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Valmont Industries, Inc. (VMI)

Q1 2022 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Greetings. Welcome to the Valmont Industries, Inc. First Quarter 2022 Earnings Conference Call. At this time, all participants are in a listen-only mode. A question-and-answer session will follow the formal presentation. [Operator Instructions] Please note, this conference is being recorded. I will now turn the conference over to your host, Renee Campbell, Senior Vice President-Investor Relations and Treasurer. Ms. Campbell, you may begin.

Renee L. Campbell

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

Thank you and good morning. Welcome to Valmont Industries' first quarter 2022 earnings call. With me today are Steve Kaniewski, President and Chief Executive Officer; Aaron Schapper; Group President of Infrastructure; Avner Applbaum, Executive Vice President and Chief Financial Officer; and Tim Francis, Senior Vice President and Corporate Controller.

This morning, Steve will provide a brief summary of our first quarter results, commenting on our markets and long-term business strategy. Aaron will provide an overview of our new Infrastructure segment. And Avner will review our financial performance, and provide our outlook and indications for 2022, with closing remarks from Steve. 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 page 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 2 of the presentation and will be read in full at the end of today's call.

I would now like to turn the call over to our President and Chief Executive Officer, Steve Kaniewski.

Stephen G. Kaniewski

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

Thank you, Renee. Good morning, everyone, and thank you for joining us. We delivered record first quarter financial results, driven by effective price management and strong demand across our portfolio. Our pricing actions were helped by our strong operational and quality performance. Our team's continued focus on pricing and our ability to meet our customers' expectations has led to a strong start to the year.

Once again, our 11,000 Valmont employees around the world demonstrated diligence and dedication by serving our customers with innovative and essential products and services. Through an unwavering commitment to our core values, they continue to operate with passion and integrity, driving continuous improvement and delivering exceptional results. I am thankful for and proud of their success.

Before reviewing our first quarter, I would like to acknowledge the devastating events that are happening in Ukraine. We recognize the profound effect these events are having on the world and everyone in the region whose lives have been disrupted and changed as a result. Historically, our sales to Russia and Ukraine represent less than 1% of our total revenue. Our thoughts are with those who are impacted by this growing humanitarian crisis. We wish for a quick resolution to this conflict and a return to peace in the region.

Now, let me move to a brief first quarter overview, as shown on slide 4. Net sales of $980.8 million grew 27%, and adjusted operating income improved 28% year-over-year; due to continued strong end market demand and effective management of strategic pricing initiatives.

Our Valmont culture and our core values empower a high performance organization that drives us to execute and deliver results, even amid a very dynamic market environment.

Because of this, we are building momentum into 2022, navigating supply chain volatility, continuing to implement pricing strategies, and realizing value through the innovation we bring to our customers. Our price leadership has allowed us to successfully manage inflationary costs, and we expect to continue to do so as the year goes forward. You will notice that we are now reporting our financial results in two segments, as we announced in our April 6 release. I will share more about the strategic rationale for this new segment structure in a few minutes.

Moving to Infrastructure; sales of $680.7 million grew 24% year-over-year, with double-digit sales growth in nearly all product lines, led by considerably higher pricing and strong underlying demand from continued investments and critical infrastructure globally. Ongoing investments in grid hardening and resiliency, and renewable energy development and utility markets, along with cross-regional strength in lighting and transportation markets are contributing to increasing revenue across the segment. Additionally, telecommunications markets remained strong, as capital spending by the major carriers is driving macro tower investments. 5G deployments continue to ramp, as evidenced by sales growth of more than 30% in this product line.

Turning to Agriculture; sales of $306.6 million grew 33% year-over-year, due to higher average selling prices of irrigation equipment globally and higher technology sales. In North America,, sales grew 54%, led by considerable increases in pricing and higher volumes. International sales grew 8% year-over-year, led by higher pricing, partially offset by lower project sales, primarily related to the large Egypt project. As we mentioned last quarter, the pace of local infrastructure development for this project has slowed in recent months; and, in response, we have aligned our shipments accordingly to match our customers' expectations.

We also recognized another record quarter in Brazil, where sales grew more than 70%. In addition to the continued positive trends and farmer sentiment, grain commodity prices remain at elevated levels fueled by strong global import demand and tightening stocks in major exporting countries. Further, the events in Ukraine have disrupted exports in that region, pushing grain prices higher. Technology sales grew more than 27% year-over-year, driven by growers' increasing demand for connected crop management and advanced analytics to reduce input costs, increase land productivity, and minimize farm labor costs.

Turning to slide 5, we released our 2022 Sustainability Report last month and held a dedicated conference call to discuss the report and answer questions. If you have not yet done so, I strongly encourage you to listen to the archived webcast on our website. In the report and on our call, we discussed the progress we have made on our ESG journey. For Valmont, our approach to sustainability begins with our tagline: Conserving Resources, Improving Life. It's at the core of everything we do.

