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ROCK - Q3 2018 Gibraltar Industries Inc Earnings Call

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CORPORATE PARTICIPANTS

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

Frank G. Heard *Gibraltar Industries, Inc. - President, Chief Executive Officer & Director*

Timothy F. Murphy *Gibraltar Industries, Inc. - Senior VP & Chief Financial Officer*

CONFERENCE CALL PARTICIPANTS

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

Stefanos Crist *CJS Securities - Equity Research Associate*

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

PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the Gibraltar Industries' Third Quarter 2018 Earnings Conference Call.

Today's call is being recorded and webcast. My name is Christine, and I'll be your coordinator today. (Operator Instructions)

I would 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 third 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, Chief Executive Officer & Director*

Thanks, David. Good morning, everyone, and thank you for joining us on our call today. We delivered another solid quarter, reporting year-over-year growth on both the top and bottom lines, even as we faced an ever-challenging market. We executed on our four-pillar strategy, managed cost volatility extremely well, achieved growth through innovative products and continued to maintain the momentum we've generated in the renewable energy market.

Our third-quarter revenues of $280 million were up 2% year over year, but short of our guidance range as we faced a challenging year-over-year comparison in the residential roofing and a continuing soft infrastructure market.

At the same time, our GAAP earnings of $0.60 and non-GAAP earnings of $0.71, were at the high end of our guidance. Non-GAAP earnings were up from $0.67 last year. Our bottom line performance reflects our strength as great business operators and our ability to work collaboratively with our clients to manage the continued volatility around raw material cost increases. A growing percentage of new higher-margin, innovative products also contributed positively to our earnings performance.

During the quarter, we also announced the acquisition of SolarBos, an electrical balance of systems provider. Their complementary technology furthers our ability to drive growth in the renewable energy space.

Tim will discuss our segments in more detail, and then I'll return to speak more about our progress on each one of our four strategic pillars.

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

Timothy F. Murphy - *Gibraltar Industries, Inc. - Senior VP & Chief Financial Officer*

Thank you, Frank, and good morning, everyone. Let's move to Slide 4 in the presentation, entitled "Solid Consolidated Results."

We delivered a solid third quarter with GAAP and adjusted earnings at the higher end of guidance, even with continued material cost volatility and end market headwinds.

Consolidated revenues increased 2% year-over-year. Strong growth in the Renewable Energy & Conservation segment and increased demand for innovative products were partially offset by a difficult year-over-year comparison in Residential due to strong storm-related roofing activity in Q3 2017, and lower end-market activity in Infrastructure.

During the quarter, we continued to work with our customers to manage material cost volatility, caused by the steel and aluminum tariffs announced earlier in the year. By fairly allocating price increases by market and by segment, we recovered costs while ensuring that our customers remain competitive.

On the bottom line, our consolidated earnings benefited from strong results in Renewable Energy & Conservation and Industrial and Infrastructure segments, a greater mix of innovative products, effective price/material cost management, and continued benefits from 80/20 simplification initiatives.

Our corporate expenses in the third quarter were $7.7 million in 2018 compared to $2.9 million in 2017. The 2018 expense level reflects normalized performance-based compensation levels.

Now let's review each of our 3 reporting segments, starting with Slide 5, the "Residential Products" segment. Revenues decreased 3% year over year mainly due to a higher level of storm-related activity in the roofing industry a year ago, and softer commercial and multi-family market demand. On the bottom line, operating margin decline was due to unfavorable product mix and volume.

Despite lower storm-related activity this year, we saw a steady customer demand for rain management and roofing accessories across the country. In the Residential segment, we are also leveraging enhanced service levels, which resulted from 80/20 initiatives, to grow market share in new geographical markets.

Turning to Slide 6, the "Industrial and Infrastructure" Products segment. On the top line, a strong performance from the Industrial business was more than offset by continued lower demand in the Infrastructure business, resulting in a 2% decrease in revenues. We continued to see strong demand from our innovative perimeter security solutions in the Industrial business.

