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ROCK - Q2 2018 Gibraltar Industries Inc Earnings Call

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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the Gibraltar Industries' Second Quarter 2018 Earnings Conference Call. Today's call is being recorded and webcasted. My name is Dina, and I will be your coordinator today. (Operator Instructions)

I will now turn the call over to David Calusdian, from the company's Investor Relations firm, Sharon Merrill Associates. Please proceed.

David C. Calusdian - *Sharon Merrill Associates, Inc. - President*

Good morning, everyone, and thank you for joining us. If you have not received a copy of the earnings press release that was issued this morning, you can find it in the Investor Info section of the Gibraltar website, gibraltar1.com.

During the prepared remarks today, management will be referring to presentation slides that summarize the company's second quarter performance. These slides also are posted to the company's website. Please turn to Slide 2 in the presentation.

The company's earnings press release and slide presentation contain forward-looking statements about future financial results. The company's actual results may differ materially from the anticipated events, performance or results expressed or implied by these forward-looking statements. Gibraltar advises you to read the risk factors detailed in its SEC filings, which can also be accessed through the company's website.

Additionally, Gibraltar's earnings press release and remarks this morning contain adjusted financial measures. Reconciliations of GAAP to adjusted financial measures have been appended to the earnings release and slides.

On our call this morning are Gibraltar's Chief Executive Officer, Frank Heard; and Chief Financial Officer, Tim Murphy.

At this point, I'll turn the call over to Frank, and please turn to Slide 3.

Frank G. Heard - *Gibraltar Industries, Inc. - President, CEO & Director*

Thanks, David. Good morning, everyone, and thank you for joining us on our call today. We executed well in the second quarter and delivered strong financial results. We continue to benefit from our 4-pillar strategy and made excellent progress in advancing our organic growth initiatives.

Our second quarter revenues at $266 million were up 7% year-over-year and at the higher end of our guidance range. GAAP earnings of $0.70 were 71% higher than prior year and adjusted earnings of $0.71 were 65% higher year-over-year. Both metrics exceeded our guidance range.

For the second quarter, we managed raw material cost volatility created by steel and aluminum tariffs by working in partnership with our customers on price increases by market and by segment. Through these collaborative actions, we have recovered material cost increases while our customers were able to remain competitive and grow share in their respective markets.

From an end market perspective, we achieved a 17% increase in sales in our Renewable Energy & Conservation segment, a 6% increase in our Industrial & Infrastructure segment and a 3% increase in Residential Products.

Tim will discuss our segments in more detail and then I'll return to speak more about our progress on each one of our strategic pillars. We've made significant progress to date with our 80/20 operational excellence efforts and there are meaningful opportunities to continue to improve the business going forward.

Our strategic focus now is on driving sustainable organic growth through new product development. Through this effort, we'll continue to deliver on our promise to make more money at a higher rate of return with more efficient use of capital.

With that, I'll turn it over to Tim.

Timothy F. Murphy - *Gibraltar Industries, Inc. - Senior VP & CFO*

Thank you, Frank, and good morning, everyone. Let's move to Slide 4 in the presentation, entitled Solid Consolidated Results. We delivered an excellent second quarter with revenues at the higher end of the guidance and GAAP and adjusted earnings above our guidance range. Our 7% year-over-year increase in revenue was driven by volume growth, price recovery and strong demand for innovative products across our segments.

The steel and aluminum tariffs announced earlier in the year continue to impact material cost. However, as Frank mentioned, through the proactive work with customers to fairly allocate cost changes, we recovered higher commodity cost through price increases. Looking ahead, we expect continued volatility in material cost due to the tariff-related issues, and we will continue to work with our customers to align cost with prices. On the bottom line, our consolidated earnings benefited from: significant earnings improvements in our Industrial & Infrastructure and Renewable Energy & Conservation segments; effective price material cost management; a greater mix of higher-margin innovative products; 80/20 simplification initiatives that continue to provide benefits; and a tax benefit of $1.9 million, or $0.06 per share, related to the vesting of performance-based shares issued during 2015. As expected, our corporate expenses of $8 million reflected more normal performance-based compensation levels.

