

Gibraltar

Second-Quarter 2010
Earnings Conference Call

August 5, 2010

KEN H.

Thank you Zumira, and welcome to Gibraltar's second-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 were updated in the first-quarter 10-Q, both of which can viewed on Gibraltar's Web site, at www.gibraltar1.com.

If you did not receive the earnings release on our second-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

Thanks, Ken. Good morning everyone and thanks for joining us on our call this morning. After my opening remarks, Henning and Ken Smith will provide a detailed review of our second-quarter results, current market conditions, and our expectations for the third quarter and balance of the year. Following our prepared comments, we will respond to your questions.

Our second-quarter results were pretty solid and are further evidence that the strategic transformation of Gibraltar through our many steps to aggressively restructure our operations, improve operational efficiency, cut costs, and reduce working capital and debt has put us in a position where we can be profitable at the current, historically low activity levels, and expand our margins, profits, and returns on incremental sales once market growth returns.

After order levels improved in March and April, we expected even stronger results in the second quarter than we delivered. But the expiration of the federal

credit for first-time homebuyers, persistently high unemployment, and weakening consumer confidence dropped our incoming order levels in May and June.

Even still, with flat sales compared to the second quarter of 2009, we generated earnings per share before special charges of \$0.13 in this year's second quarter, up from \$0.07 a year ago, also before special charges, which clearly demonstrate the improved operating characteristics of the business.

The results for the first six months of the year are even more striking. On a sales decrease of 2%, driven in large part by a decline in commercial construction activity compared to 2009, we generated a sharp increase in EPS of \$0.09 before special charges in the first half of this year, compared to a loss of \$0.12 per share in the first half of last year, also before special charges.

These results are the cumulative effect of the many initiatives we have taken to allow the company to be profitable, even at these low levels of business activity.

We have lowered our breakeven point to annual sales of \$650 million to \$670 million, depending upon mix, which allows us to operate profitably at current demand levels, evidenced by our second-quarter results.

This is possible, in part, because of our multi-year investments in better ERP systems allowing us to more tightly manage and control all aspects of our business, including production planning, supply chain management, working capital, and logistics – all key components of the strategic repositioning of our company.

Turning now to Slide #3, to give some perspective to the magnitude of our restructuring efforts, we need only to look back at how much our major markets are off from historic levels.

The repair & remodel segment of the residential building market is estimated to be off approximately 25% from its peak.

New housing starts are just 25% of their peak and only one-third of their average over the last 60 years.

The non-residential building market is down approximately 40% from its recent peak.

Order levels from many of these markets are at historic lows – and we believe levels that well below normalized volumes – levels that are unsustainably low over the long term. They will rebound...at some point.

Our restructuring efforts have overcome these market declines and returned us to profitability. More importantly, our restructuring activities have set the stage to leverage our lower cost structure against incremental volume to drive higher profits.

Because of the strategic approach to our restructuring activities, which was driven by our confidence that our markets will rebound, we retained an annual sales capacity of approximately \$1.6 billion, and that's prior to any acquisition activity, so we can readily absorb additional business

with our existing operations, at little incremental cost, which will accelerate improvements in our margins, earnings, and returns. We are ready and able to accept additional business immediately when conditions improve.

Since 70% of our sales in the residential building market are in the repair and remodel area – and half of our non-residential revenues come from replacement activities – we expect to benefit from any early-cycle improvements in demand, as these are areas where dollars are first spent when confidence in the economy begins to improve, either consumer or business confidence.

Throughout this downturn we never lost focus on our long-term growth plans, and acquisitions continue to be an important part of our growth strategy. We never stopped searching for the right opportunities, targeting businesses and product lines that will strengthen or expand our product leadership positions, further diversify our business mix, and improve our performance characteristics.

At this point, we are generally pleased with our positioning, restructuring activities, and our ability to generate profits and positive cash flow, all of which elevates acquisitions on our list of key next steps.

I want to thank and acknowledge the members of the Gibraltar Team for helping us deliver another solid quarter in what remains a very difficult operating environment.

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

KEN (S).

Thanks, Brian.

I will start with Slide #4...“Highlights of the Second Quarter.”

There were a number of important financial improvements in Q2, which resulted from strong execution by the Company during a period of continuing, weak economic conditions.

First, a continuing rise in Profitability...for both the quarter and the half year versus the comparable periods in 2009...largely benefiting from lower costs this year compared to the 2009 periods.

Free Cash Flow continued to be positive, generated at a very respectable rate of 8% of Revenues.

