

# **Gibraltar**

*Fourth-Quarter 2008  
Earnings Conference Call*

**February 26, 2009**

KEN H.

Thank you Damali, and welcome to Gibraltar's fourth-quarter 2008 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](http://www.gibraltar1.com).

If you did not receive the news release on our fourth-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.

I'm going to focus my comments on two areas. First, I'll provide an overview of our fourth-quarter and 2008 results. Then, to set the stage for a more in-depth review of our financial and operational results from Ken Smith and Henning, I'm going to comment on our strategy and its impact on our short- and longer-term results. Following their presentations, I will provide some wrap-up comments before opening the call to any questions you may have.

I don't think I need to say this, but I will anyhow. These are clearly unprecedented times in the economy of the United States and for that matter around the world. Gibraltar had a solid year in 2008 in spite of the most difficult financial and economic conditions in decades. We have been feeling the effects of this

slowdown since the fourth quarter of 2006, which worsened during 2007 and again in 2008, and then worsened dramatically in early November.

In spite of this, for the full year, Gibraltar generated top-line growth, a double-digit increase in earnings per share, reduced working capital, significantly paid down debt, and continued to streamline and consolidate operations, while refining its business portfolio.

The double-digit increases in sales and earnings achieved through the first nine months of 2008, including significant margin expansion, had Gibraltar on a path for what could have been record profitability had the volume levels achieved in the first three quarters carried over to the fourth quarter. I point this out to show how our aggressive actions to streamline our operations, as part of our long-term strategy to be the low-cost provider of our products, are paying off, even in depressed economic

conditions. I think that bodes well for our future prospects.

As you all know, business conditions deteriorated sharply in the last two months of the year, as the downturns in both the automotive and housing markets worsened. The fourth-quarter auto build fell by 27% and housing starts came down by 42%.

The collapse of the credit market led to a sudden and severe slowdown in previously strong areas, like the commercial building, architectural, and industrial markets, both in the United States and in several countries around the world where Gibraltar has operations.

This situation was further complicated by an unprecedented drop in commodity raw material prices in the final three months of the year.

Together, all of this made for an extremely difficult operating environment in the fourth

quarter, sharply lowering our unit volumes, which was reflected in much lower sales and, of course, lower earnings.

During the first three quarters of 2008, in spite of the further deterioration in the auto and housing markets, weakness that continued from 2007, Gibraltar was able to generate near-record EPS. This is a clear indication of the leveraging of our lower-cost structure, driven by the actions that we took during 2007 and 2008.

These results also allowed our stock price through the first nine months of the year to surpass the performance of the Dow Jones Industrial Average, NASDAQ, the Russell 2000®, and the S&P SmallCap 600, to name a few. Our operating performance also allowed Gibraltar's stock to outperform these indexes on a full-year basis as well.

While the structural changes to our business are helping in the short run, more importantly they

are part of our long-term strategy to position Gibraltar as the low-cost provider of and market-share leader in niche product areas that individually or collectively offer the opportunity for margin enhancement and sales growth over the long term.

We believe our strategy is sound and it will deliver solid operating and share-price performance gains when the economy eventually begins to strengthen.

So, to sum up my opening comments, in spite of the severity and length of the downturn – which is now in its fourth year for the auto and housing markets – we continue to make progress streamlining and improving Gibraltar’s operating efficiency, which has strengthened our ability to successfully weather this slowdown.

More importantly, this sets the stage for marked improvements in our results when economic and end-market conditions begin to improve, as we

lever a lower cost structure against improving volumes.

I just need to take one quick minute here. I want to publicly thank and congratulate the 3,000 men and women on the Gibraltar Team for their excellent work in this very extraordinary and difficult market that we're in today.

That concludes my opening comments. At this point, I'll turn it over to Ken Smith for a financial overview.

KEN S.

Thank you, Brian.

I'll begin with **slide # 3**, which looks at key categories of Gibraltar's fourth-quarter as well as full-year 2008 results.

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

The full-year 2008 compares very favorably to 2007, with revenue growth and the expansion of profit margins and EPS.

However, as Brian noted, 2008 was comprised of two very different periods.