On the bottom line, improved operating margins resulted from demand for higher-margin innovative products, alignment of material cost to customer selling prices, and the continued benefit from 80/20 simplification initiatives.

We're encouraged by the momentum we're seeing in the demand for innovative Industrial products such as perimeter security solutions, and increased bidding activities appear to indicate growth in the future in the Infrastructure space. We expect continued profitability in this segment from higher-margin products, effective price-cost management and ongoing 80/20 initiatives.

Now turning to Slide 7, the "Renewable Energy & Conservation" segment. Revenue improvement of 12% was driven by strong domestic demand in the Renewable Energy & Conservation markets, continued success with our innovative tracker solution, and a nearly 2% contribution from our recent acquisition of SolarBos.

On the bottom line, margin improvement primarily resulted from ongoing 80/20 initiatives and volume leverage.

We expect that the SolarBos acquisition will be accretive to earnings in 2019 following its integration. As Frank will detail later in the call, we expect meaningful cross-selling opportunities and an enhanced competitive advantage from the addition of SolarBos to our service offerings.

Please turn to Slide 8, "Capturing the Opportunity." During the quarter, we generated $42 million of cash from operations, primarily from our earnings. With $535 million available to us at the end of the quarter, we are well positioned to execute on our acquisition strategy. We continue to focus on targets with EBITDA of $25 million up to $100 million that would be material to our performance, although we consider smaller acquisitions that can benefit us from a technology standpoint --- such as with SolarBos.

At this point, I'll turn it back to Frank, who will review the progress on our four-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, Chief Executive Officer & Director*

Thank you, Tim. As we approach the end of the fourth year of our transformation, our four-pillar strategy continues to yield positive results. The goal of our first pillar, "Operational Excellence," is to reduce the complexity of our businesses, adjust costs and simplify our product offering through the 80/20 initiatives across the organization. While the majority of our work in this pillar is complete, we currently have active simplification projects across all segments. These include in-lining and market rate of demand replenishment initiatives as well as outsourcing of our "B" products. We expect to realize further benefits from simplification projects during the remainder of 2018 and into 2019.

In our second pillar, "Portfolio Management," we continually evaluate product lines, customers and end markets to best allocate leadership, time and resources to the highest-potential platforms and businesses. The result of this effort is that we now have a product portfolio and target end markets with significantly greater potential for sustainable growth and limited downside risk.

To achieve sustainable growth, our focus is now on our third pillar, "Innovation." Our goal is to drive sustainable growth through products with patent protection, developed internally or through acquired product lines. We are making significant progress in this pillar as you can see from the contribution from innovative products to our Q3 results. During 2018, innovative products advanced to 10% of our revenues, up from 7% in 2017 and 4% in 2014.

To develop these innovative products, teams across our businesses are using trade focus selling and marketing techniques and leveraging our core competencies of engineering, manufacturing and installation. By identifying our customer pain points and developing new, patented products to address these issues, we are shifting to higher-margin businesses with solid organic growth opportunities. In addition to the Solar Tracker and Perimeter Security solutions, which drove growth during the quarter, our teams are developing several new market opportunities that should enable us to accelerate profitability in 2019 and beyond. We're quite pleased with the progress our teams have made, and look forward to updating you on additional innovations in the quarters ahead.

Finally, our fourth pillar is growth through "Acquisitions," which is an important part of Gibraltar's ongoing transformation. Our acquisition of SolarBos, a privately-held provider of electrical balance of systems products for the U.S. solar and renewable energy market, is a good example of a small deal that provides us with excellent technology. And SolarBos' projects -- products are complementary to RBI's offerings and give us the opportunity to capture up to 30% more revenue on the solar projects we already participate in. It also opens up larger-scale projects for us. By integrating SolarBos's products with RBI's offerings, we'll deliver higher value solutions to our customers, enabling them to reduce both labor duplication and design complexity for their solar projects. We see the SolarBos technology delivering a material contribution to our domestic solar business in 2019 and beyond.