Now let's review each of our 3 reporting segments starting with Slide 5, the Residential Products Segment. Our top line results grew 3% year-over-year due mainly to increased selling prices. On the bottom line, operating margin improvements for the segment reflect effective price material cost management, favorable product mix and efficiencies resulting from 80/20 initiatives.

Turning to Slide 6, the Industrial & Infrastructure Products Segment. Revenue growth was driven by solid demand for Industrial products, for innovative products, including perimeter security solutions, and increased selling prices. On the bottom line, operating income and margins more than doubled reflecting effective price material cost management, growth in innovative products and continued benefit from 80/20 simplification initiatives.

After 3 years of operational improvements and portfolio management actions, this segment has turned the corner towards growth. We expect the continued success of our material cost management, innovative products and 80/20 initiatives to enhance the segment's profitability through the rest of the year.

Now turning to Slide 7, the Renewable Energy & Conservation Segment-. Strong domestic demand in both the renewable and conservation businesses drove the 17% increase in revenues for the quarter and our new solar tracker solution is gaining traction. On the bottom line, margin improvement was a result of higher-margin product mix and benefits from 80/20 simplification initiatives.

Looking ahead, we're encouraged by the long-term market growth prospects of both the Renewable Energy and Conservation businesses. The latest U.S. Solar Market report from the Solar Energy Industry Association report strong demand for community solar, which is the market we serve.

The report highlights that solar energy has become a cost-effective option for much of the U.S., making it resilient to the new tariffs on the imported solar panels. In fact, a report found that in the first quarter of 2018, system pricing declined in the nonresidential market.

Separately, on the conservation front, a recent report by Arcview Market Research estimates that over the next 10 years, the legal cannabis industry will grow to $57 billion worldwide. The North American market, specifically, is expected to grow from $9 billion in 2017 to $43 billion in 2027. The cannabis market has been a strong driver of growth for our conservation business thus far, and these numbers portend strong growth for the foreseeable future. So, a continued positive long-term outlook for this segment overall.

Please turn to Slide 8, Capturing the Opportunity. During the quarter, we generated $18 million of cash from operations primarily from our strong earnings partially offset by seasonal growth and working capital. With just over $500 million available to us at the end of the quarter, our low leverage and high liquidity positions us to execute on our acquisition strategy. We continue to be focused on targets with EBITDA of $25 million up to $100 million that will be material to our performance. Although, we will consider smaller acquisitions that can benefit us from a technology standpoint.

At this point, I'll turn it back to Frank, who'll review the progress on our 4-pillar strategy and our guidance for the quarter. Please turn to Slide 9, 4 Pillars Driving Value Creation. Frank?

Frank G. Heard - *Gibraltar Industries, Inc. - President, CEO & Director*

Thank you, Tim. When we began executing on our 4-pillar transformation strategy a little more than 3 years ago, an important part of our work focused on the first 2 pillars of "Operational Excellence" and "Portfolio Management". In operational excellence, we reduced the complexity of our businesses, adjusting cost and simplifying our product offering through the 80/20 initiatives across the organization. While the lion's share of the benefits from these efforts have been realized, we continue to enhance our operations and drive incremental margin improvements.

During the quarter, we advanced in-lining and market-rate-of-demand replenishment initiatives and continued the outsourcing of "B" products across our businesses. We expect to realize further benefits from these projects in the latter half of this year and into 2019.

In portfolio management, we evaluated product lines, customers and markets to best allocate leadership time and resources to the highest potential platforms and businesses. As a result, we built a business with a product portfolio and target end markets that have significantly greater potential for sustainable growth with limited downside risk. We're now firmly focused on growth, where much of our work is around our third-pillar "Innovation". Our focus here is to drive sustainable organic growth through products with patent protection, developed internally or through acquired product lines.

We've already made some material progress here as innovative products advanced to 9% of revenues during the quarter, from 7% in 2017 and 4% in 2014. Across our businesses, our teams are beginning to use trade-focused selling and marketing techniques to develop innovative products leveraging our core competencies of engineering, manufacturing and installation. In addition to the electronic parcel locker, perimeter security and solar tracker solutions, which are currently driving growth,

our teams are focused on several new market opportunities that should continue to accelerate these efforts in 2019 and beyond.