And regarding Debt...we continue to have no draws against our Revolving Credit agreement. We had expected to make some borrowings this quarter...but given the cash generated from the P&L and faster

Working Capital Turns achieved this quarter, we had no need to borrow.

And, the last bullet on Slide #4...importantly...we have ample liquidity to help fund our growth initiatives and working capital needs.

Now, moving to Slide #5, titled “Year-over-Year Profit Improvement.”

Revenues were up slightly in the second quarter. Revenues from the Residential markets were off approximately 5% compared to Q2 2009...as decreased shipments to distributors and contractors more than offset the modest revenue growth in Q2 to the Retail/Home Centers channel. Revenues from the Non-Residential markets increased approximately 11% compared to Q2 2009...largely on stronger pricing that corresponded to rising raw material costs.

Revenues in the first half of this year approximated those of a year ago, as a sustained recovery in our

end markets has not yet materialized, as Brian noted in his remarks.

Regarding Operating Income in the Second Quarter, it decreased compared to Q2 a year ago. This was the net result of an improvement in gross margin that was offset by higher SG&A expenses. Regarding the gross margin rise, we generated a gross margin of 20.4% in the second quarter of 2010, up 50 basis points from Q2 a year ago, driven by our improved efficiency...despite keen competition amid lower-than-expected seasonal volumes.

The Q2 SG&A expenses were unfavorable to last year. In Q2 2009, we had very favorable...and unusually low costs in two categories: employee health claims, where claims were exceptionally low, AND in the category of compensation.

Our Q2 this year was equivalent to Q1 of this year and much lower than Q4 2009.

Although not shown on Slide #5, we realized notable operating margin expansion in Q2 2010 compared to

the first quarter of 2010. On a sequential revenue increase of \$34 million, or 22%, operating income increased \$9 million, or 27% of the incremental revenue increase, which is evidence of the leverage available by the Company.

And Earnings Per Share...nearly doubled in Q2 compared the prior year...before impairments and special charges. The large increase in EPS was achieved by the gross profit improvement, lower interest costs, and lower income taxes.

Also, the EPS for the first six months of 2010 were much improved...the result of sharply higher operating efficiencies and operating income.

Free Cash Flow continued to be a source of Cash, even though 2009 cash flow benefited significantly from reducing working capital to correspond with lower demand. In 2010, we continued to generate Cash at a steady rate...due to our much improved profitability.

Moving ahead to Slide #6, titled “Net Income & EPS”... On this slide, we break out the non-operating and income tax expenses.

For Net Interest...it decreased compared to the periods last year...due to lower average borrowings. And as we previously stated, we repaid all of our variable-rate debt in February of this year.

Regarding Income Tax expense...we incurred a lower Income Tax expense in the second quarter of this year due to a lower tax rate. The effective tax rate for Q2 2010 was 46% compared to a rate of 76% in the second quarter of 2009.

Last year’s Q2 rate was unusually high due to a mid-year change in forecasted full-year earnings and full-year tax rate...and, therefore, we had to adjust the Q2 2009 rate accordingly.

For the rest of this 2010 year, I expect an effective tax rate percent in the high forties.

Turning to Slide #7, “Positive Cash Flow.”

Our significant earnings improvement this year has helped maintain strong cash flow in the first six months, even though the total Free Cash Flow in first half of this year compares unfavorably to 2009, as 2009 was particularly strong from our aggressive reductions in working capital throughout last year.

And since we began 2010 with a much lower amount of working capital, there's not as much cash to generate from working capital compared to last year.

Nonetheless, in 2010, we have further improved our use of working capital by faster turnover. At the outset of this year, we had 69 days of working capital. By March-end 2010, we were down to 65 days. We ended June 2010 with a 58-day investment in working capital.

This improvement of 11 days, or 16%, as of June-end, was primarily in receivables and inventories.

And, as I look at the 58-day position and look back at the downward trend in working capital days

achieved by the Company over the past 2 years...the Company has done a really good job in becoming efficient with working capital.

And finally, as the last row on Slide #7 reports, we continued to generate a solid rate of free cash flow in the first half of this year at 8% of revenue.

And in my view, high single digits and better...is very solid performance.

Now moving to Slide #8, “Debt Reduction”...

We reduced our net debt by more than \$50 million thus far in 2010...\$7 million of that improvement was in the second quarter of 2010.

In early May of this year, at the time of our First Quarter earnings call, we had expected to make some borrowings this quarter to support working capital. However, we did not...because of the cash generated from the P&L and faster Working Capital Turns.

