

23-Oct-2024

Valmont Industries, Inc. (VMI)

Q3 2024 Earnings Call

CORPORATE PARTICIPANTS

Renee L. Campbell

Senior Vice President-Investor Relations & Treasurer, Valmont Industries, Inc.

Avner M. Applbaum

President, Chief Executive Officer & Director, Valmont Industries, Inc.

Thomas Liguori

Chief Financial Officer & Executive Vice President, Valmont Industries, Inc.

OTHER PARTICIPANTS

Christopher Moore

Analyst, CJS Securities, Inc.

Nathan Jones

Analyst, Stifel, Nicolaus & Co., Inc.

Brent Thielman

Analyst, D.A. Davidson & Co.

Brian Drab

Analyst, William Blair & Co. LLC

Jon Braatz

Analyst, Kansas City Capital Associates

Thomas L. Hayes

Analyst, C.L. King & Associates, Inc.

MANAGEMENT DISCUSSION SECTION

Operator: Greetings and welcome to the Valmont Industries Incorporated Third Quarter 2024 Earnings Conference Call. At this time, all participants are in a listen-only mode. A question-and-answer session will follow the formal presentation. We ask that you please limit yourselves to one question and one brief follow-up and return to the queue. [Operator Instructions] As a reminder, this conference is being recorded.

I would now like to turn the conference over to your host, Renee Campbell, Senior Vice President, Investor Relations and Treasurer. Thank you. You may begin.

Renee L. Campbell

Senior Vice President-Investor Relations & Treasurer, Valmont Industries, Inc.

Thank you, and good morning. Welcome to Valmont Industries third quarter 2024 earnings call. With me today are Avner Applbaum, President and Chief Executive Officer; Tom Liguori, Executive Vice President and Chief Financial Officer; and Tim Francis, Chief Accounting Officer.

This morning, Avner will provide a summary of our third quarter results, current market dynamics and strategic priorities. Tom will review our third quarter financial performance and provide our outlook for the year. This will be followed by Q&A. A live webcast of the presentation will accompany today's call and is available for download from the webcast or on the investors site at valmont.com. A replay will be available on our website later this morning.

Please note that this call is subject to our disclosure on forward-looking statements, which applies to today's discussion is outlined on slide 3 of the presentation and will be read in full at the end of today's call. Finally, to

stay updated with Valmont's latest news releases and information, please sign up for e-mail alerts on our investors site. We also invite you to follow Valmont and our brands on the social media channels linked on our website.

With that, I would now like to turn the call over to Avner.

Avner M. Applbaum

President, Chief Executive Officer & Director, Valmont Industries, Inc.

Thank you, Renee. Good morning, everyone, and thank you for joining us. I'd like to begin by extending our thoughts to everyone impacted by Hurricanes Helene and Milton. Our top priority during events like this is always the safety and health of our employees. I'm relieved all our employees are safe, and I'm incredibly proud of our local leaders for providing resources and assistance where possible. Although a few of our facilities encountered brief interruptions, we do not expect any disruption to our overall operations in the fourth quarter.

We're also focused on helping our customers recover from the hurricanes. Our infrastructure teams are working to help restore damaged structures and assess future needs. And our agriculture teams are assisting Valley dealers to repair and replace damaged irrigation equipment. I'm proud of our team's swift and compassionate response to local needs during this difficult time.

Now, turning to key messages on slide 5. We delivered another quarter of solid performance, growing operating profit and expanding operating margins year-over-year despite lower sales. Our results were driven by effective commercial and operational execution, pricing discipline, and a fundamentally improved cost structure. This reflects our focus on key areas to enhance profitability and return on invested capital.

We also generated strong operating cash flows of \$225 million, further strengthening our balance sheet. I want to extend my thanks to our global team of more than 11,000 employees for their dedication and hard work in driving these accomplishments. Their collective effort has been instrumental in not only delivering a successful quarter, but also laying the foundation for our future success.

Building on that, I'm excited about the long-term outlook for our business. To drive growth, we've intentionally aligned with customers and markets positioned to benefit from multiyear secular megatrends. With strong competitive advantages and a focus on customer-driven innovation, our core businesses are well-positioned to outpace market growth as these trends continue.

This quarter, we filled key roles on our executive leadership team through strategic hires and an internal promotion. This includes Tom, who joined us on today's call, and I will share more details shortly. We're making solid progress on our strategic priorities. We streamlined the organization to be more efficient and productive, while also structurally reducing our costs.

We focus our go-to-market strategy on high return opportunities, and we're effectively managing working capital to maximize cash flow to support our capital allocation framework. This continuous improvement mindset is creating a high performance culture driving results and increasing ROIC. While I'm encouraged by the progress we've made on our strategy, there's still work to be done. I'm energized by the strength of our leadership team and confident in their ability to further advance its execution.

Turning to slide 6 for current market dynamics and long-term megatrends for infrastructure business. Starting with utility, we were very pleased with the strong growth this quarter on a prior year and sequential basis. Utility CapEx spending has increased to meet load growth expectations and is expected to remain elevated for many years.