One period was the 1<sup>st</sup> nine months of 2008. Although there were challenging end-market conditions for the 3<sup>rd</sup> successive year in residential housing and automotive, we had excellent results in the 1<sup>st</sup> 9-months of 2008, well above expectations and favorable to 2007, which resulted from the incremental effect of accretive acquisitions made in 2007, higher price realization, the resiliency of certain End Markets (such as commercial construction and industrial markets), the savings from previous consolidations plus 2008 cost actions, and our de-leveraging coupled with falling interest rates yielded lower interest expense.

The second period of 2008 was the 4<sup>th</sup> Quarter, with an operating loss. In October, we began to feel some of the effects from the financial markets & related credit freeze. The economy further decelerated. Every end market we serve slowed down. Starting in early November, customer orders slowed dramatically, including minimal order levels from automotive OEMs

and their suppliers, and we had some one-time costs, such as a \$3 million increase to our Accounts Receivable reserve for a bankrupt customer, which was a Tier 2 auto supplier. All of these factors in the 4<sup>th</sup> qtr certainly curtailed our full-year 2008 financial results.

Speaking more specifically about the 4<sup>th</sup> quarter, both segments' revenue decreased and each was essentially down by double digits as compared to Q4 2007....largely volume-related.

Our Q4 2008 operating income was severely compressed, due to significantly lower unit volumes and lower price realization on certain product lines.

For the year, we still generated an increase in sales, benefiting from the impact of our 2007 acquisitions to our Building Products Segment which provided incremental sales of \$73 million in 2008.

And, as previously cited, we achieved a double-digit increase in earnings per share from Continuing Operations for the year, with strong results in the first three quarters more than offsetting the slowdown at year end.

Free Cash Flow at 7% of sales was a very solid performance in 2008, which was primarily driven by increased profitability as compared to 2007.

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 Expenses, which decreased in the fourth quarter as a result of reductions in variable incentive compensation, insurance programs, and professional fees.

For the full-year 2008, corporate expenses rose largely due to higher variable incentive compensation based on the 25% year-over-year

earnings per share improvement and a 20-day decrease in our working capital investment , as well as a one million dollar non-cash charge in Q308 to write-off software no longer in use.

The decreases in our Net Interest Expense for the quarter and year resulted from lower average borrowings as we de-levered by nearly 30% during 2008 and lower average interest rates as compared to the prior-year periods.

Income Tax Expense increased for the full-year 2008 due to higher pre-tax earnings, mitigated by a 2008 effective tax rate that was 240 basis points lower than the prior year. The lower tax rate in '08 stemmed from a decrease in our overall state tax rate and some discrete adjustments made during the year.

Moving to **slide # 5**, our free cash flow was very solid at 2.4 times net income, or 7% of sales. We generated more cash in 2008 from increased profits, but not quite as much cash generated from working capital and discontinued

operations as compared to 2007. Nonetheless, Working Capital Days at just under 80 days at December-end 2008 was the Company's lowest level achieved so far and we're continuing efforts to drive that number lower.

Now, let's turn to **slide #6**, the Balance Sheet, where the use of free cash flow can be shown. Total debt in 2008 was reduced by \$132 million for the whole year and in the fourth quarter alone \$72 million. And for the last 15 months, down \$200 million, significantly lowering our debt-to-capitalization over those same time periods.

Although not shown on slide 6, our leverage ratio also has decreased steadily during 2008 to 3 times as of December 31, 2008, well within our loan covenant of a maximum 4.25 times trailing EBITDA.

So, it's a good picture here on our financial condition.

Looking ahead, we are expecting to comply with our loan covenants in 2009. We have been instituting a number of measures to help comply with 2 key covenants, Leverage Ratio and Interest Coverage. Actions being taken include further working capital reductions, more selective capex spending, additional reductions in our cost structure including SG&A expenses, along with a suspension of the quarterly dividend to further reduce our indebtedness.

At this point, Henning will review the performance of our two segments, discuss current business conditions, and outline the steps we are taking to optimize our performance.

## HENNING

Thanks, Ken.

As a result of the sharp and sudden deterioration in the economy during the fourth quarter, our company-wide gross margin of 11.9% for the fourth quarter 2008 was a reduction of 3.9 percentage points from the fourth quarter of 2007 and our operating margin decreased to a loss of 3.1 percent.

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

The fourth-quarter gross margin in this segment

was 13.0%, a decrease of 490 basis points from the fourth quarter of 2007.

