Gibraltar

Third-Quarter 2009
Earnings Conference Call

November 5, 2009

KEN H.

Thank you Amete, and welcome to Gibraltar's third-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 third-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

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

Before I turn the call over to Henning and Ken Smith for a detailed review of our results and some comments on our outlook for the fourth quarter and coming year, I want to highlight our continued progress in a few key areas, which has allowed us to generate substantial improvements in our earnings and operating margins in each of the last two quarters, with only slight increases in our sales. Then, after Ken and Henning have finished their remarks, I'll make a few closing comments before opening the call to your questions.

Let's begin with **Slide # 3.** Even though two of our largest end markets remain at levels well below a year ago – with housing starts off 35% and the North American auto build down 21% compared to the third quarter of 2008…not to mention well below the levels for 2007 or 2006…we reported significant sequential improvements in our performance for the second straight quarter.

Third-quarter sales increased by 4% compared to the second quarter, a sign to us that our markets could have bottomed and could be on a slow path to recovery.   Yet, we generated another strong sequential improvement in our operating profit, excluding special charges. Our consolidated operating margin increased to 8.2%, up 330 basis points from the second quarter, as margins rose sequentially in both of our segments.

In the last two quarters, we have seen clear evidence that Gibraltar is able to leverage small increases in sales to drive significant improvements in earnings and margins, made possible, in significant measure, by our restructuring efforts, and the close management of working capital.

The improvements in our operating performance in the last two quarters are, to a significant extent, the cumulative result of the many steps we have taken over the last 2-3 years, and especially in the early part of this year, to aggressively restructure our business, cut costs, reduce working capital, conserve cash, and pay down debt. All of these actions are part of our long-term focus to position Gibraltar as the low-cost producer of the products we manufacture.

Let me highlight some of the specifics:

- In the third quarter, we closed another three facilities, and we have now reduced our real estate footprint by 40%, or 35 locations, since the beginning of 2007, while maintaining excellent service levels with our customers. And, to reiterate what we've said on recent calls, even after these facility reductions, we still have around $1.5 billion of productive capacity. So, we can readily accommodate a substantial top-line increase as business conditions begin to improve.

- We also had another strong cash flow quarter. Working capital was again reduced, which contributed to the very strong free cash flow in the quarter and YTD periods.

- The free cash flow we generated has largely been used to reduce debt, which came down by another $40 million, or 13%, in the third quarter. And, as this slide indicates, the June 30 balance of $40 million on our revolving credit facility was reduced to zero.

It is worth noting that we have now reduced our debt by nearly $300 million over the last 24 months – lowering our debt-to-cap to 32% – and we expect to further de-lever the balance sheet through the remainder of 2009 and into the the coming year.

Our results in the last two quarters – which were generated with only modest increases in sales – demonstrate how we have structurally changed the business, permanently lowered our cost structure, and reduced Gibraltar's breakeven point. Even at the current level of business, we have reconfigured our business to operate profitably, as the last two quarters have clearly demonstrated.

Our many cost-reduction actions – which we have embedded as permanent changes to how we run the business – also position us to generate stronger margins and profits than in past cycles as volume improvements develop.

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

KEN S.

Thank you, Brian.

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

Starting with revenues…we had sustained seasonal strength in our Building Products segment, where Q3 revenues remained level to Q2…as repair and remodel markets remained solid.

And, our Processed Metal segment, which serves the automotive OEM market and others, turned in a 32% sequential rise in revenues….as many OEMs replenished their dealer lots following the cash-for-clunkers program.

Regarding profitability, the significant sequential improvement was fueled by:

1) better alignment of customer pricing with the cost of raw materials, including

2) a smaller detrimental effect from FIFO inventories;
3) the additional leverage from the sequential rise in revenues in the Processed Metal segment; and
4) regarding EPS, the benefit of a lower income tax rate in Q3 compared to Q2.

The principal take-ways from this slide are Gibraltar's ability to be profitable even 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 compared to the 2008 periods…as unit volumes have been unfavorable in the principal end markets we serve.

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

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…outstanding…with the largest source of cash coming from lower working capital, and aided by curtailed spending on capex.

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

Moving ahead to **Slide # 6,** titled "Net Income & EPS"…Henning will review the performance of both of 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, a much reduced level of staffing in the Home Office, and spending reductions in discretionary programs.

Net interest expense also has decreased. The 2009 amounts for "Net Interest" shown on slide 6 include a $1.2 million charge-off of previously deferred financing fees. The charge-off in Q3 2009 was a result of amending our senior credit agreement in late July 2009. Excluding that charge-off, interest expense was an even more favorable comparison to 2008 periods...due to the continuous debt reduction during the 12 months ended September 30, 2009.

Regarding the lower Income Tax Expense for the 2009 periods, the principal driver has been the much reduced level of profitability this year.

Moving to <u>**Slide # 7,**</u> our <u>free cash flow,</u> at 20% of net sales in Q3, was…outstanding…with working capital the major source of cash. In the third quarter, we reduced our inventories by another $10 million, and the reduction of inventories through the first nine months of 2009 generated cash of $83 million.

And, in terms of turning assets faster, the Company’s net working capital days at September-end 2009 stood at 63 days…a notable reduction of 35 days from December-end 2008.

