Gibraltar

Second-Quarter 2009
Earnings Conference Call

August 6, 2009

KEN H.

Thank you Lacey, and welcome to Gibraltar's second-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 second-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 an in-depth review of our results and some comments on our outlook for the rest of this year, I want to spend a few minutes reviewing some of the key steps we've taken over the last few years that paved the way for the substantial improvement in our profitability in the second quarter. Then, following Ken and Henning's presentations, I will provide some closing comments before opening the call to any questions you may have.

So to start, let's look at **Slide # 3.** In spite of a deep and prolonged downturn in the largest end markets served by Gibraltar – with housing starts and the North American auto build both down 48% compared to the second quarter of 2008 – we reported significant sequential improvements.

Our profitability increased, with improved operating earnings and profit before tax, and a substantial sequential improvement in EPS.

Our revenues also increased, despite a lower sales volume to the automotive market, largely due to the temporary shutdowns at GM and Chrysler, which were offset by a strong sequential increase in our Building Products sales, which was encouraging.

The improvement in our second-quarter operating results, to a great extent, is the cumulative result of the many steps we have taken to aggressively restructure our business, cut costs, continue to reduce working capital, conserve cash, and pay down debt – together with a much smaller FIFO impact and our focus on positioning Gibraltar as the low-cost producer of the products we manufacture.

Let me highlight some of the specifics:

- We continued to streamline our operations in the second quarter, closing another three locations.

Since the beginning of 2007, we have closed 32 facilities, or 36% of our locations. As we noted on our call three months ago, it is important to emphasize that our streamlining activities leave us with $1.5 billion to $1.6 billion of productive capacity, so even with far fewer facilities, we have substantial upside as business conditions improve.

- In the last 18 months, we have also reduced the number of active employees by 33%. While we do expect some increase in employment when business begins to rebound, we estimate the majority of these reductions, approximately 70%, are permanent as they are directly linked to facility closures.

- We have also continued to focus on working capital, which was lowered by another $47 million in the first six months of 2009, and which we have driven down by more than $100 million, or 40%, over the last 12 months.

We have achieved this reduction in working capital by incenting management at the operational level to focus on managing the business more efficiently, and we are actively pursuing additional improvements.

- The cash generated from operating activities has been largely used to reduce debt, which came down again in the second quarter. Our debt at June-end was the Company's lowest since September 2005.

Our second-quarter results – which we generated with only a modest increase in sales – demonstrate how we have structurally changed the business, permanently lowered our cost structure, and reduced Gibraltar's breakeven point.

Our many cost-reduction and cash-preservation actions have set the stage for improving performance in the current operating environment and they position us for significantly better results as we begin to see continued improvements in volume.

As we reported last week, we also successfully completed an amendment to our senior credit agreement, which provides the liquidity to successfully run our business through this global downturn, and gives us the flexibility to fund organic growth and potential future acquisitions.

Even though business conditions appear to have stabilized in the second quarter at levels well below a year ago, our restructuring activities allowed us to generate a significant increase in our second-quarter profitability. These activities have lowered our operational breakeven point below our current volumes, and we expect to see further improvements in our results now that it appears incremental improvements in demand are beginning to materialize as the full impact of our cost-cutting actions is felt and the FIFO impact continues to decline.

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

<u>KEN S.</u>

Thank you, Brian.

I'll turn next to <u>**Slide # 4**</u>, which looks at the sequential improvement in more detail.

<u>Starting with Revenues</u>: While we had an unsurprising sequential decrease in one segment, our Processed Metal segment which serves the automotive OEMs, that segment's decrease was more than offset by our Building Products segment revenue increase of 15%.as repair and remodel markets were positive, particularly in selected regions of the U.S.

Regarding <u>profitability</u>, the huge improvement was fueled by:
1) The full impact of our additional restructuring and cost- reduction actions in the first quarter,
2) A smaller detrimental effect from FIFO inventories, and
3) The leverage from the sequential rise in net revenues; and
4) Regarding EPS, we also benefited from
4) Lower interest expense.

……………….All of these factors were partially diminished by
5) a high tax rate in Q2…that I'll explain when I discuss a later slide.