Key factors like electrification, industrial development and the rapid expansion of data centers are driving the need to upgrade existing systems and invest in new capacity.

At the same time, utilities are investing in resiliency to combat aging infrastructure and be better prepared for extreme weather. Some of our customers better withstood the challenges posed by the recent hurricanes, highlighting the continued importance of proactive grid investments.

Turning to our lighting and transportation business. Sales were lower this quarter. While some of the decline was due to market factors and timing of projects, we also see clear opportunities to improve execution moving forward. On a positive note, order rates for our US transportation business are trending higher year-over-year, driven by DOT infrastructure investments. We expect this favorable trend to continue further enhanced by IJA funding.

Turning to lighting. Our business historically lagged-single family housing starts by about 12 months. So while these markets remain soft in the near-term, we expect our business to recover with the housing market rebound and continued suburban sprawl.

Turning to telecommunications. We were pleased to see sales growth this quarter. Wireless carriers have returned to more normalized spending levels, which are expected to remain above previous cycles. This signals steady demand as we look ahead to next year. Over the long-term, the adoption of advanced technologies such as 5G and more connected devices will require a more robust network. We're well-positioned for growth both in the US and key markets abroad.

In solar, sales were lower, partially due to the de-selection of certain low margin projects, which we announced last quarter. We're also seeing some near-term lumpiness as we adapt our strategy to market changes. Looking ahead, we're focused on selling our solar tracker solution, where we're confident in our competitive advantages for distributed generation and select utility scale applications. Finally, our coatings business generally aligns with GDP trends of the regions we serve while supporting our internal production.

Turning to slide 7 for current market dynamics and long-term megatrends for the agriculture business. North America sales were slightly lower. Last month, the USDA released an updated estimate for 2024 net farm income, which continues to show a decline from 2023. They also forecast that current average crop prices will be lower than last year. Notably, corn prices have declined 37% over the past two years and soybeans are down 24%, which continues to weigh on grower sentiment.

Turning to international markets. Farm income in Brazil remains under pressure due to lower soybean prices, but we're encouraged by an improvement in order entry compared to last year. Brazil remains a key component of our long-term growth strategy. Currently, only 10% of Brazil's agricultural land is irrigated, with the potential to expand nearly six-fold, unlocking significant opportunities for growth in the irrigation industry.

Center pivot offers a compelling return on investment, increasing profitability for growers and creating growth opportunities for us. Our international projects are progressing well, especially in Egypt and the Middle East, with a robust pipeline ahead. Growing population and geopolitical tensions have elevated concerns about food security driving increased demand for these projects.

Turning to slide 8. I'm excited to announce the key additions to our executive leadership team, starting with Tom Liguori, who has joined us as CFO. Tom brings over 30 years of finance experience, including previous CFO roles at Avnet and Advanced Energy, where he successfully led global finance strategies that have drove growth,

increased profitability, and improved working capital. I'm excited to partner with Tom as we work together to execute our strategy.

I also want to take a moment to thank Tim Francis for stepping in as interim CFO. Tim will continue to play a crucial role within our finance organization as Chief Accounting Officer. I'm also pleased to announce that Darryl Matthews has been appointed Group President of Agriculture. Darryl was well-regarded ag industry thought leader with expertise in global markets and dealer channel management. His leadership at Trimble, where he played a key role in advancing agriculture technology, will be invaluable as we execute our strategy for industry-leading mechanized irrigation solutions.

In addition, I'm excited to share the promotion of Jennifer Paisley as Senior Vice President of Human Resources. With over 20 years of HR experience, including seven years at Valmont, Jen has consistently demonstrated strong leadership and a deep alignment to our core values, making her the ideal choice to lead our HR function. With these appointments and the strength of our existing executive, we have the team in place to lead Valmont forward. Each decision has been intentional, ensuring we have the right talent in place to align with our strategic goals and uphold our culture.

To summarize, our long-term growth outlook for both infrastructure and agriculture remains strong. We're well-positioned in enduring markets with sustained multiyear demand drivers. With a sharpened strategic focus, we're ready to capitalize on growing infrastructure demand, which will enable us to further expand margins. In addition, we remain optimistic about our growth potential in our agriculture business as the market recovers to capture future opportunities and continue delivering value to our shareholders.

Now I'll turn it over to Tom for our third quarter financial review and an updated 2024 outlook.

Thomas Liguori

Chief Financial Officer & Executive Vice President, Valmont Industries, Inc.

Thank you, Avner, and thank you for having me as part of your team. Good morning, everyone. Overall, we are pleased with the financial results this quarter. Revenues were in line with expectations. Operating margins once again increased year-over-year as we were disciplined and pricing, exited lower margin businesses and controlled our cost. Cash flow was a very healthy \$225 million. And I want to congratulate the team and their hard work in this area. We know there is more we can and will do in revenue growth and operating margin expansion. So we believe our financial results show that we are on the right path.