Our industrial business is a tangible example of Gibraltar's transformation. After simplifying its operation through 80/20 and portfolio management actions, the team is now implementing trade-focused strategies to use its existing capabilities to develop new technology-based products, tied to expanding in higher-margin markets. And as a result, we're having early success in shifting away from a commodities-based business platform to a sustainable higher-margin business with solid organic growth opportunities.

Over the next several quarters, we expect to continue to update you on additional innovation initiatives across our businesses.

Finally, our fourth pillar is growth through "Acquisitions", which is an important part of Gibraltar's transformation. Our executive team continues to invest time and energy in prospecting and vetting process. We remain committed to only make an acquisition if it's the right one that will contribute long-term value to Gibraltar and its shareholders.

RBI, Nexus and Package Concierge are 3 great examples of the type of companies we look to acquire. All serve attractive end markets with unique value propositions. Our target markets continue to be postal and parcel solutions, residential building products, perimeter security, infrastructure, renewable energy & conservation.

Please turn to slide 11 for 2018 guidance. The innovation projects driving organic growth across all our segments keep us optimistic about the second half of the year. However, we're cautious about the domestic and global volatility and competitive pressures related to the impact of tariffs and the effects on the general market activity and consumer demand.

In addition, we expect higher development costs as we execute on our new product development initiatives. Thus we're maintaining our full year guidance of sales in excess of $1 billion, GAAP EPS between $1.75 and $1.87 per diluted share, or between $1.96 to $2.08 on an adjusted basis. Our goals for the second half of 2018 continue to be to drive sustainable organic growth through the acceleration of new product development initiatives, to implement 80/20 simplification projects and to seek value-added acquisitions in attractive end markets.

For the third quarter of 2018, we expect revenues between $285 million and $295 million, up from $275 million in Q3 2017. And we expect consolidated GAAP EPS between $0.54 and $0.61 per diluted share and on an adjusted basis, we expect earnings per share between $0.65 and $0.72.

We began a cultural transformation at Gibraltar over 3 years ago, focusing on efforts on portfolio management and operational excellence. Our simplified structure has enabled us to manage effectively through a variety of market dynamics, including the ITC, solar panel tariffs and the recent steel and aluminum tariffs, and we've continued to grow our top line and bottom line.

We continue to benefit from ongoing operational excellence and portfolio management efforts. We're now focused on driving sustainable organic growth through new product development with key initiatives across all segments. And we're delivering on our promise to make more money at a higher rate of return with more efficient use of capital and long-term value creation for our shareholders.

To close, I'd like to thank our customers for their continued business, the Gibraltar team for adopting this transformative culture, and taking it to new levels across all of our businesses and to our shareholders for their continued support.

At this point, we'll open the call up for any questions that you may have. Thank you.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from the line of Daniel Moore from CJS Securities.

Daniel Joseph Moore - *CJS Securities, Inc. - Director of Research*

Nice start obviously, revenue growth, a nice acceleration to 7% plus. Can you bucket that perhaps between price volume and maybe quantify the impact of what you consider new innovative products?

Timothy F. Murphy - *Gibraltar Industries, Inc. - Senior VP & CFO*

If I think about price volume, it's a little bit more price than volume. In innovative, we're at $20 million of innovative products for the quarter, so that's in there.

Daniel Joseph Moore - *CJS Securities, Inc. - Director of Research*

Got it. And how much would that be, I guess, on a -- up year-over-year? Take it off-line if not.

Timothy F. Murphy - *Gibraltar Industries, Inc. - Senior VP & CFO*

Let me get back to that answer.

Daniel Joseph Moore - *CJS Securities, Inc. - Director of Research*

That's perfectly fine. And on the margin front, obviously, has been a ton of talk about tariffs rising, input costs. You managed through that extremely well. What impact if any did you see on margins from rising steel and aluminum, and if prices stayed where we are today what type of impact year-over-year would you expect for the back half?