Our target acquisition markets continue to be postal and parcel solutions, residential building products, perimeter security, infrastructure, Renewable Energy & Conservation. We have a strong acquisition pipeline and our executive team continues to invest time and energy in the prospecting and vetting process. We remain committed to only making acquisitions that will contribute long-term value to Gibraltar and his shareholders.

Please turn to Slide 11 for "2018 Guidance." We have delivered solid performance so far in 2018, and with one quarter left we continue to expect 2018 sales in excess of $1 billion. But are lowering our revenue growth expectation from between 2% to 4% to between 1% and 2%, considering current activity levels.

At the same time, we're narrowing our earnings guidance to the high-end of our previous range, with GAAP EPS to be in the range of $1.82 and $1.87 per diluted share, or $2.03 to $2.08 on an adjusted basis. We continue to be optimistic about innovative products driving organic growth across all our segments, and we are confident in the end markets they participate in. However, we expect continued domestic and global material cost volatility related to the impact of tariffs. For the fourth quarter of 2018, we expect revenues between $239 million and $249 million, down from $257 million in Q4 2017, when unseasonable weather allowed both the Residential Products and Renewables and Conservation end markets to sustain higher activity levels later into the year. We expect consolidated GAAP EPS between $0.26 and $0.31 per diluted share, and on an adjusted basis, we expect earnings per share between $0.35 and $0.40. Our goals are to drive sustainable growth through the acceleration of new product development initiatives, to implement 80/20 simplification projects, to work with our customers to manage cost volatility, and to seek value-added acquisitions in attractive end markets.

In closing, with continued benefits from our four-pillar value creation strategy, particularly in the 80/20 simplification and innovation efforts, we expect to mitigate market headwinds and continue to drive momentum in growth and profitability. And of course, we expect to continue to deliver on our promise to make more money at a higher rate of return with more efficient use of capital, and create long-term value for our shareholders.

I'd like to thank our customers for their continued business, the Gibraltar team for executing and furthering our transformation, and our shareholders for their continued support.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from the line of Ken Zener with KeyBanc.

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

Understanding the weaker comp for your sales revision in 4Q, is there a way to think about the magnitude, perhaps on a two-year stock basis? Because res (Residential) was up 13, Renewable was up 34. I mean, just to make sure we don't get the volatility wrong. Is it -- is most of that decline coming from Renewable? I assume in terms of your vision or is it?

Timothy F. Murphy - *Gibraltar Industries, Inc. - Senior VP & Chief Financial Officer*

Ken, I think -- as we thought about what the fourth quarter looks like, last time we gave guidance, I would say -- and as we gave guidance for the third quarter, I'd say, the slowdown in Residential and the Infrastructure piece, in that order, is where we saw the shortfall this quarter. And I would say that from expectations, we think that Renewable & Conservation is right around where we expected it. Last year, there was a significant over-performance. We also expected Residential to come down. I think with what we saw in the third quarter, we pulled Residential a little bit more.

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

Okay. And now you obviously delivered a very strong quarter in Renewable margins. Which is -- it's not an area of my expertise, but is there -- is that really about your process? If I were to think about your very good 15% margin there. Is that about what you guys are doing internally in terms of controlling the bids? Doing it more cost efficiently? And/or talk about the industry participants that are increasingly more rational, especially in a higher steel cost environment. Could you kind of just lay that out for what you guys are doing as opposed to what you're seeing in the broader landscape of competition?

Frank G. Heard - *Gibraltar Industries, Inc. - President, Chief Executive Officer & Director*

Yes. I think we do -- I think it's all of the above. I think if we picked any one of those elements and that was the only element then we probably wouldn't have the performance -- the sustainable performance that we enjoy today and expected when we bought the business.