Turning to slide 10. My comments will focus on our actual third quarter results compared to last years, which are on an adjusted basis excluding non-recurring items. Net sales of \$1 billion decreased 2.9% compared to last year. By region, sales increased in our North America markets by 2.9%, largely due to growth in our utility and telecom businesses. International sales declined primarily in agriculture due to lower sales in Brazil and also in our infrastructure segment, mostly due to lower solar sales. Our international businesses are very important to Valmont, and I want to thank our international team for controlling cost and managing cash flow during this period.

Operating income increased \$4.9 million to \$125.7 million in the quarter. Operating margin improved a healthy 80 basis points to 12.3% of net sales. While our gross margin slightly declined due to lower margin in international agricultural projects, the decline was more than offset by lower SG&A costs. Our team's efforts to control expenses and streamline the cost structure are having a favorable impact on our profitability.

Earnings per share of \$4.11 were similar to last year. The benefit of improved operating income and a 4.2% lower share count from share repurchases was offset by foreign currency losses and a more normalized tax rate, as one-time tax benefits were recognized in 2023.

Turning to the segments on slide 11. Infrastructure sales of \$758.6 million increased slightly year-over-year, and operating income grew 14.5% to \$123.7 million. Significant growth in utility and telecom was largely offset by lower sales in L&T and solar.

Our utility business grew nearly 15% year-over-year to \$342.4 million and now contributes a third of our revenues. Product mix continued to trend towards distribution, substation and smaller transmission structures consistent with recent quarters. Average selling prices for utility products were higher year-over-year and contributed to higher operating margins. Overall, we are extremely pleased with performance of this team.

Lighting and transportation revenues of \$229.2 million declined 9.3% year-over-year. Revenues were impacted by market softness in lighting, the strategic exit of some lower margin products and transportation project timing. As Avner mentioned, we're encouraged by higher order rates in our transportation business and expect our lighting business to recover as the housing market rebounds.

Coating revenues were relatively flat year-over-year. Growth in North America was offset by lower sales in international markets. Our telecommunications business grew close to 8% year-over-year, while carrier spending in North America rose modestly. Our initiatives to ensure we have the right inventory at the right place for quick turnaround of customer orders are paying off.

Solar revenues declined \$21.3 million or 38.1% year-over-year, due to large international utility scale project in 2023, that did not repeat this year and our decision to exit lower margin projects. Our solar team is nearing completion of a product redesign for our go-forward business. We expect solar revenues to remain at current levels for the first half of 2025 and show growth in the second half. Across the segment, pricing and mix were favorable. Infrastructure operating income increased to \$123.7 million or 16.3% of net sales, a 200 basis point improvement. This was driven by the growth in utility and telecom, improved pricing in most markets, lower SG&A expenses and lower steel costs.

Moving to slide 12. Agricultural sales of \$265.3 million decreased 11.1% year-over-year, and operating income decreased 25% to \$28.9 million. In North America, irrigation equipment volumes were slightly lower, as continued soft demand in agricultural markets was partially offset by an increase in replacement sales as a result of the Midwest storm events during the second quarter. Average irrigation selling prices were similar to last year.

International sales decreased, primarily driven by lower sales in Brazil, as lower grain prices are impacting growers' buying decisions. This was partially offset by growth in the EMEA region and the contribution from the HR Products acquisition that was completed in third quarter 2023. Agriculture operating income decreased to \$28.9 million or 11% of net sales, a 200 basis point decline. The benefit of reduced SG&A expenses was offset by the impact of lower volumes and a higher mix of project sales.

Turning to cash flows and liquidity on slide 13. Third quarter operating cash flows were strong \$225 million, bringing the year-to-date total to \$379 million. We ended the quarter with approximately \$200 million in cash. We expect cash flows to moderate in the fourth quarter as our biannual bond interest payment is due, and we will be incurring additional CapEx as part of our capacity expansion program.

During the quarter, we reduced borrowings on our revolving line of credit by \$120 million, bringing the total year-to-date net reduction to \$210 million. Net debt to adjusted EBITDA is now 1.2 times. Our cash balances, available credit and flexible balance sheet provides us ample liquidity to execute our capital allocation strategy.

Turning to slide 14 for a summary of capital deployment. Year-to-date capital spending was approximately \$54 million. Our infrastructure operations team is making progress on capital projects to expand our production capacity. Our acquisition strategy is focused on opportunities that fit within our strategic priorities, expand our market and product reach and contribute to earnings growth. We will be very selective in the M&A process to ensure a healthy ROIC and accretive earnings.

Returning cash to shareholders is a core foundation of our capital allocation. So far this year, we've returned \$91 million of capital to shareholders through dividends and share repurchases. Over the past 12 months, that total reaches \$283 million. Additionally, \$81 million remains available under Board-approved repurchase program.

Turning to slide 15. Our 2024 outlook remains unchanged. Full year net sales are expected to decrease between 1.5% and 3.5% compared to last year. Turning to infrastructure. Full year net sales are expected to be between flat to up 1.5% compared to prior year. As mentioned last quarter, infrastructure gross margins in the second half of this year are expected to be lower than the first half as steel costs become more aligned with contractual steel index pricing to our customers.