The Company's overall liquidity position increased to a little over \$140 million as of June-end, based on cash on hand of \$27 million, plus the availability on our Revolver. And, I believe this Liquidity position is quite ample to support Gibraltar's growth initiatives.

Looking ahead, we expect future free cash flow would increase Cash-on-Hand. And our priorities to use excess Cash are expected to focus on internally-driven growth and potential acquisitions, initiatives that Henning will describe in his remarks.

And with that...I'll turn the call over to Henning.

HENNING

Thanks Ken.

As Brian noted, the second quarter reversed the pattern of the first, by starting strong in April, and then activity slowed in May and June following the expiration of the federal tax credit, which lowered volumes at all of our businesses selling to the residential building market. Activity also slowed in the non-residential market, as a weak and uncertain economy hurt demand, and customers continued to buy to fill specific orders instead of buying inventory. Inventory levels remain at record lows at all levels in the supply chain. Any pick-up in activity will challenge the supply chain. Fortunately, Gibraltar's improved and systems-focused efficiencies will allow the Company to quickly respond to higher sales levels with continued high levels of customer service, allowing renewed growth and leverage in our served markets.

While we continue to believe that housing starts will increase from last year's levels, we currently expect

a range from 580,000 to 620,000 units, which is down from a previous expectation of 743,000 starts. Even though inventories of unsold homes are at 40-year lows, continued foreclosure activity, high unemployment levels, tight consumer credit, and economic uncertainty is hurting demand. We did see some recovery in starts and permits in June off of May's record-low levels, but conditions remain difficult in this market.

With respect to Residential Repair & Remodeling demand, LIRA, the Leading Indicator of Remodeling Activity, home improvement spending is expected to accelerate, with nearly 5% growth in the fourth quarter of this year and even stronger growth in the first quarter of next year. Our product participation is skewed toward the remodeling/home improvement segment, so demand levels have remained fairly constant, and will rise with the expected up-tick in remodeling activity.

Non-residential building activity has leveled off in 2010 at an annual rate of \$275 billion, down from \$366 billion last year. As we discussed last quarter,

this portion of our business is focused, to a large extent, on industrial facilities like sewage and wastewater 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, which remains well constrained compared to previous years.

We continue to identify and pursue internal growth initiatives. Last month, we reviewed our strategy with the Company's 50 top executives, focusing on specific actions that will generate innovation, growth, operational improvement, and enhanced performance.

As Brian mentioned, acquisitions also remain an important part of our growth strategy, and we continue to evaluate a number of opportunities, of various sizes, in every area of our business.

Our category-leading products – and strong relationships with the top customers in all of our distribution channels – have allowed us to gain

share, a trend that continues this year, in spite of historically low demand levels in our end markets. We continue to develop new products, while taking our existing line to new customers and additional geographic markets, all of which further strengthens our competitive position.

The building markets we serve are large and fragmented, with many of our customers looking to consolidate their supply base, and we have capitalized on numerous growth opportunities created by the turbulence of the last few years.

Consistent with our strategy of growing through product leadership positions and share gains, we are also driving to be a global low-cost producer. We are continuing to keep a tight rein on spending and we are finding additional ways to further reduce our expenses, aided by our multi-year investments in ERP systems.

With our streamlined cost structure, we are now generating annual sales per employee of \$321,000, an increase of 13% from a year ago, and this is a

very favorable comparison to our industry peers.

Looking ahead, we continue to move through the strongest seasonal period of the year for our business and we expect to generate a profit in the third quarter.

Although in comparison to Q3 2009, which was a quarter advantaged by the lowest raw material costs of 2009 as our material costs slid to their lowest levels in several years in reaction to the 2009 economic contraction, we also expect a much higher tax rate in Q3 2010.

Nonetheless, we expect to be solidly profitable this coming quarter and for the full year, in spite of uncertainty as to when the markets we serve will recover. And we remain excited and optimistic relative to the quarters ahead, as we assertively execute our growth strategy.

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

BRIAN

Thanks, Henning

As you heard, we have taken a series of steps to strengthen the Company's position and results: ongoing operational efficiency and cost-containment initiatives, the reduction of working capital and a continued emphasis on growth...in short, we are taking a series of steps to strengthen the Company's performance and results, both now and in the future. These steps have resulted in solid second-quarter profitability, faster turns of working capital, and lower net debt, which improves our liquidity and provides the where-with-all to make acquisitions as part of our growth plans.

All of this continues to be accomplished in spite of historically weak economic levels affecting our major end markets.

We believe these results validate Gibraltar's strategic positioning and the ability of our people to

deliver solid results in spite of the very difficult circumstances.

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 regarding our third quarter financial results.