RBI is the combination of a couple of businesses. In terms of Renewable Energy on one side and Conservation with the greenhouse initiative on the other side, and that's what we report. And by and large, not a lot of material differences in terms of relative performances. So it's not like one is dragging the other up dramatically on a given day.

So that is different operationally. And it provides additional benefits in terms of the back-end side of the business. The front-end, it gives us a couple of different markets to work in, in terms of two different types of rising tides. But the back-end, it also gives us an opportunity to leverage similar services, like finance and HR, the typical overhead ones, but also the operational side of making and buying products. So that -- I would think that would be a unique business model relative to our typical competitors in the solar industry. On the front-end, we're also different. We don't target -- a lot of our competitors would be heavier weighted than we would be in larger scale projects, where we primarily have historically focused with fixed-tilt and small-scale community solar with an average size of a couple of megawatts. The introduction of our tracker system, by and large, is small-scale as well. It's much larger than our fixed-tilt, it's probably up more 5 or 6 megawatts, but that's just by the nature of the product. Whereas most of our competitors -- and we do it with a broader value proposition because we're smaller scale. We do design work in terms of the site, we do engineering work in terms of soil testing, we do manufacturing design, structural design work, and then we do the manufacturing. And in a high percentage of the jobs, we do the actual install because we own our own pile drivers. When you get into large-scale projects, that were primarily driven by tracker only, they are more material-only jobs, which -- lends itself to tighter margin profiles and obviously, much higher volumes. But -- and I would say, the last piece is on the back-end, we manufacture some of the key elements in terms of the 80-run items on the structural side that maybe a lot of our competitors would third-party outsource for their own reasons at around price, service and quality. But the -- so I think the combination of all those things makes us uniquely different, and I think it results in the margin profile that you see today, that's a lot more sustainable going forward and what we expected when we bought the business.

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

That is something different.

Frank G. Heard - *Gibraltar Industries, Inc. - President, Chief Executive Officer & Director*

[How are competitors are unique?] I think they're doing different. I'm not going to speak to their financial performance. But I think they're materially different.

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

Right. But it certainly sounds like your confidence is still there, which is very...

Frank G. Heard - *Gibraltar Industries, Inc. - President, Chief Executive Officer & Director*

In fact, I think, the last thing, and Tim kicked me under the table here, is that on the back-end of the business, we've also benefited in taking this business with all those uniqueness in applying the 80/20 process and have really helped it along as well. So yes, -- we're absolutely -- we're very pleased with the acquisition on the solar side, and we see the end market demand continuing to build now going forward after the market had a couple of down years, even though we didn't. So we see a rising tide that's going to be material going forward. And to be quite honest, we're extremely pleased with the greenhouse side and its ongoing contribution and its potential going forward. So it's an exciting group to spend time in, lots of things to work on, and they're doing well, so good leadership team.

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

Well, I appreciate that. If I could -- just last question. Industrial is, in many ways you shrunk it a lot as you walked away from businesses in the prior two years. It looks as though, your Industrial products, you guys are saying it was good, with Infrastructure being the drag. However, with -- to me this perhaps could be the first segment where you're really seeing your internal initiatives. I know you talked about perimeter applications. Does this business -- because margins are up nicely year-over-year, and just -- the trend has been good. Is this a business where if you're seeing growth, we could really kind of see consistent, let's say, 30% incremental margins if -- with the portfolio that you're building?

Frank G. Heard - *Gibraltar Industries, Inc. - President, Chief Executive Officer & Director*

I think it's been a lot of work on the portfolio and on the 80/20 side, as you pointed out, to get this asset, and this group of people to a place where they had a chance to reinvent themselves. And I think they're using the perimeter security initiative to leverage past investments and doing it in a way that is a broader value proposition than just selling bent metal to steel wholesalers. They're working with end markets and developers of projects in terms of perimeter security, which allows them to bid on the project in a broader value proposition. So yes, it's not -- obviously, its early days, but they made a couple of positive steps towards reinventing themselves. And we know the end market, in terms of the perimeter security market has a margin profile, the gross margin and the net margin level, that's much higher than Gibraltar as a corporation today. We're a long way -- so we know the goal is attractive. We're a long ways from getting the distribution and revenue large enough in perimeter security to show those margins, but to your point, some nice positive progressive steps, and we're supportive of their progress and active cheerleaders, because this has been -- this is a group that's gone through some tough times and a lot of hard work. So...