In agriculture, full year net sales are expected to be down between 10% and 15% compared to prior year. As mentioned last quarter, the higher mix of international projects which have lower margins will reduce fourth quarter segment operating margins. Diluted earnings per share are expected to be in the range of \$16.50 to \$17.30.

In summary, our third quarter revenues were in line with expectations. Operating margins increased year-over-year due to our pricing discipline, exiting lower margin businesses and controlling our cost. Cash flow was a very healthy \$225 million. Our outlook for full year 2024 revenues and EPS are unchanged. We're pleased with our performance and are excited about our markets and opportunities in the years ahead.

Lastly, I want to take a moment to say I am honored to be Chief Financial Officer of Valmont. Valmont has a rich history of being a market leader with strong financial performance. Our businesses help create vital infrastructure and increase agricultural productivity to feed the world. I can honestly say that I am excited about the secular growth trends in our industry and our opportunities to significantly grow our business over the next several years.

I look forward to supporting Avner and working with the entire team to drive revenue growth and expand operating margins. Our focus will be on earning a healthy ROIC and providing our shareholders with reliable and predictable returns on their investment in our company.

On a personal note, my wife Christy and I have already relocated to Omaha and we are thoroughly enjoying the community. I look forward to meeting many of you over the coming months and sharing our vision for the future of our company.

I will now turn the call back over to Rene. Rene?

Renee L. Campbell

Senior Vice President-Investor Relations & Treasurer, Valmont Industries, Inc.

Thanks Tom. At this time, the operator will open up the call for questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. At this time, we'll be conducting a question-and-answer session. [Operator Instructions] Our first question comes from the line of Chris Moore with CJS Securities. Please proceed with your question.

Christopher Moore

Analyst, CJS Securities, Inc.

Q

Hey, good morning, guys. Thanks for taking a couple of questions. Maybe we'll start with operating margins. So, the goal is to approach mid-teen operating margin over the longer-term. Margins were quite strong in 2024, despite the soft revenue. It looks like steel pricing and the lower cost structure were two of the big drivers. Just if you assume no benefit from steel in 2025, are you going to need meaningful improvement in agriculture to maintain the same level of operating margins there, close to 13%?

Avner M. Applbaum

President, Chief Executive Officer & Director, Valmont Industries, Inc.

A

Chris, hey. Thank you. This is Avner. I'll take the question. So overall, we're very pleased with our performance in 2024 expanding operating margins, getting closer to our overall goal of achieving close to mid-teens of operating margin. So we're very pleased with the performance we've done in many areas around our pricing leadership, our continuous improvement, driving the value to our customers. So overall, great performance.

Yes, we did have some one-time tailwinds this year. Some of them are more one-time in nature. We did take some strategic actions around our pricing, purchasing steel. I mean, some of it was just the benefit of the steel deflation. So we do have some one-time benefits and which will not occur in 2025.

So to answer your point, pleased with what we've done. And Tom, maybe just want to add a little bit more color on kind of the impact of the one-timers this year.

Thomas Liguori

Chief Financial Officer & Executive Vice President, Valmont Industries, Inc.

A

Yeah. Well, first of all, Chris, I think we feel good about the operating margins going forward. We're going to have revenue growth. We're in good markets. We've controlled our SG&A costs and we fully expect to have our SG&A cost increases be less than our revenue growth. So that'll help our operating margins. We're expanding capacity in our plants. So with more throughput, we'll have better efficiencies in our factories.

And I think we're really pleased and proud of the team with their discipline in pricing that they have as well as exiting lower margin businesses has been maybe a painful process, but that's going to help our operating margins going forward. So, I think we feel good going forward. And near-term, yes, we do have the headwinds from steel deflation and we do feel that this quarter maybe we're at the more normalized rate, but we have a better matching of where our contract pricing is and steel costs.

And this quarter, we have a higher mix of agriculture international projects which are at lower gross margins. But what's important to understand is they have very – they have healthy return on invested capital because we get advanced payment, there's less capital tied up. So overall, positive sentiment on operating margins going forward.

Christopher Moore*Analyst, CJS Securities, Inc.*

Q

Very helpful. I appreciate that. Maybe just my last one. North America ag benefited from replacement sales driven by the severe weather events. Just trying to get a sense as to how much longer that benefit will carry over is that Q4 and into 2025 where you're still going to see some positive impact from that?

Avner M. Applbaum*President, Chief Executive Officer & Director, Valmont Industries, Inc.*

A

Yeah. So I'll take that as well. So overall, we did have strong storm season in the US. Midwest initially in the year and now in the Southeast. And then overall, we're very pleased with our ability to perform and respond very quickly to the growers and dealers, making sure they have – they can get their farms up and running as soon as possible. So overall, we had some positive benefits. We haven't seen all the benefits yet from the storms on the Southeast. So expecting to get some benefit from that. But overall, we had a strong year. And as we go into next year, we're going to expect to have more of a normalized year as it relates to storms.