The principal take-ways from this slide are Gibraltar's ability to be profitable at low levels of customer demand…and the leverage we have as demand comes back.

So, moving away from the sequential quarterly comparison, let's turn to **Slide # 5**, which compares the year-over-year periods…

We all know about the well-publicized weakness in macro factors…and, thus, it's not surprising that our revenues were down sharply in the 2009 periods.
….as unit volumes have been unfavorable in the principal end markets we serve…

Likewise, looking at operating earnings, the 2009 periods were down sharply as a result of the significantly lower unit volumes… coupled with the sale of higher-cost inventory.

To offset lower volumes, we have aggressively reduced costs…through actions which Brian noted in his opening remarks…and Henning will provide additional detail in his comments on the segments.

Regarding Free Cash Flow on **Slide # 5**…it was once again very solid…with the largest source of cash coming from lower working capital, and aided by curtailed spending on capex and the suspension of the quarterly dividend.

So, despite unfavorable comparisons to 2008, the summary here is…. that we have taken a number of actions to scale our operations, curtail spending, and turn assets faster to generate positive cash flow at current low levels of demand.

Moving ahead to **Slide # 6, "**Net Income & EPS", Henning will review the performance of both our segments in a couple of minutes, so I'll discuss the other significant P&L differences.

Our corporate expenses decreased significantly in both periods, compared to 2008. The largest reductions have been in variable compensation, plus a much reduced level of staffing in the Home Office, as well as spending reductions in discretionary programs.

Net Interest Expense also has decreased considerably…largely due to lower average borrowings ……as we have de-levered by 30%, or $132 million, during the last 12 months ended June 30, 2009.

Regarding Income Tax Expense, we have an unusually high tax expense in Q2 2009. We have updated our expectations for the annual tax rate for 2009…resulting in a lower tax rate of 37%…compared to the previous expectation of a 44% tax rate used for our first- quarter results. And, in order for the YTD June 2009 P&L to have a 37%

tax rate, which is does, the true up from the 44% rate to the 37% rate gets recorded in the current quarter. Hence, the high tax expense <u>**only**</u> for Q2 2009.

Moving to <u>**Slide # 7,**</u> our <u>free cash flow,</u> at 15% of net sales in Q2, was strong again, with working capital the major source of cash. In the second quarter, we reduced our inventories by another $24 million, and we have now reduced inventories by nearly 40% in the first six months of 2009.

Turning to <u>**Slide # 8**</u>**,** ……you can see that we reduced our borrowings by another $23 million, or 7%, in the second quarter and a cumulative $51 million, or 14%, in the first half of 2009. Gibraltar's total debt of $306 million as of June 30, 2009, is the Company's lowest level of debt since September 2005.

As we move into the second half of the year, we will continue to focus on cash management and further de-levering the balance sheet.

Before we leave this slide, I have some summary remarks to make about the loan amendment we announced last week…

As our July 27 news release noted, we amended our senior credit agreement. The amendment provides an asset-based revolving credit facility of $200 million in commitments, plus a term loan of $59 million. At June 30, 2009, the Company had outstanding borrowings of $40.0 million on its revolver.

The revolver and the term loan both mature in the second half of 2012. Gibraltar also has $204 million of senior subordinated 8% notes outstanding. These notes, due in December 2015, were not affected by the amendment.

The amendment eliminated certain previous financial covenants, and instead contains one covenant: In 2009, the covenant is specified EBITDA amounts on the last day of each quarter through December 31, 2009.

In 2010, that covenant is replaced …with a fixed charge ratio of 1.25, measured at each quarter-end.

Interest rates on the term note and revolver will continue to be based on LIBOR, with a LIBOR floor of 1.5 percent. <u>The term note</u> will have an additional margin of 3.75%. <u>The revolver</u> will have an additional margin of 3.25% plus a half percentage point commitment fee.

We expect the impact of the higher interest rates on pre-tax earnings to approximate $1.0 million per quarter, or $0.02 per share, based on the amounts outstanding as of June 30, 2009.

Now, Henning will review the results of our two segments and discuss the current operating environment.