Turning to <u>**Slide # 8**</u>**,** you can see that we reduced our borrowings by another $40 million, a 13% reduction in the third quarter…and in the first nine months of 2009, debt’s been paid down by $90 million, or 25%.

And, as Brian noted earlier, the $40 million debt reduction this quarter has fully paid off our borrowings on our revolving credit agreement…

…leaving Gibraltar’s total debt at $265 million as of Sept. 30, 2009…the Company’s lowest level of debt in more than five years.

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

Henning…

HENNING

Thanks, Ken.

For the second consecutive quarter, we generated a strong sequential improvement in earnings and margins on a small sales gain. With third-quarter sales up just 4%, our consolidated gross margin rose to 20.6% and our consolidated operating margin advanced to 8.2% excluding special charges….both are significant improvements from the second quarter and illustrate the repositioning of our business to lower unit volume and material cost volatility, which is expected to continue into 2010.

Looking first at our Building Products segment on **Slide # 9**, you can see that sales were unchanged compared to the second quarter, as market conditions continued to stabilize and followed second-quarter trends.

The gross margin increased 380 basis points compared to the second quarter, and the operating margin improved by 360 basis points.

Our ability to generate a significant improvement in margins on flat sequential sales was the result of improved operating efficiencies, coupled with reduced spending and favorable mix.

Moving to **Slide # 10**, our Processed Metal Products Segment…revenues improved with increased OEM orders, primarily to support automotive and industrial production planning, resulting in a top-line improvement of 32%.

Higher sales and raw material inventory valued at market improved the third-quarter gross margin in our Processed Metal segment by 6 and 1/2 percentage points from the second quarter.   And, with tight expense control, the operating margin improved even more significantly, with improvement in each month of the quarter and finally returning to profitability in September.

At this point, I'll offer a few comments on current business conditions, which are outlined on **<u>Slide # 11</u>**.

While our markets have stabilized, as Brian noted, they've done so at levels well below where they were a year ago. We saw some strengthening in the third quarter, which we expect will continue next year, but volumes in all of our end markets will remain below where they were in 2008.

To the good, each month seems to bring more signs of economic recovery. Single housing permits have increased for five months in a row. Housing starts have increased each month since February and existing housing inventory has decreased approximately 20% since February. Repair/remodel activity has picked up in many parts of the country as consumers regain confidence. In addition, many foreclosed homes require extensive repair before habitation. All of the above is beginning to move the market up as it recovers from the current downturn.

The long-term outlook for the building and home improvement markets remains positive, with core fundamentals well established, as is the case with Gibraltar. The re-construction of our company was demanding, but we have emerged successfully with the flexibility to optimize our performance in the current economic and market situation and to accelerate our performance as external issues improve.

The second-half North American auto build – with inventories, especially for better-selling models, now approaching normalized levels – will be an improvement over the first half, a trend we see continuing in 2010. And as you saw in the most recent quarter, higher volumes will definitely help our Processed Metal Products segment.

It is worth noting that the North American auto build in 2009 is projected to be at a 50-year low.

In spite of historically low levels of activity, our reconfigured business has turned the corner on profitability and will continue to improve going forward.

We will also continue to benefit from the new products that we have introduced and the market-share gains we have made in our processed metal, building products, and industrial businesses.

Overall, our view remains that there has been modest improvement in real demand, but the uncertainty in the U.S. economy is still very high. We believe that real demand is in for a long, slow recovery. As in prior years, we again expect that the fourth quarter will be seasonally slower – historically down approximately 8% from the third quarter – due to less construction in colder weather, the holiday season, year-end plant shutdowns, and year-end inventory reductions by our retail and distribution customers.

Strategically, we remain committed to operate in our new “streamlined” mode, still providing outstanding service to our customers and continually looking for growth through new products and markets, while reducing our debt and optimizing our cash flow. As the economy and our end markets continue to stabilize – and eventually begin to strengthen – we will linearly improve our results, provide improved operating characteristics, higher shareholder value, and drive our leading market share to new levels.

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

BRIAN

Thanks, Henning.

To sum things up, as we move through the balance of 2009 and into the early part of the new year, we will continue to focus on cash management, further de-lever the balance sheet, continually attack costs, and carefully position all of our businesses to optimize their results in the current operating environment, while strengthening the foundation we are building for much improved results as end-market and economic conditions continue their gradual improvement.

As Henning noted, eventually the economy and our end markets will rebound from what has been a long and deep downturn. Gibraltar is ready to capitalize on the opportunities that turnaround will present. For now, our focus remains on improving the performance and profitability of our existing businesses. Don't take that to mean that we have forgotten about growth. With each month that passes – as our balance sheet gets stronger and markets show more signs of having turned the corner – we will begin to look at other growth opportunities.

Having substantially lowered our breakeven point, with our inventory costs and selling prices now aligned, we have positioned Gibraltar to generate improving results in the year ahead as end markets strengthen and customer demand begins to increase.

We've come through some very difficult days. I want to thank and acknowledge the men and woman on the Gibraltar Team for their outstanding contributions to the restructuring and cost-reduction initiatives undertaken and executed so efficiently.

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.