Christopher Moore*Analyst, CJS Securities, Inc.*

Q

Got it. I appreciate it, guys. I will leave it there.

Operator: Thank you. Our next question comes from the line of Nathan Jones with Stifel. Please proceed with your question.

Nathan Jones*Analyst, Stifel, Nicolaus & Co., Inc.*

Q

Good morning, everyone.

Renee L. Campbell*Senior Vice President-Investor Relations & Treasurer, Valmont Industries, Inc.*

A

Good morning.

Avner M. Applbaum*President, Chief Executive Officer & Director, Valmont Industries, Inc.*

A

Good morning.

Nathan Jones*Analyst, Stifel, Nicolaus & Co., Inc.*

Q

I wanted to start off on the TD&S business, up 58%. And specifically, I wanted to ask about a comment you made during your prepared remarks that average selling prices in utility were higher year-over-year, which I found pleasantly surprising given that steel prices have deflated, I would have expected to have negative pricing in that number. Can you talk about where the positive pricing is coming from? I assume that that part of the transmission business that is covered by master service agreements would have had to see negative pricing this quarter. So just any more color you can give us on the impact of pricing, where it was positive, where it was negative, and what the overall volume growth was?

Avner M. Applbaum*President, Chief Executive Officer & Director, Valmont Industries, Inc.*

A

Thank you, Nathan. I'll take that one. So overall, very pleased with our TD&S performance in the quarter being up 15%. So very strong performance in that aspect. As it relates specifically to pricing, it's been a very strong demand environment for us and we've been taking deliberate actions to make sure we price for the value that we provide to our customers. And as our customers come to us and need us to help them provide solutions, we will make sure we price appropriately.

Specifically in this quarter, what we've seen, actually we have a large transmission project that ended in 2023. It was a project that we have for several years and as that wound down in 2023, we've seen more distribution substation going through our shops. And as we're pricing those, we're pricing them at a higher level. And that's where we've seen a lot of the benefit in our results. So overall, I'd say it's more the smaller structures where we've priced the products at higher level. Going into next year, we're going to probably see more of a normal mix of our products going through more transmission. Well, more of all products, but we'll see more of transmission being a larger percentage of overall. So, yes, the steel deflation will have an impact on top line, not on our profitability, but that will impact us as we go into next year. And Tom, maybe just add a little bit of color on that aspect.

Thomas Liguori*Chief Financial Officer & Executive Vice President, Valmont Industries, Inc.*

A

Yeah. As Avner said pricing was strong and really happy with the performance there. That said, like the steel deflation, it does lower like our revenue growth percentage. And the way to think of it is, the steel deflation impact infrastructure revenues, right now about 1.5% of revenue. So think of like 1.5% of total infrastructure, \$3 billion. It's roughly \$45 million. And that's how to think about it. Pricing is up, but the steel deflation impacts the growth rate. The other impact of the steel deflation is that, in the near-term, it does affect our gross margin as we get steel pricing and steel cost in line. And the effect of that is approximately 100 basis points in gross margin when you compare first half to the second half.

So going forward, because we think things are more in line, I think it's reasonable for everybody to expect infrastructure gross margins will be more at the second half rates going into 2025. I guess the last thing we would add, feedback from our sales team is the bid market remains strong. So that's a positive for us.

Nathan Jones*Analyst, Stifel, Nicolaus & Co., Inc.*

Q

So you typically see while steel is deflating, I mean, it's a headwind to the top line tailwind to margins, but net, it's a tailwind to income, as you're seeing that deflation, while the contracts catch up?

Thomas Liguori*Chief Financial Officer & Executive Vice President, Valmont Industries, Inc.*

A

Yeah. Long-term, it's not an impact on an income in the near-term because of the decline. It is an impact on gross margin.

Nathan Jones*Analyst, Stifel, Nicolaus & Co., Inc.*

Q

And then just...

Thomas Liguori*Chief Financial Officer & Executive Vice President, Valmont Industries, Inc.*

That makes sense?

A

Nathan Jones*Analyst, Stifel, Nicolaus & Co., Inc.*

...the last one on TD&S. Yeah, just the last one on TD&S and the capacity expansions. Can you talk about where you are with capacity and I guess especially distribution and substation and when that capacity supposed to be online?

Q

Avner M. Applbaum*President, Chief Executive Officer & Director, Valmont Industries, Inc.*

Yeah. So overall, that's been one of our major focuses on adding flexibility to our plants, so we can do both transmission pole, distribution, substations, making sure we have our concrete, our steel. So, that is a big focus of what we've been doing. And it's an ongoing process. We've already made significant improvements in some of our facilities. In Mexico, we've had a focus on increasing our utility production. If you look at our Brenham facility, that is more on the lighting and transportation. We took actions both in Tulsa and in Mexico actually to increase our substations.