Henning…

<u>HENNING</u>

Thanks, Ken.

As Brian and Ken noted, we generated a strong sequential improvement in earnings on a modest 6% increase in sales. In the second quarter, our gross margin rose to 17.3% and our operating margin advanced to 4.7%, both significant improvements from the first quarter.

Comparisons to the prior year remain unfavorable, due to market and economic factors. Sequential comparisons, however, indicate the progress we have delivered and they set the stage for future trends. I, therefore, will confine my comments to a sequential analysis.

Looking at our Building Products segment on **Slide # 9**, you can see that sales improved by 15% from the first quarter, driven by market-share and new product gains, coupled with a seasonal pick-up.

The gross margin increased to 20.7% in the second quarter, up sharply from 12.2% in the first quarter, and the operating margin advanced to 9.2% from a loss of (1.9%) in the first quarter.

Sequential margin improvements resulted from our aggressive cost-reduction initiatives, a much smaller FIFO impact due to our balanced inventory position, unit-volume increases driven by market-share gains, and new products like our patented "Gold Coat" connectors now stocked at major retailers and our patented "Edge Vent" system, an exclusive product that lowers costs to homeowners, to name a few.

Moving to **Slide # 10**, our Processed Metals segment, the second-quarter gross margin improved by 11.3 percentage points from the first quarter. And, the operating margin improved by 45%...even though second-quarter sales in this segment fell by 32% from the first quarter. The temporary plant shut-downs at Chrysler, GM, and other OEMs largely contributed to the exceptionally weak demand.

The effects on profitability were largest from the sharp decline in orders, but more than offset by aggressive cost reductions, restructuring actions, and a smaller effect from FIFO-impacted inventory.

Our reconfiguration of this business sets the stage for industry-leading returns as markets regain their historical norms.

At this point, I'll offer a few comments on current business conditions, outlined on **Slide # 11**.

Our markets stabilized in the second quarter – we believe they found their bottom – but at sales levels well below where they were a year ago. We expect continued improvement in the second half of this year, but volumes in all of our end markets will remain below where they were in 2008.

We are, however, beginning to see some positive signs in many of our markets. Housing starts and permits improved in each month of the second quarter amid growing signs that the housing market is starting to bounce back after the worst downturn in decades. And the repair and remodel market, which accounts for approximately 70% of our residential building product sales, is steady.

The North American auto build – with the GM and Chrysler bankruptcies resolved, inventories coming down, and the federal government offering incentives to buy new vehicles – should also be stronger in the second half of the year. Higher volumes will definitely help our Processed Metal Products segment.

We will also benefit from a number of new products that we have introduced and market-share gains we have made in our processed metals, building products, and industrial businesses.

Even though we have made great progress, we will continue to relentlessly attack costs and steadily move to further reduce SG&A expenses. We are also continuing to strategically realign our businesses, to ensure that we fully capture all of the available operational and marketing synergies. And we are continuing to focus on working capital turns, which should allow us to further lower our debt in the second half of 2009.

Our continuing actions to streamline our operations, cut costs, conserve cash, and pay down debt allowed us to generate significantly improved results in the second quarter with only a slight sales increase. As the economy and our end markets continue to stabilize – and eventually begin to strengthen – we have positioned Gibraltar for a marked improvement in profitability.

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

BRIAN

Thanks, Henning.

The structural changes we have been making to our business over the last two to three years – and the aggressive cost-cutting and cash-preservation actions we initiated in response to the deepening slowdown earlier this year – have positioned Gibraltar for profitability even at these depressed levels of activity in our major markets. The structural changes and our intensified and permanent focus on working capital have substantially lowered our breakeven point below the current level of demand, while maintaining our productive capacity in the $1.5 billion to $1.6 billion range.

We are a far more efficient company as a result of these actions, which bodes well for increased profitability as the economy recovers. Our second-quarter results are evidence of this; with only a slight increase in sales, our profitability improved significantly. Looking forward to the third quarter, we anticipate another modest sequential increase in sales.

Longer term, as the automotive and building markets continue to improve, Gibraltar is poised to attain more significant bottom-line performance.

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.