to rebound from a downturn...and that is beginning to unfold at present.

During difficult economic times, people who own homes first do whatever they can to hang on to them and, once they feel secure, they will do repair and remodeling work before considering buying or building a new home.

The same holds true for manufacturing facilities. Companies will first deal with survival issues, which many times includes cutting back on capital expenditures and replacement activities, until they are more comfortable that their business is secure. Then, as business conditions warrant, companies begin spending on replacement activities, and later in the rebound cycle they will begin to add capacity and/or build new facilities.

The balance of our business relates to new-build portions of both residential and non-residential building markets. Current market statistics indicate that 2010 will show improved residential building levels over 2009 by as much as 30%. While that level of improvement would call for build levels far below historic norms, it is a meaningful improvement and will provide improved volume for our facilities. Any improvements in volume, levered against our substantially lower cost structure and lower breakeven point, will drive significant improvements in profitability.

The non-residential new-build portion of our business is focused to a large extent on industrial facilities, like sewage and waste water-treatment plants; gas and oil rigs; chemical plants; and manufacturing facilities of all types. Other than for architectural and decorative applications, our products are not focused on the high-rise building market. As industrial activity continues to improve, this market – which is still depressed – will begin to

rebound and provide later-cycle growth-improvement opportunities for Gibraltar.

As you can see from this slide, we take our broad product line to our markets and customers through a number of distribution channels, as well as going direct to some of our customers. Our streamlined base of manufacturing and distribution centers, new MIS systems which we have invested in over the last three years providing us with improved production planning and inventory controls, has enhanced our ability to meet customer delivery requirements while utilizing less working capital, and with far less overhead.

Our broad range of products are well established, many with strong leadership positions...and the value-added component is higher than our former processed metals business, which enhances our ability to generate higher and more consistent margins. We have a diverse and well established list of products with a number of our larger product categories highlighted on this slide.

That's a good snapshot of what Gibraltar looks like today. I hope this makes it clear which end markets are consuming our products and how we are positioned to participate in the early and later cycle economic recovery.

Because of the strategic approach to our restructuring efforts – which focused on streamlining our operations and eliminating non value-added steps in our process, while preserving manufacturing capacity – we are left with substantial available capacity and a lower cost structure, which we will capitalize on as our markets add volume.

The building markets are large – and present numerous long-term growth opportunities for us. As in the past, we expect our businesses will continue to expand, through organic growth initiatives and complementary additions.

This management team is confident our actions have positioned Gibraltar for improved growth, stronger earnings, margins, and returns; all of which should enhance the value of the company for our shareholders. And that is the focus of every member of this management team.

With that as a back drop, I will turn the call over to Ken Smith.

KEN (S).

Thanks, Brian.

Before I begin with Slide #4, I want to point out that the P&L amounts on Slide 4 through Slide 7 exclude the Processed Metal Products segment. Since that business was largely sold on Feb. 1, 2010, it has been reclassified to Discontinued Operations. And Slides 4 through 7 only present our Continuing Operations before special items.

We also have restated the earnings previously reported throughout 2009...and reconciled those to Continuing Operations only containing our Building Products business. These reconciliations were appended to our earnings news release issued last night...in which we restated each quarter of 2009 and the full-year 2009.

And now to our first-quarter results and Slide #4.

There were a number of important improvements in Q1, which resulted from strong execution by the Company during a period of very weak economic conditions.

First, an encouraging sequential Revenue increase, even considering the wintry weather across the southern U.S. in January and February and amid weak end-market conditions.

Profitability rose...both sequentially as well as year over year...benefiting from a lower fixed-cost structure that resulted from aggressive cost reductions during the past 18 months...plus the leverage that comes with even modest revenue increases.

We also continued to generate positive Free Cash Flow, double-digits as a percent of revenues...which contributed to a further reduction of debt during the quarter.

And, the last bullet on Slide 4....importantly...we have ample liquidity to fund our growth initiatives and working capital needs as the building markets rebound.

So, overall, we feel good about the position of the company and its financial fitness for the future.