A

And then if I could just give you one other specific example. If you look at our Fort Meade concrete facility out in Florida, we actually doubled our capacity there over the last several years. So, we continue to invest in our facilities, both capital, layout, just your typical productivity, lean, and we'll continue to increase capacity so we could support the strong demand that we're seeing in our infrastructure markets. So, it's a very good spot for us to be in, strong megatrends driving demand and we're increasing our capacity and flexibility to make sure we can address the demand.

Nathan Jones*Analyst, Stifel, Nicolaus & Co., Inc.*

Thanks very much for taking my questions.

Q

Operator: Thank you. Our next question comes from the line of Brent Thielman with D.A. Davidson. Please proceed with your question.

Brent Thielman*Analyst, D.A. Davidson & Co.*

Hey, great. Thanks. Good morning. You did comment in the presentation that order rates in Brazil are improving over last year despite a pretty significant revenue headwind this quarter in ag. Maybe how does that inform your view of that market over the short term or even into 2025? And should we not read too much into that? Should we still be cautious here? Just curious, your thoughts around that recent trend.

Q

Avner M. Applbaum*President, Chief Executive Officer & Director, Valmont Industries, Inc.*

Good morning. I'll take that question. Overall, the situation in Brazil, I mean, the farmers are being pressured. Right? If we look at the price of soybean today, it's below \$10. So, their profitability is being impacted. The sentiment is low. They're still profitable. But we should expect that condition to remain tough in the near future and going into 2025.

A

We're positive on the increased order rates. But I would say, your point – you mentioned cautious, yeah, we should be cautious about how we think about the outlook. We're very pleased to see our order intake improving. We're the leader in that space in Brazil. The pivot provides a very strong value proposition to the growers. I mean, it will secure that they can get their two crops, not counting on rain. With the pivot, they'll even get the third one. So, overall, it will help them drive profitability in the long term. So, we're very bullish about the outlook for Brazil. But I would take a cautionary view on 2025. We'll have more details as we see how this quarter progress, but we're happy to see the order intake improving in that market.

Brent Thielman*Analyst, D.A. Davidson & Co.*

Q

Okay. Thanks, Avner. And then just on L&T, the revenue headwind sort of accelerated this quarter. Maybe if you could just refresh us on when you lap some of these comparisons from exiting the lower margin products and what's reflective of true demand versus just some of these kind of product exit headwinds that you're experiencing this year?

Avner M. Applbaum*President, Chief Executive Officer & Director, Valmont Industries, Inc.*

A

Yeah. So when I look at the L&T, I mean, we had a tough quarter. And I would really pinpoint three areas that impacted our performance in L&T. It was the weakness in the residential lighting, it was timing of DOT projects, and it was flexibility in our plans to produce what we what we were hoping to produce to support our customers. So, we had three one-offs. Don't expect that to repeat at that magnitude. And when you think of those drivers, DOT, our order rate is – continues to be strong, that continues to be positive. That will be positive into 2025. You add the IIJA, that should continue to be solid.

The residential lighting, if you look at the single-family housing starts, and we typically have strong correlation, it's a 12-month lag for us. And if you look at the single-family housing starts in 2021, 2022, 2023, we've seen a decline, it impacted our business. Very encouraged about what we're seeing this year in 2024 as we're seeing that increasing. And with our 12-month lag, we will see our residential lighting improving into 2024. And the points I made before around our flexibility, we're making good progress. So, overall, the outlook for that business in L&T is positive for us going into next year.

Brent Thielman*Analyst, D.A. Davidson & Co.*

Q

Thank you very much.

Operator: Thank you. Our next question comes from the line of Brian Drab with William Blair. Please proceed with your question.

Brian Drab*Analyst, William Blair & Co. LLC*

Q

Hi. Good morning. Thanks for taking my questions. I guess that – I was wondering if you could give a more specific update on what's happening in EMEA and specifically, Egypt and where we are percentage-wise through the project, second phase, \$85 million project there? And how that whole macro environment or the economic environment in Egypt is affecting the timing, if at all?

Avner M. Applbaum

President, Chief Executive Officer & Director, Valmont Industries, Inc.

A

Thank you for the question. Yeah. So, overall, we're very pleased with what we're seeing in Middle East, Africa. If we talk about kind of the whole irrigation and we talked about how it's tough in some of these region in North America and in Brazil, it is very strong in Middle East, Africa, different drivers for that area around food security, population growth and so on. So overall, the pipeline is very strong and we are executing well on these projects. And right now, the situation in the Middle East has not impacting our business. We continue to perform well, continue to ship around these projects. Now, we just as a reminder, there's always timing with these projects based on logistics, timing of how the project is progressing. Right now, we are – it's doing well, growing with a strong pipeline into 2025 and very pleased with our execution in that part of the world.

Brian Drab

Analyst, William Blair & Co. LLC

Q

Okay. Thanks, Avner. And then my other question for now is, you're forecasting the infrastructure business to be flat to up 1.5% for the year. What is the updated thought on volume growth or decline, what's the forecast for volume for 2024 at this point for infrastructure? Thanks.

Avner M. Applbaum

President, Chief Executive Officer & Director, Valmont Industries, Inc.