For the full-year 2008, revenues in the Building Products segment rose primarily from the incremental effect of acquisitions in 2007, which offset unit-volume declines at our businesses selling to the retail and new-build housing markets.

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 declined. For the year, our operating income and margins were relatively flat, in spite of market turbulence and volatility, a result of our improved efficiency and relentless cost-reduction activities.

Turning to **Slide #8**, our Processed Metals segment had a very solid year, but a very tough fourth quarter. The fourth quarter decreases were primarily the result of unit volume

declines resulting from the 27% drop in fourth-quarter auto production.

The fourth-quarter gross margin was 7.4%, a decrease of 70 basis points from 2007.

This segment's fourth-quarter operating margin was the result of steep unit-volume declines and the unfavorable FIFO impact I just discussed. It was worsened by a nearly \$3 million charge for an automotive-related customer (a Tier 2 supplier) that filed for Chapter 11 in December.

For the full-year 2008, sales in this segment were down, primarily the result of a lower North American auto build, which was down 18% compared to 2007. Nonetheless, its improved operating income and 7.2% operating margin were due to savings from the 2007 consolidation of our strip steel business from three facilities into two, other cost-reduction activities, and better alignment between material costs and selling prices.

Now to **Slide #9**, which provides a recap of our recent divestiture. On October 9<sup>th</sup>, we issued a news release announcing the signing of a definitive agreement to sell our powder metals business, SCM Metal Products. We “closed” on this transaction on November 5, 2008. While SCM had been a good business, it did not fit the strategic direction that our company is moving in. The sale of SCM reinforces our focus on our long-term strategic objectives.

At this point, I’ll offer a few comments on current business conditions...and refer to **Slide #10**.

Due to the high level of uncertainty in the general economy and the related effects on residential construction and North American automakers, we are not providing numerical guidance for 2009.

We will continue to control our spending throughout 2009 to ensure that our costs are appropriate for our existing sales volumes. We see the first quarter as being very challenging, with only marginally better earnings than what we generated in the fourth quarter of 2008. We are expecting an operating loss in the first quarter as results will continue to reflect the extremely difficult global economic environment. We are anticipating a return to profitability in the second quarter, aided by an expected increase in seasonal demand, although sales are likely to be unfavorable when compared to sales in the second quarter of 2008.

We continue our aggressive efforts to maximize liquidity, pay down debt, and reduce costs, which included reducing our employment level by 28% from September 2007 to February 15, 2009...and we will take additional actions as market conditions warrant.

Due to our team's focus and tenacity, 2008 results were 25% better than 2007. However, the challenges of the fourth quarter remain: a lackluster economy and depressed building and automotive markets. Improvement in market conditions is not expected until the third or fourth quarter of 2009.

We remain focused on a number of steps to optimize our results through operational excellence, tight expense control, decreased working capital, and aggressive marketing.

Our progress in each of these areas has strengthened our ability to successfully operate in this slowdown, and has enhanced our core margins, provides a platform for growth, and established a stable basis for improved shareholder value.

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

## BRIAN

Thanks, Henning.

As we make our way through these difficult economic conditions, our strategic focus remains unchanged. We are positioning 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.

We have good people running our businesses, and we further strengthened our team in 2008. We are continuing to embed the processes and systems that are essential to running a larger and more complex business, with improved controls and greater efficiency.

We are focused on generating progressive improvements in all of our businesses, carefully managing our assets, and maximizing our cash

flow to pay down debt and help fund growth, while continuing to transform Gibraltar into a company that produces higher and more consistent margins and better returns on capital.

In short, we are focused on getting through these difficult times by making changes to our business that will help us weather the current economic storm and prepare us for a return to record-setting performance in the future.

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

## **Q & A Session**

Clearly, these are unprecedented and very difficult times and I can tell you that the entire management team and every member of the organization is focused on providing the best results that we possibly can in this very difficult environment. While we've taken a lot of aggressive actions over the course of 2007 and

2008, I can tell you that we are far from being done and we are going to continue to react to this environment as conditions warrant. We are doing everything that is in line with our long-term strategy of being the low-cost producer and I think that ends up positioning us well for both 2009 and weathering this storm as well as a positive outlook as volumes begin to return maybe later this year or in 2010.

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