Let's turn to Slide #5, and talk more specifically about the sequential improvement:

Starting with Revenues, first-quarter demand was sluggish, as expected. Nonetheless, we were favorable due to wholesalers re-stocking for spring demand, plus selected pricing improvement, and a base level of unit volume from repair & remodeling activities...despite the unseasonably cold and snowy weather in the southern U.S.

We reported a notable improvement in first-quarter operating income. Sequentially, operating income from continuing operations before charges rose \$4 million on a more than \$13 million increase in

sales...which is very good margin expansion. And, that margin expansion was driven by unit volume and improved alignment between raw material costs and product pricing. And this operating income improvement also lifted the Earnings per Share.

For Q1 2010, we were not quite “in the black” for EPS, as overall demand was below our current breakeven. But our business leaders are performing well in an environment of slack demand, rising raw material costs, and pricing that continues to be very competitive.

So, overall...sequentially performance was good, particularly the margin expansion...and the trends are encouraging.

Moving ahead to Slide #6, titled “Year-over-Year Profit Improvement,” sales were down modestly compared to the prior-year period...which was the net result of the tail-end of Q1 2009 having more favorable unit volume from larger-sized commercial and industrial projects, as well as higher pricing.

Even though our sales in the first quarter of 2010 were slightly unfavorable to the prior-year period, we were able to increase our profitability.

And as our news release noted, this quarter's operating income from continuing operations before charges rose \$10 million despite a decrease in sales of \$9 million.

Behind that strong profit improvement was a much higher gross margin...increasing 750 basis points to a gross margin of 18.7%.

The key drivers of the gross margin improvement were aggressive cost-reduction initiatives, lower raw material costs, improved operating efficiencies, and a better alignment between inventory costs and product pricing.

So, before moving to the next slide, I want to make the key point of good year-over-year and sequential profit improvement. Particularly amid slack-to-

weak market conditions, unemployment, and other macro factors affecting housing.

Let's turn to Slide #7, titled "Net Income / EPS"...

I spoke to the operating earnings improvement, so I will focus on the other larger differences...

Net interest...this current quarter shows a higher amount compared to 2009, which is a net result of higher amortization of previously deferred financing costs which more than offset the lower level of interest costs that we settle in cash.

Regarding the lower Income Tax benefit...the principal driver was the much reduced level of pre-tax loss in Q1 2010, thus a smaller benefit this quarter.

The tax rate this quarter was 47%, which included a net 600 basis point benefit for discrete tax items.

The rest of the year I expect an Effective Tax Rate closer to 42%.

Let's turn to Slide #8, Cash Flow. Q1 2010's Free Cash Flow of \$17.3 million was unfavorable to 2009...because 2009 was an extraordinarily strong period of generating Cash, particularly reductions in working capital last year, including the first quarter.

Since we began 2010 with a much lower amount of working capital, there's not as much Cash to generate from the balance sheet as compared to a year ago. However...importantly...we did generate more Cash from the P&L this quarter.

Also, our first-quarter 2010 had its largest source of Cash coming from Discontinued Operations. That, specifically, was the liquidation into cash of the accounts receivable we did not sell with the Processed Metals business. We retained those receivables and have since collected nearly all outstanding amounts.

And looking at the last row on Slide #8, we believe when Free Cash Flow exceeds 10% of revenue...it's a very good level of performance.

For the full-year 2010, we're expecting capex spending to approximate \$15 million or thereabouts...and any resumption of quarterly cash dividends has yet to be decided by our Board of Directors.

I do anticipate that we will invest in working capital during Q2 and Q3 to support an expected rise in receivables and inventories...and that short-term investment would be funded by draws from our revolver.

Turning to Slide #9, Debt Reduction...we reduced our borrowings this quarter...all of which was the pay down of the revolver to zero, from a \$50 million balance on the revolver as of Dec. 31, 2009.

The debt reduction since year-end principally used the proceeds of Free Cash Flow plus the proceeds from sale of the Processed Metal business.

And, as previously shown on Slide #4...today we have ample liquidity to support for our operations...at over \$120 million.