A

And so, I'll let Tom get into those details. But maybe just to kind of look at how we're looking at those businesses as we're kind of looking into 2025 and then Tom can kind of go specifically into 2024. We're seeing very positive demand drivers around our infrastructure businesses. If you look at those megatrends around grid electrification, data consumption, grid resiliency, the need for critical infrastructure they're all having very strong are creating very strong demand drivers for our businesses.

And when you look at utility, the demand continues to be very strong. It has been strong in 2024. And as we go into 2025, that should continue. I just talked about the L&T business, lighting and transportation. We should see positive momentum in that area. Telecom's seen signs of a recovery in that area specific in North America. So positive signs in that as well. So overall, the demand drivers for us are looking very, very positive for us. And Tom, maybe just to add a few specifics on kind of what you're seeing in the volume...

Thomas Liguori

Chief Financial Officer & Executive Vice President, Valmont Industries, Inc.

A

Yeah. Thanks, Avner. Yeah. TD&S utility volumes are clearly up. Say, the one area where our volumes are down is solar. And as you know, excluding the lower margin businesses, everything else is relatively flattish.

Brian Drab

Analyst, William Blair & Co. LLC

Q

Okay. Thank you both.

Operator: Thank you. Our next question comes from the line of Jon Braatz with Oppenheimer & Company. Please proceed with your question.

Jon Braatz

Analyst, Kansas City Capital Associates

Q

Good morning, everyone.

Avner M. Applbaum*President, Chief Executive Officer & Director, Valmont Industries, Inc.*

Good morning.

A

Renee L. Campbell*Senior Vice President-Investor Relations & Treasurer, Valmont Industries, Inc.*

Good morning.

A

Jon Braatz*Analyst, Kansas City Capital Associates*

Avner, it's very, very dry out in the Midwest. And all the farmers are finishing up their harvest. And they got to work on their finances for by year-end. But given the drought that we're in, are you hearing anything or do you think that's a – if it continues in this continues this way that there's some incremental upside to North American ag this year and next year if it continues to be dry? And secondly, are you hearing anything yet from your dealers about the drought and some and how their customers are thinking about their capital spending for next year?

Q

Avner M. Applbaum*President, Chief Executive Officer & Director, Valmont Industries, Inc.*

Yeah. Thanks for the question. Yes, I agree. It's definitely very dry in the Midwest. We definitely see that. If I kind of look at the farmer right now, and you look at corn, a little bit over \$4. You look at the net farm income, the USDA projections around that. And just the sentiment, if you just look at the producer sentiment survey, it's the lowest it's been over the last eight years. So the farmer sentiment is low, the farmer profitability is impacted. We do have – some farmers are profitable and some are not based on they lease, they own and some other factors.

A

And so I don't want to be too bullish right now about the farmers and the North America market. Usually at the end of the year, yes, we do see that they try to manage their financials, will go ahead and they'll buy some equipment, we're watching it, right. I don't want to be too optimistic about that just because they all had a hard – a difficult year. And we'll kind of see how it plays out.

Also, when you look at the stock-to-use ratio, it's still pretty high. So there's a lot of supply there. And the yield so far, the initial indications are that they're strong. So the drought, ultimately what could have an impact, but right now, I wouldn't be too bullish about the environment here in the US. And, Tom, would you like to add a point there?

Thomas Liguori*Chief Financial Officer & Executive Vice President, Valmont Industries, Inc.*

Sure. And I mean, just to build on that, if you're looking at this year versus 2025, this year, we have strong storm sales. And the ag team is telling me the storm sales in 2024 were about double what they've been on a historical average. So if you take Avner's comments with sentiment maybe being down in North America, storm sales, difficult to predict. But we had a lot in 2024, North America ag maybe down in 2025. But we are seeing growth in the international and we'll see if that offsets or boosts it into the positive territory.

A

Jon Braatz*Analyst, Kansas City Capital Associates*

Okay. All right. Thank you very much, guys.

Q

Operator: Thank you. [Operator Instructions] Our next question comes from the line of Tom Hayes with C.L. King & Associates. Please proceed with your question.

Thomas L. Hayes

Analyst, C.L. King & Associates, Inc.

Q

Hey, good morning, everyone. Thanks for taking my question. Avner, I think you touched on a little bit, but I'd be interested to see if you could provide a little bit more color on really what you're seeing in the telecommunications area. You're talking to some other people. The market seem to be getting of mixed results, but certainly you had a nice quarter. Just wondering, what you're seeing in the market as far as project activity and stuff like that?

Avner M. Applbaum

President, Chief Executive Officer & Director, Valmont Industries, Inc.

A

Thanks for the question. We're very pleased to see our telecom business grow 8% after a decline. And when you kind of follow in North America, the carrier spend there, the more back to business as usual. And ultimately, we're very bullish about that market in the long-term. We still know that they need to build out the 5G connection. And a lot of estimates have by the end of this decade, we'll have 85% of the population on 5G. So there's – we believe they'll continue the momentum. I think we pretty much hit the floor there and we're expecting to grow. And as the carriers keep on focusing on building out the network, increasing coverage, their optimization, we're well-positioned to support them anywhere from our macro towers to our small cell that are the backbone of the 5G system all the way through our components, our PIM, our concealment. So we have a wide, a broad offering there that supports the carriers as they continue to build out the network.