Timothy F. Murphy - *Gibraltar Industries, Inc. - Senior VP & CFO*

So I think, overall, we're positioned well with material cost to maintain margins, and then for the rest of the year, I don't even look at it as if it stays stable because that's not what we predict. So I think if there was no movement in material cost at all, I'd expect similar results. We're pretty well positioned from recovery to date and what changes tomorrow is what we work on.

Frank G. Heard - *Gibraltar Industries, Inc. - President, CEO & Director*

Yes, I think that, Dan, that's an accurate statement. I mean, we feel that we're pretty whole now relative to raw material input cost, relative to pricing and our future guidance is based on our current set of circumstances. So if prices go down, then obviously, we will take actions to proportionally give back to our customers. If they go up, we'll adjust accordingly in partnership with them going forward. So we're not trying to guide or predict a drop in raw material inputs or any acceleration over and above where we are today.

Daniel Joseph Moore - *CJS Securities, Inc. - Director of Research*

That's helpful. And lastly from me, you called out product development costs. Can you give us a sense for what type of uplift you've embedded in the guidance in the second half of the year? And then, I know it's a little bit of a separate question, and I'll leave it at that, but any specific 80/20 projects that you can kind of call out, gives us more specificity that have benefited the margins, given the really strong improvement that we saw year-over-year in the first half?

Frank G. Heard - *Gibraltar Industries, Inc. - President, CEO & Director*

Yes. Maybe I'll take the second question first, and then Tim can answer the first one. I think in terms of the impact of new initiatives going forward, we expect that to continue. We went up to 9%, and we expect to continue momentum around things like perimeter security. We're still being thoughtful from a crawl, walk, run perspective on the tracker initiative. And we continue to make progress in the electronic locker space, and we are in the process, starting the beginning of the year, of starting to finalize some of our development issues and some of the new and different types of spaces around the portfolio. And all of those relative costs are built into the current guidance. And I would argue that they would be -- they're material enough to mention, but not material in terms of the overall guidance forecast.

Operator

Our next question comes from the line of Walter Liptak from Seaport Global.

Walter Scott Liptak - *Seaport Global Securities LLC, Research Division - MD & Senior Industrials Analyst*

So I wanted to go -- maybe just a follow-up on that last question. And maybe just to put in a different frame, you beat the numbers [quite] a lot in the second quarter, but you didn't take up guidance. And the only thing I heard that you called out, that might be more worrisome is the higher development cost. I wondered if you could quantify like the dollar amount that it's going up? Is that...

Frank G. Heard - *Gibraltar Industries, Inc. - President, CEO & Director*

I'm going to let Tim do that, but I think we did call out probably the most important unknown to us is the volatility in the market in terms of the existing tariffs on steel and aluminum as a direct impact on our cost, which we think we've managed well. And a continued volatility of proposed tariffs that are on our doorstep that could affect end-market demand, number 1, and the potential of additional costs and -- as we get. And the risk there for us like most businesses who are on a calendar year is if all that volatility transforms itself into the marketplace in the first quarter and we've got a 30 to 120 days cycle of trying to recover those costs and then get them in the current operating year. That's easier to do than if that takes place in the back half of the year, and even if we get the pricing increases in, they don't have much of a benefit on profitability of business. We've got the cost on one hand, input insight for an operating year and potentially the price increases flowing in the new year. So that I think is probably our biggest unknown like most corporations out there in terms of risk and our current guidance. I think the relative development costs are, I would say are minor in nature compared to the overall risk of future guidance. So if we don't see any more -- we feel quite confident where we are, so...

Walter Scott Liptak - *Seaport Global Securities LLC, Research Division - MD & Senior Industrials Analyst*

Okay. So the comment about the end market demand slowing, did you see some of that? I guess you're alluding to the Residential business, it sounds like it was flat, that most of the growth came from price. Are you attributing that flatness in the market to higher prices from material and projects getting pushed out by the consumers?