Our next speaker is Henning Kornbrekke, Gibraltar's President & Chief Operating Officer.

HENNING.

Thanks, Ken.

While the first quarter started slowly with sales down 5.3% year-over-year, business activity picked up late in the quarter as the weather improved and our larger customers began restocking for the spring selling season, which provided us with positive momentum going into the second quarter, evidenced by our sales in March and April, both of which increased compared to the prior-year levels.

Our operating income from continuing operations before special charges increased by \$10.4 million, in spite of a \$9 million reduction in sales, with a 6.3 percentage point improvement in operating margin vs. the 1<sup>st</sup> quarter of 2009. DSI were down 18% and DWC improved 23 days, all further evidence of the leverage we are realizing with our improved systems, new cost structure, and lower breakeven point.

At this point, I'll offer our comments on current business conditions, with Slide #10 as a backdrop.

We expect that 2010 will be a much better year than 2009 for Gibraltar with several factors benefiting us.

First, the vast majority of our restructuring activities and costs are behind us. Second, we are entering 2010 with higher levels of operating efficiency, improved businesses processes, and more automated systems. Third, inventory costs and selling prices are in better alignment and current pricing volatility more manageable. And, finally, we have a stronger balance sheet, less debt, and much-improved liquidity.

Having now moved into the seasonally strongest period for our business, together with the expected improvements in our end markets, we are anticipating a return to profitability in the second quarter and for the full year.

Looking specifically at a leading indicator for one

our end markets, housing starts were up 9% from the 4<sup>th</sup> quarter of 2009. We expect continuing improvement in housing starts in 2010 to approximately 740,000 units, from a trough of 552,000 units in 2009, which was the fourth consecutive year of decline.

With the more than 30% improvement in starts expected in 2010, coupled with our improved efficiency and lower cost structure, increases in demand are expected to translate into significant performance improvements, which we have now seen in the last four quarters.

Even though there is mounting evidence that the residential building market is on the front end of a recovery, it is coming off historic lows...and even with an expected 30% improvement in starts, 2010 will still be the second-lowest total in 60 years...The expectation for a recovery and growth in the building market is high and well founded and we believe it is now once again moving in the right direction after four difficult years.

Looking further ahead, we remain confident in the long-term fundamentals of this market, in light of continued population growth and other demographic trends. And our strong leadership position in the products we supply enhances our ability to grow and generate higher and more consistent margins.

Now, turning to the repair and remodel segment of the residential building market – which, as Brian noted, is where most of our activity is centered – we expect, with housing sales trending up, home improvement spending will recover this year as forecasted by LIRA, the leading indicator of remodeling activity index. LIRA suggests annual spending will accelerate with nearly 5% growth in 2010.

We anticipate increased activity will be driven by stabilizing home prices, an improving economic and employment outlook, homeowners who have forestalled a move taking steps to preserve the value of their current home, investments in energy-

efficient products, and the need to make improvements in foreclosed properties before they are saleable, among others.

Finally, in the non-residential part of our business – we do concur with the latest forecast that suggests that modest relief is expected in 2010 particularly in the market segments we are strongest in including: replacement, industrial, higher education, transportation, and medical facilities.

As we said on our last call, our category-leading positions – and our participation in markets that are faring better in the downturn, like repair and remodel – have helped to offset the impact of the declining housing market.

The volatility and uncertainty of the last two years – and the need to focus on cash management – necessitated a conservative short-term approach toward growth. We did, however, continue to work on our longer-term growth platforms. In the near term we continued to develop new products like our

new off ridge vent, an innovative building framing connector system, metal roofing, and soffit products and improved storage handling as well as expanding into new markets including HVAC components and security products and broader geographical participation. As markets normalize, we find ourselves well positioned to deliver on our growth and performance objectives.

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

BRIAN

Thanks, Henning

As a result of the many steps we have taken to restructure the company, Gibraltar is in an excellent position to first return to profitability in the coming quarter and for the full year and – with growing volumes – to return to and exceed past levels of profitability.

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.