So feel pretty good about where the telecom business is heading. I will point out that on the international side that they're a little bit behind the US that's more fragmented. So there's opportunity for us in selected markets there that might take just a bit more time.

Thomas L. Hayes

Analyst, C.L. King & Associates, Inc.

Q

Appreciate the color. I'll get back in the queue. Okay.

Operator: Thank you. We have reached the end of the question-and-answer session. I'll now turn the floor back over to Renee Campbell for closing comments.

Renee L. Campbell

Senior Vice President-Investor Relations & Treasurer, Valmont Industries, Inc.

Thank you for joining us today. As mentioned, today's call will be available for playback on our website or by phone for the next seven days. We look forward to speaking with you again next quarter.

Operator: These slides contain and the accompanying oral discussion will contain forward-looking statements within the meaning of Private Securities Litigation Reform Act of 1995. Such statements involve known and unknown risks, uncertainties and other factors that could cause the results of the company to differ materially from the results expressed or implied by such statements, including general economic and business conditions, conditions affecting the industries served by the company and its subsidiaries, the overall market acceptance of such products and services, the integration of acquisitions and other factors disclosed in the company's periodic reports filed with the Securities and Exchange Commission, as well as future economic and market circumstances, industry conditions, company performance and financial results, operating efficiencies, availability

and price of raw materials, availability and market acceptance of new products, product pricing, domestic and international competitive environments, geopolitical risks and actions and policy changes of domestic and foreign governments.

Consequently, such forward-looking statements should be regarded as the company's current plans, estimates and beliefs. The company does not undertake and specifically declines any obligation to publicly release the results of any revisions to these forward-looking statements that may be made to reflect any future events or circumstances after the date of such statements, or to reflect the occurrence of anticipated or unanticipated events.

This concludes today's teleconference. We thank you for your participation, and you may disconnect your lines at this time.

Disclaimer

The information herein is based on sources we believe to be reliable but is not guaranteed by us and does not purport to be a complete or error-free statement or summary of the available data. As such, we do not warrant, endorse or guarantee the completeness, accuracy, integrity, or timeliness of the information. You must evaluate, and bear all risks associated with, the use of any information provided hereunder, including any reliance on the accuracy, completeness, safety or usefulness of such information. This information is not intended to be used as the primary basis of investment decisions. It should not be construed as advice designed to meet the particular investment needs of any investor. This report is published solely for information purposes, and is not to be construed as financial or other advice or as an offer to sell or the solicitation of an offer to buy any security in any state where such an offer or solicitation would be illegal. Any information expressed herein on this date is subject to change without notice. Any opinions or assertions contained in this information do not represent the opinions or beliefs of FactSet CallStreet, LLC. FactSet CallStreet, LLC, or one or more of its employees, including the writer of this report, may have a position in any of the securities discussed herein.

THE INFORMATION PROVIDED TO YOU HEREUNDER IS PROVIDED "AS IS," AND TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, FactSet CallStreet, LLC AND ITS LICENSORS, BUSINESS ASSOCIATES AND SUPPLIERS DISCLAIM ALL WARRANTIES WITH RESPECT TO THE SAME, EXPRESS, IMPLIED AND STATUTORY, INCLUDING WITHOUT LIMITATION ANY IMPLIED WARRANTIES OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE, ACCURACY, COMPLETENESS, AND NON-INFRINGEMENT. TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, NEITHER FACTSET CALLSTREET, LLC NOR ITS OFFICERS, MEMBERS, DIRECTORS, PARTNERS, AFFILIATES, BUSINESS ASSOCIATES, LICENSORS OR SUPPLIERS WILL BE LIABLE FOR ANY INDIRECT, INCIDENTAL, SPECIAL, CONSEQUENTIAL OR PUNITIVE DAMAGES, INCLUDING WITHOUT LIMITATION DAMAGES FOR LOST PROFITS OR REVENUES, GOODWILL, WORK STOPPAGE, SECURITY BREACHES, VIRUSES, COMPUTER FAILURE OR MALFUNCTION, USE, DATA OR OTHER INTANGIBLE LOSSES OR COMMERCIAL DAMAGES, EVEN IF ANY OF SUCH PARTIES IS ADVISED OF THE POSSIBILITY OF SUCH LOSSES, ARISING UNDER OR IN CONNECTION WITH THE INFORMATION PROVIDED HEREIN OR ANY OTHER SUBJECT MATTER HEREOF.

The contents and appearance of this report are Copyrighted FactSet CallStreet, LLC 2024 CallStreet and FactSet CallStreet, LLC are trademarks and service marks of FactSet CallStreet, LLC. All other trademarks mentioned are trademarks of their respective companies. All rights reserved.