Timothy F. Murphy - *Gibraltar Industries, Inc. - Senior VP & CFO*

Well, really what we're seeing, I think, if you look at the residential business because that's certainly the area where we saw a little volume not growing. It's really related to the roofing industry. So 2/3 of that business is the ventilation, rain management, flashing and items that get replaced when a roof is replaced. And in the first quarter, we saw that area down and we thought it was more weather-related and the country was cold in the first quarter and roofers weren't on the jobs. As we went through this quarter what we're seeing and hearing from both our customers and industry, ARMA and various other shingle manufacturers even, is that the end market demand for repair related to storms is expected to be off this year. And I think really what that's related to is in '16 there were hailstorms that carried into '17's demand. And that didn't -- the storm damage didn't repeat itself in '17. So I think it's mid-single digits, that segment of the market's expected to be off. So if we take that down a little bit normal growth levels in the other 1/3 of the business, we end up with flat to a little bit down depending on where we get out for the year. Industrial and Infrastructure business continues to look good and obviously, to date the Renewables and Conservation business volumes have been good. So I think if there's any volume concern with us, it's not a share issue, it's just market-based activity but it's on the roofing side.

Walter Scott Liptak - *Seaport Global Securities LLC, Research Division - MD & Senior Industrials Analyst*

Okay. Got it. Okay. And then you guys did a great job with the industrial profits this quarter, I wonder if you can go in a little bit more detail. I think in the press release you talked about the new products helping the profitability. What happened there because it really looks like those profits popped in industrial after being pretty stagnant for about a year?

Timothy F. Murphy - *Gibraltar Industries, Inc. - Senior VP & CFO*

No, I think it's really 3 things. It's price material. It's the product mix with the innovative products going in there. And it's also 80/20 simplification. And if I were to split it, I'd say probably this quarter I'd give 2/3, give or take to material cost price alignment and about 1/3 to 80/20 innovative product contribution from the margin enhancement from the innovative products and then the cost outs from 80/20.

Walter Scott Liptak - *Seaport Global Securities LLC, Research Division - MD & Senior Industrials Analyst*

Okay. All right. Do you think -- and sounds like those factors can continue to flow through, as you mentioned, in the back half of the year that this level of profitability is something that's sustainable.

Frank G. Heard - *Gibraltar Industries, Inc. - President, CEO & Director*

Yes, I think what we feel pretty strongly about, Walter, as you know that whole industrial piece, which was pretty commoditized, and 3 years ago was 40% of our platform overall, has been greatly reduced in scale through the selling off of European businesses and the bar grating piece, which allowed us to get back to working on product innovation and around the perimeter security space, which allows-- the byproduct of that is, as we get traction in that and we have, it has an ability to move the needle within that group quicker because it's just a smaller base of businesses and the mix gets better faster. That's what's starting to play out combined with a lot more focus. That area is a different type of product, more value-added, sold differently, more similar on a project basis to direct to the developer where in some cases, we install as well. So the margin profile is quite different than their other product ranges and then mixing in that we continue to have some 80/20 initiatives that have simplified the business and taken some costs out to enhance. So we believe, we've turned a corner, 2 quarters in, is not quite a track record and a pattern yet, but we feel confident over the balance of the year. And I've attended a lot of the different types of shows and events with customers in the last 6 months, and I can see evidence that the resulting revenue gains around those products are -- starting to represent some real value with the end users and we expect it to continue and grow.

Operator

Our next question comes from the line of Ken Zener from KeyBanc.

Kenneth Robinson Zener - *KeyBanc Capital Markets Inc., Research Division - Director and Equity Research Analyst*

You're aware every other building product company is facing margin pressure from costs, right? And you guys are printing up margins across all your businesses despite 2/3 being steel of your COGS, amazing. So my question is this, the weighting, given that you held your guidance, and I heard your answer, Frank, that you are unsure of how tariffs may -- incremental tariffs, is my understanding of your comment, may impact costs, harder to recover in the second half. Therefore, despite 2Q's results you're staying firm. It almost sounds like your guidance is including higher cost. Could you guys just be clear if the current cost basis were to persist in the back half, would your guidance be the same? Or -- it sounds like you're actually being conservative assuming incremental costs are coming through in order for you to hold your guidance?

Frank G. Heard - *Gibraltar Industries, Inc. - President, CEO & Director*

I think Ken, probably, without getting into a lot of detail, I would say that we have a range for a reason. And one could argue that maybe we'd end up at the higher end of our range if we saw things stabilized versus maybe something in the middle. So outside of that, our roll-ups would suggest that we've got a -- the guidance range we have today is reflective of what we know.