Operator

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

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

Just wanted to -- just a couple of follow-ons to the last question. What does it mean that perimeter security is making positive steps? Did they win some jobs? Or is that their funnel is building and you've got some high hope for them?

Timothy F. Murphy - *Gibraltar Industries, Inc. - Senior VP & Chief Financial Officer*

Year-over-year growth and funnel and quality. So I'd say all of the above. I spent some time with a specific team on the perimeter security show and they're -- I would describe them now as fully engaged and a player in the industry. Still small but encouraging.

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

Okay. And you make it sound like there's an opportunity here. Like you -- they could -- if they win a couple more they could have some big jobs to come through for next year?

Frank G. Heard - *Gibraltar Industries, Inc. - President, Chief Executive Officer & Director*

To my earlier comment, we've done a lot of research in the end market relative to the size of the market. And the North American market is probably somewhere around $1 billion, made up of variety of product and service segments. And we know it's at a margin profile that's extremely attractive from a technology perspective and a return perspective. So -- and what our guys are trying to do is leverage some past experiences and some past assets and technology to get -- to enter that space, and they've done -- first year, they did a lot of good work around product development and making sure they had a unique system in terms of fencing products with some patents around them. And then in the past year, they were -- back-end of that year -- building out the right type of skill sets in terms of specification engineers, and sales force and a supporting type of service to be able to enter the market and be able to support more of a direct selling activity towards project developers along the same line as what RBI does as a structural engineering company. So this particular initiative, there's no channel steps in between, we speak specifically with developers and owners of property that have to harden up all their various assets across the country. So it provides a higher margin opportunity with a broader range of products and services. And to Tim's earlier point, growth and revenue, growth and profitability and a much fast-growing backlog of job opportunities in a very large market opportunity. So early days, but we've seen some progressive steps in terms of numbers, and the type of activity to make it sustainable. So pleased with the progress.

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

Okay, great. And if I could clarify one thing related -- Tim, in your comments, you said there's a funnel of infrastructure projects, were you referring to perimeter security? Is there other things going on like in the bridge bearings or something else?

Timothy F. Murphy - *Gibraltar Industries, Inc. - Senior VP & Chief Financial Officer*

Yes, yes, so on the Infrastructure side of the business, there's been a little bit of a shift in the market from projects being -- by the time they come to market, they're already designed, to states going to contractors and having to do some design build work. And what we found is when we're bidding on those projects, it take -- there's a longer time to actually get through the process, to get to market where we then would be signing the contract and producing. So we're -- they're in our pipeline, they're involved, but there's a lot of design back and forth between the state and the design firm prior to our getting the contract. So we see an increased level of projects basically waiting to get to the next level, where -- which is where we participate contracts being signed.

Frank G. Heard - *Gibraltar Industries, Inc. - President, Chief Executive Officer & Director*

And think what we've seen, Walter, is that as states got through their funding and matching challenges in the first year of the FAST Act into the second year, they started to shift the allocation of their funds towards large-scale projects. And to Tim's point, large-scale projects can be multiple year projects in terms of -- from the bid process to the win process to the design, engineering and also -- and then the building and the install. So -- and if you looked at our types of bidding activity, and I saw a number the other day in our notes that year-over-year our bid -- the value for our bid activity, primarily driven by the size of the projects, not necessarily the number of bids, has more than doubled. I think it's gone from $43 million to above $90 million in terms of activity. So to get that -- and that's, like I said, that's driven by the shifting of the type of jobs that people are starting. They're actually starting to look at building bridges as opposed to filling pot holes. One's short-term repair, you'll try to keep the thing up versus, hey, we're going to do some major renovation work or we're going to build a new bridge. And to Tim's point before, we're at -- our products are at the tail-end of that building process, right?