Kenneth Robinson Zener - *KeyBanc Capital Markets Inc., Research Division - Director and Equity Research Analyst*

Okay, that's important. So the current guidance is reflective of what you know, which is more or less your, I guess, cost structure as of the last month relative to the commodity costs that are moving around, tied to tariffs, et cetera.

Frank G. Heard - *Gibraltar Industries, Inc. - President, CEO & Director*

That's a fair assumption, yes.

Kenneth Robinson Zener - *KeyBanc Capital Markets Inc., Research Division - Director and Equity Research Analyst*

Okay. Good. I just wanted to make sure I didn't misunderstand you there because your results are so impressive. Industrial, all the shrinking is over, Tim, you said 2/3 was related to price of the margin gain, 2/3 was related to price realization. So you're basically saying if you guys want product, a, part of 80/20, it's going to cost you this much. Is that what I hear when you say pricing, Tim?

Timothy F. Murphy - *Gibraltar Industries, Inc. - Senior VP & CFO*

I mean, yes. And I'll qualify that too. So if you recall first quarter last year in the biggest piece of that business we disposed of the bar grating line. So half the business and half the people went out the door, and we talked about it towards the back half of last year that it caused a major distraction from the team there and their eye was off of some of the normal things that you would be managing in a business like that. And so I hate to call it an easy comp but to a certain extent, it's not like we went out and got huge price increases and are out of whack with the market. We were a little bit out of whack last year that hurt us, where I would say we're fair with our customers and some of that is still commodity-based products. So you don't really have the opportunities, if you want it from us you got to pay this. The innovative products, you have some of that ability to get a higher margin because you're more valuable to the customer so...

Frank G. Heard - *Gibraltar Industries, Inc. - President, CEO & Director*

And I think the other thing we got to remember is when we talk about the industrial products segment, we aren't talking about- there is an infrastructure piece and then there's industrial products. Industrial products is made up of several businesses. The largest business being what we call AMICO U.S., which is really to some degree what Tim is referencing in terms of better priced management, recovery, more appropriate for the market and then that's certainly where our core perimeter security initiative is, and it is certainly gaining traction. And it's a different margin profile and on a smaller-based business, it can have an impact faster and we see evidence of that. I think the other thing around that business is we have 3 or 4 other site locations that are standalone businesses that have done a real nice job as it relates to -- they're a smaller scale business and their mix of products in terms of new and innovative approaches, and have also taken some costs out on a smaller scale on some 80/20 projects that have set them up to have a pretty good 2018. So there is really -- in past years, you could say out of the 5 businesses you got 2 up and 3 down. We're tracking pretty nicely this year where all the businesses are in the black and in the context of making more money at a higher rate of return versus prior year period. So the group, we feel has turned the corner. They've got the right people in the right place at the right time, which in '17, we were still kind of trying to get that alignment around some of the development projects and the 80/20 simplification projects in terms of the smaller scale businesses but we feel we've got good traction in that area now.

Kenneth Robinson Zener - *KeyBanc Capital Markets Inc., Research Division - Director and Equity Research Analyst*

And I guess, if I could ask one more question to have you comment on solar, which tends to be, I think from my perspective, the harder to understand given my building product background. Very strong growth, very solid margins, have we entered a post-tax credit volatile world, which last year was incumbered by, certainly in the first half, where you're seeing either longer backlog visibility and/or higher conversion rates from the x number of bids you have out there coming due-- I mean, is the visibility increasing as the revenue is steadier in that part of the business?

Frank G. Heard - *Gibraltar Industries, Inc. - President, CEO & Director*

Maybe I'll give an overarching comment. I would say relative to your first comment, really the uncertainty in the end markets, I guess, a year ago was really being driven more by the Suniva trade case and the resulting potential cost increases on panels. How that would affect various end markets as it relates to utility-scale solar, whether it be in the trackers area or utility-scale solar as it relates to fixed-tilt. To a lesser degree, how would it affect -- those were 2 areas that we don't -- we don't do large scale. We do community-based solar, it's smaller scale. So we were more insulated against that but certainly it was for 2017, viewed by the market and industry experts, it was a headwind. We were less exposed to it just because of the type of the business we do. Everybody knows that trade case went through, the relative impact on panels for that operating -- the balance of that operating year and certainly in '18, '19 and '20 going forward is that panel prices have actually come down and are far under some of our best operating years from the market and the industry experts and Tim can reference some of them, and he did in the script, that the market is -- continues to be a rising tide, and it's going to expand in future years. So I think that's an important element. The ITC, it's still out there. It was kicked down the road, and I think, expires now in '21 area. So that becomes, I guess, an artificial cliff, but to really a lesser extent with 54% of new power generation investment going towards solar, that's not the same material impact it would've had when it was originally forecast to come to an end at the end of '15. So I think mixed in all that is less of a shift that was forecast from fixed-tilt to tracker. I think as we've said all along, and as we've entered that market in a small way, the transition from fixed-tilt to tracker on large scale or community, certainly on community solar we don't see a strong evidence of it in a material way. Our backlogs are up year-over-year both on our fixed-tilt systems, and we continue to grow on a crawl, walk, run basis in the tracker space as we test and implement and refine our new system design. So, Tim, you want to add some?

Timothy F. Murphy - *Gibraltar Industries, Inc. - Senior VP & CFO*

Yes, Ken. I think, 2 things that -- going back to Frank's comment about the ITC and the market. So during the quarter, the IRS actually came out with a ruling that said if you invested 5% of a product, of a project cost, you could continue to get the higher 30% tax credit for a few extra years. So if 2019 or 2020 was expected to be a rush to the 30% credit then it would drop down to 26% and down to 20% and then 10%. That tail is extended out already by recent IRS ruling. So for the next foreseeable future projecting growth in the market. Visibility though, I would say backlog activity where our backlogs are higher in that business both on the Renewable and the Conservation side, but visibility isn't all that better. It's still a project construction business. People are waiting to get in the field, waiting to get started, and we sort of get queued up at the end of the project because we're one of the last guys on site putting the racks in. So I wouldn't say our visibility is any better other than the fact that we can see expanding backlog. So pretty good for 3 months. And we have a pretty good feel at least directionally beyond that, but it's really hard to say what any month is going to be.

Frank G. Heard - *Gibraltar Industries, Inc. - President, CEO & Director*

All right. Well, thank you, everyone, for joining us.

Do we have any follow-up questions, Ken? Or others?

Operator

Our next question comes from the line of Daniel Moore from CJS Securities.

Daniel Joseph Moore - *CJS Securities, Inc. - Director of Research*

Sorry to keep you for another 2 minutes here, gentlemen, I apologize.

Frank G. Heard - *Gibraltar Industries, Inc. - President, CEO & Director*

Not at all. Nice questions.

Daniel Joseph Moore - *CJS Securities, Inc. - Director of Research*

Everybody's favorite topic been highlighting a little bit more and more, I think, each quarter and each conversation, the cannabis opportunity. Maybe quantify the revenue in the quarter and what type of growth rates obviously, not to the decimal point, but how do you think about the growth rate of -- that's realistic for your products specifically in that end market?

Timothy F. Murphy - *Gibraltar Industries, Inc. - Senior VP & CFO*

Dan, we don't break out the revenue specific to that because it's part of a business and part of a segment. But I will say this. That market is expected to grow significantly, I mentioned I think from $9 billion to $47 billion end market sales opportunity through 2027 so sort of the next 10 years there's this explosion. Now that has certain assumptions on when states will come online and what the federal government does? How Canada's market grows? So certainly, but we viewed that long term very strong. I will tell you that in every state that goes from either medical to recreational or from nothing to medical. There is a licensing process people go through, so there would be a couple of hundred people applying for a license, 12 get the licenses, they have to start, usually validate their license within 3 to 9 months is usually the amount of time so they'll start growing somewhere. And then as they get production up they follow on with the greenhouse. And the greenhouse can take 18 months from land selection permitting, design and then building. So it's not a quick sales cycle, but we do see growing demand, the pipeline continues to grow, the activity is there. So we think, it's long-term rising tide.