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

Okay. So the timing, sounds like it -- if I hear you right, the timing would be spring next year as some of these projects get going?

Timothy F. Murphy - *Gibraltar Industries, Inc. - Senior VP & Chief Financial Officer*

Yes, it's harder to say when. We're working through with our customers to find out, did we win the job and then, once we win the job, when you need it delivered.

Frank G. Heard - *Gibraltar Industries, Inc. - President, Chief Executive Officer & Director*

But I think, we all were certainly hopeful that we would expect to start seeing things in late spring mid-year that would demonstrate a different level of performance and what we've seen over the last couple of years.

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

Okay, okay. Just a quick one for Tim, the tax rate you're using for the fourth quarter?

Timothy F. Murphy - *Gibraltar Industries, Inc. - Senior VP & Chief Financial Officer*

We didn't disclose a specific tax rate, Walter. We've been experiencing some discrete tax benefits around comp that we don't expect to have too much of an impact in the fourth quarter. But I will caveat that by saying, somewhat it depends on the stock price on the day that things vest and that's why it's hard to predict. So I would say, if you used a rate consistent with what you've seen so far you probably wouldn't be far off.

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

Okay, okay. And then, Frank, one for you, and I'm really interested in this one is, you've been around the construction markets for your entire career, if I'm not mistaken. And the residential markets, I think, if -- there's some worries about interest rates moving up and housing, labor shortages and things. Where do you think we are in the cycle? Like, are we near the end? Or is this something where you think there's enough demand where we could go on for a couple more years? And we're just hitting it low in some tough comps? Like, where are we in this cycle? How are you positioning the business based on what you know?

Frank G. Heard - *Gibraltar Industries, Inc. - President, Chief Executive Officer & Director*

I think that we're certainly towards -- closer to the end of -- closer to the top of the cycle in terms of what the target replacement single and multifamily requirements would be on a year-over-year basis. People would always argue that we're under-producing for such a long period of time, there must be a lot of backlog. And I'm not sure that, that's that relevant. So listen, in my last term in my past life I think I was in a group that that housing starts were 450,000 to 500,000 a year, and now we've more than doubled that. So I think the sustainable number that I've heard thrown around then and now is 1.3 million consolidated. So I think you can draw your own conclusions. If we ramped up fairly quickly from 450,000 to north of one million, how much is left in that runway to get to the sustainable number? And then it's basically the broader economic activity of the market as a country that sort of decides whether that number continues to shift up or whether it starts to drop off and the relative changes between people buying houses 7 to 10 years ago versus the demographic of the buyer today. So that's -- my view is, we're closer to the end, I just don't know where the end is. We're certainly not close to the beginning. That is consistent to what you're thinking.

Operator

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

Stefanos Crist - *CJS Securities - Equity Research Associate*

This is Stefanos Crist calling for Dan Moore. Couple of quick questions. Can you update us on the tracker products in solar and about feedback coming from real customers?

Timothy F. Murphy - *Gibraltar Industries, Inc. - Senior VP & Chief Financial Officer*

Yes. We're happy with the project -- with the process and progress we're making with the product. We haven't officially launched it yet, it's not available to sale to any customer, but we have been working with a select group of customers. They continue to ask for more of the product and more projects. So happy so far and happy with progress to date. We see a bright future in it.

Stefanos Crist - *CJS Securities - Equity Research Associate*

Great. And do you have any projections on tracker versus fixed-tilt, where that could be a couple of years from now?