Frank G. Heard - *Gibraltar Industries, Inc. - President, CEO & Director*

Yes. And I think what's unique about this segment for us is with the original Rough Brothers' business in the greenhouse phase, and the acquisition of Nexus where they were the predominant player in the space as it relates to greenhouse, we do know and we're confident that as the market moves between outdoor grow to indoor grow, and indoor grow can be under a factory roof or in the back of a trailer to validate a license with it, 9 to 12 months. We do know that any serious player in this market is going to end up in a greenhouse because it's the lowest cost, highest quality product, and guarantee multiple 14-week growth cycles through 365 days. So we see -- and based on that, we know that anybody who's serious about this business, is going to phone our business and we've got a dedicated team that's been organized both on the indoor grow side under the Tetra brand and on the greenhouse side with Nexus. So we think we're going to always get a phone call and always have the opportunity to participate. And this is really about building and creating an environment which Rough Brothers and Nexus has an environment and then controlling that environment by putting a very unique enclosure around it with control systems, heating, ventilating, humidity controls to ensure that nobody has a bad crop in any one of those 14-week growth cycles. So unlike some of our other businesses, we know we're always going to get a phone call in this. So we feel pretty confident that we're going to have an opportunity to participate to some degree on both sides of the border as people migrate into greenhouses.

Daniel Joseph Moore - *CJS Securities, Inc. - Director of Research*

Very helpful. Lastly, if there's a $47 billion TAM in 2027, what does that translate into TAM for your slice of the market?

Timothy F. Murphy - *Gibraltar Industries, Inc. - Senior VP & CFO*

Hard to say. I don't really, I can't really answer that question. If we think about exponential growth and moving, we think of it as exponential growth in the end market and moving from indoor grow to outdoor, it should be a big number. And it's going to develop lumpily over time.

Operator

Our next question comes from the line of Walter Liptak from Seaport Global.

Walter Scott Liptak - *Seaport Global Securities LLC, Research Division - MD & Senior Industrials Analyst*

So, Frank, I wanted to ask about M&A. And I wondered if I could ask it this way, obviously, 80/20 and your 4-pillar strategy is something that works, right, we've seen it over the last 4 years and your employees are clearly adding value with the existing businesses. As you talk to owners of businesses, do you think this helps you? Or does this hurt you somehow? Because you obviously bring something to the table besides just purchasing the business because you plan how you work. Is it part of the discussion that happens and you know, what or how that impacts your buy target?

Frank G. Heard - *Gibraltar Industries, Inc. - President, CEO & Director*

Walt, I think if anybody has, the way the questions come up when it does come up in our interactions with management teams if we get that far in a process. In every quarter we filter a lot of different types of businesses and generally, there are. We do get down the road that far. You know, it's never brought up as a concern. I think if anything, when it does come up it's brought up as a positive. That we're thoughtful about funding the businesses. Number one, we're at the table because we have strong interest in the business both strategically and operationally. And primarily, from our perspective, from a technology-based, and we kind of use the 80/20 approach not from a margin-enhancement initiative only, we use it to drive very strategic capital allocation decisions. And if we're here sitting across the table from you interested in your business, in your products, in your end markets, it's because we plan on funding it in a real aggressive way as opposed to spreading that money thinly across a broad range of businesses and products and markets. So I think people view that as a real positive when you're -- if you're a seller and you're going to be part of the business going forward, they like the fact that they're going to be a key part of that capital allocation strategy and probably get a bigger portion of the dollar spent then maybe some of the legacy businesses. So I don't think we've ever had a discussion where people look at it and say the day they buy us is the day that we're going to -- they're going to restructure us and throw a lot of people out of the boat so to speak. I don't think that's the impression.

Operator

Ladies and gentlemen, at this time we have reached the end of the Q&A session. I will now turn the conference back over to Mr. Heard for any closing or additional remarks.

Frank G. Heard - *Gibraltar Industries, Inc. - President, CEO & Director*

Well, thank you, everyone, for joining us on our call today. And we look forward to talking to you next quarter.

Operator

Ladies and gentlemen, thank you very much for your participation in today's conference call. You may now disconnect. Have a wonderful day.