Timothy F. Murphy - *Gibraltar Industries, Inc. - Senior VP & Chief Financial Officer*

It's -- so the broader market. Tracker is by far the biggest megawatt installation. In our business, historically, we were all fixed-tilt up until towards the end of last year, when we did a couple of tracker projects in the second half. So I guess, we don't necessarily know what the market is going to do. I guess what we would think is, however, the market moves we would expect continued growth in both sides of the market. I don't know what rate. There's various estimates out there from GTN and a few other industry groups put out research. I think what we look at, we just see growth in total. Each project is specific, so depending on the ground conditions, the geography, the wind load, the snow load, the size of the project and what the developer is comfortable with, they make a decision between tracker and fixed-tilt. And what our product service offering today, we can offer either. So we just see it as an opportunity for additional growth for us. I think the other thing that is really encouraging in the solar space, and this is again in general, at the beginning of the year, at the end of last year, there was the Suniva trade case. There's a 25%, 30% tariff on panels coming in. There was -- concern that, that would drive panel prices up and really dampen the market. I think, third quarter last year, panel prices were short of mid-$0.50 range. We're hearing from customers now that they're bringing them in for in a neighborhood of $0.30 a watt. So the tariffs have not had a -- I mean, they've had some negative impact because they'd be lower without them. But certainly, from a market perspective, the cost to generate energy from solar continues to drop pretty significantly.

Frank G. Heard - *Gibraltar Industries, Inc. - President, Chief Executive Officer & Director*

And that's, obviously, created a public forecast that says after a couple, a significant declining year from '16 to '17, and then, a flat year from that lower number of '17, '18, the forecast over the next 4 years is materially up on a broader market opportunity. And I think the other thing -- I just want to add, that maybe it will help you a little bit, and we've said this publicly before, the tracker project was one of four innovation kind of initiatives that we started with perimeter security and lockers, and StealthBond was another one. And we said that we qualified all those that they would have to have the opportunity to generate $50 million by year three. And hopefully, then grow in a sustainable way after that. Certainly, the tracker initiative is demonstrating that it has that ability, and we started with test launches in the fourth quarter last year. We've more than doubled that early on year-to-date, and we -- our long-term goal is that I mean we're at the bottom end of a tracker space, which is more than twice the size of the fixed-tilt space, and we play at the bottom end of the fixed-tilt space, certainly, the tracker product, if we get our proportional share, should be as large as our current fixed-tilt business. So somewhere between $50 million and something much larger than that, we believe, is the opportunity if we -- if the technology continues to displace other competitive choices in our target market which would be slightly larger than the fixed-tilt community solar space. So our people are doing a nice job, we're getting really positive feedback from our customers, our original customers we are doing multiple jobs for them. It's not like where we sold one-offs to broad range of people and they're all disappointed, in actual fact that is, the opposite is the case.

Stefanos Crist - *CJS Securities - Equity Research Associate*

Great. And then one more question. So you mentioned your primary focus for capital allocation is M&A. What are your remaining priorities, especially with the recent pullback in share price?

Frank G. Heard - *Gibraltar Industries, Inc. - President, Chief Executive Officer & Director*

I think we -- our board, we continue to have discussions and it's primarily their responsibility to -- and we have a very specific group of people within that board that helps review our capital allocation strategy. I think we continue to land on, our first priority is, obviously, we got to reinvest in the businesses we own today, just from a capital support, and that's a fairly modest number now. We generate a lot of cash and most of that is being set aside to ensure that we continue to have dry powder for more material acquisitions that would accelerate our transformation. But even in that context, we're now at a stage where one could argue that whether it's a share buyback, whether it's a one-time dividend, whether it's paying off our debt, whether it's -- all those things now. There's probably enough cash generation. Whereas, maybe in the past, it would have been an either or. I don't think -- I think we've made enough progress and continued momentum that, that committee would probably consider, not just an either or strategy but has the option of doing something else in addition to maintaining a capital structure that would allow us to pursue large-scale acquisitions. So that's a different position than I think where we were before, but certainly, the majority of our intent is on the acquisition side which hasn't changed.

Stefanos Crist - *CJS Securities - Equity Research Associate*

Right. One more question. How is backlog or just like pipeline of opportunities evolved in the cannabis-related portion of the greenhouse business? And is there any way to frame how big of an opportunity this is?

Timothy F. Murphy - *Gibraltar Industries, Inc. - Senior VP & Chief Financial Officer*

Well, I could give you some market estimates. We think that the greenhouse business today is probably a $360 million market in total. And we think that that could grow to $450 million-ish in 5 years. And we think most of that growth is driven by cannabis opportunities. And so I think from a growth perspective, we think there's a long runway of growth, especially as in the U.S. market, its state-by-state on a licensing basis. What we have seen is that, states will do their vote, get their law sort of set. Then they have to go through a licensing process. There is a selection process they go through. They select licensees. Then they go to how are we going to administer this program. So the process in the states is a little bit longer than you might expect from when they actually sign a law saying "medical is going to be legal," "recreational is going to be legal." It still takes a while for the legislators to work through all of the issues around that. But we see it sort of state-by-state. California went recreational earlier this year (and) the amount of inquiries we get from California is almost overwhelming and the caveat that I'll throw on that is you have to qualify them because these aren't prior customers. And so we have a process that we go through when we get an inquiry to find out if it's somebody who is serious about investing in a greenhouse or if it's somebody who just thinks, "oh, boy, that would be cool." And the market -- it's a brand new market, in it every range of customer comes to us. But yes, pipeline is growing, backlog in those projects continues to grow, so we're encouraged. I mean, we're in the middle of it. We have a team that's focused everyday on customers in that space because they're a little bit different than our historic growers of botanical gardens who may have been in the same industry for their entire career.

Frank G. Heard - *Gibraltar Industries, Inc. - President, Chief Executive Officer & Director*

Yes. And I think the thing I would add is, as Tim spoke very specifically about the fact that everything is going to ultimately end up in a greenhouse on a fast-growing market as it legalizes like in Canada, it will eventually in the U.S. as well. It's going to be 10 times the opportunity. So I think from that perspective, we're in a great position in that it's -- it's moving from outdoor grow into indoor grow, into a greenhouse, because outdoor grow is low cost, low quality; indoor grow is high cost, high quality; and then greenhouse is low cost, high quality. So we're in a good spot to capture, and in effect, we own the shovel during the gold rush to some degree I guess. But that's one aspect of what our team is focused on. The broader aspect that they're focused in on is, we know -- all flowers are going to be growing ultimately in a greenhouse, we've got expertise to design the environment, and build a structure around it to control that environment. But we also know that the product, there is some technology that goes in the greenhouse that we don't participate in today. There's security that goes around it that we have ability to impact through another business, energy is one of the 2 largest pain points - we happen to have an energy-related company. And then there's downstream as the product is genetically engineered and grown in our greenhouse, then there's various technology use for extraction that gets various levels of CBDs and THC levels that go into whether it'd be a medical-based product or in a recreational-based product and there's a lot of different packaging, delivery, testing and measurement types of systems and technologies that go into that, that we don't participate in today. So we view cannabis market as much larger than just a greenhouse. And that's where we're spending our time to try to figure out where other than the green house side, should we be participating in from an innovative technology perspective. So early days, but I've personally sat in a couple of those strategic thinking conferences and done tours of various type of technology companies that we are not involved in today and it's an exciting space. So -- but early days in the transformation, but certainly, this market is going to end up in the same legalized state as, I think, other countries like Canada, is our opinion so...

Operator

We have reached the end of the question-and-answer session. I will now turn the conference back over to Mr. Heard for any additional or closing remarks.

Frank G. Heard - *Gibraltar Industries, Inc. - President, Chief Executive Officer & Director*

Well, thank you, everyone, for joining us today and that concludes our call.

Operator

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