This year, we recommitted to reaching our 2025 environmental and diversity goals, and identified and committed to four United Nations Sustainable Development Goals that the business naturally aligns with. I am proud of what we accomplished and excited about the trajectory of our ESG journey. As seen in the Sustainability Report, we have shared detailed case studies which demonstrate the value we add to customers in meeting their own ESG priorities, and how we responsibly manage key resources. A recent example of this is the completion of a 3-megawatt Ag Solar project in Brazil. Brazil continues to be a strong market for our solar solutions, and new government legislation has enhanced Ag Solar opportunities in the region.

This cotton gin farm and its complex engineering requirements showcase the value we add and the incredible execution of our teams in delivering sustainable solutions to our customers. Valmont's exclusive software monitors sustainability and return on investment in real time, allowing users to track power generation and efficiency at their solar installations. Our world-class dealer network is fully embracing our complementary solar products, which is leading to considerable growth in the region year-over-year. Valmont is truly paving the way for Ag Solar solutions by offering unparalleled service and support, while sustainably meeting customer needs and supporting ESG efforts globally.

Earlier in this call, I referenced our new segment reporting structure. Turning to slide 6, I would like to discuss this new framework within the context of our long-term strategy. As we stated in our April 6th press release, we are experiencing a transformative time in Valmont's history. Our goal as a company is to institute a culture of positive change that will foster collaboration, advance productivity, and optimize talent and technology to accelerate enterprise-wide innovation.

Recalling our three strategic pillars that we introduced during our 2021 Investor Day, the new structure aligns with and supports the successful execution of each pillar. It also reflects how our businesses are managed in a way that we have been moving towards organizationally for the past four years. During that time, we have been executing a transformation plan in our operations, accelerating lean standard work, and driving performance through improved productivity and quality metrics.

Our commercial teams have leaned in on the voice of the customer, developing new products to drive solutions to some of their more critical problems. We built pathways to growth, focusing on strategic technology investments to generate operating efficiency and increased revenue. This organizational structure allows us to further elevate our focus on capital allocation, technology development, and market growth strategies across our leadership teams.

We're centralizing operations of all of our global manufacturing footprint across both segments to better focus on improving productivity, increasing output, and driving a more efficient use of capital. We believe these actions position us to achieve our three- to five-year financial targets, including operating margins greater than 12%. Combining the previous Utility Support Structures, Engineered Support Structures, and Coatings segments into one Infrastructure segment fosters a more efficient and collaborative environment across our global commercial markets, while enhancing operation excellence initiatives.

I have asked Aaron Schapper, Group President of our new Infrastructure segment, to join us today and discuss the benefits of this structure. I feel it is important to spend time on our earnings calls discussing relevant items that are critical to understanding our culture and strategy, and to hear directly from our team. Aaron's participation today is an excellent example of this, and we may look to highlight key topics with other members of our executive team on future calls.

Before passing the call over to Aaron, I would like to comment briefly on Agriculture. Agriculture has experienced a more subtle shift than Infrastructure, as we are simply renaming the Irrigation segment, recognizing the journey we have been on to expand our focus on product and technology solutions globally beyond irrigated acres. The name change captures the evolving nature of technology to include non-irrigated farmland, and detection of anomalies such as pests and disease to help farmers reduce input costs while increasing land productivity, which is quickly becoming a priority across global markets. The agriculture sector continues to evolve globally, and we are evolving with it to best serve our customers.

At this time, I will turn the call over to Aaron.

Aaron M. Schapper

Group President-Infrastructure, Valmont Industries, Inc.

Thank you, Steve, and good morning, everyone. It's a pleasure to be with you today. As Steve said, I'm Group President of Infrastructure. I've been with Valmont 10 years, with previous roles as Vice President and General Manager of International Irrigation and Group President of the Utility Support Structures segment. I'm excited to share with you how we are thinking about this new segment, and why we believe this alignment will further our ability to serve customers and benefit our stakeholders.

Turning to slide 8; with an increasing convergence of key market drivers and funding, the Infrastructure realignment allows us to collaborate more effectively and generate greater customer focus as we create innovative, smart infrastructure to bring to the market. The new structure enables a more efficient and strategic allocation of capital, so we can manage the portfolio with greater focus on opportunities that offer profitable growth, higher return on invested capital, while accelerating innovation by optimizing our talent and technology.

We're also optimizing our mix of products, focusing on product lines and geographies that generate higher returns and improve quality of earnings. I believe this will enable us to maximize long-term profitability for the larger segment as we execute our strategies more efficiently.

Finally, the new segment structure leverages Valmont's size, scope, and scale that has been developed over the last 75 years to position us as a leader. Our strategic global footprint and market leadership allows us to do things other companies simply cannot, which is critical to our continued success moving forward. I'm very excited to see what we can accomplish together as a united Infrastructure segment, and I'm confident our organization will continue to deliver exceptional value to our customers.

With that, I will now turn the call over to Avner for our first quarter financial review and updated outlook.

Avner M. Applbaum

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

Thank you, Aaron, and good morning, everyone. Turning to slide 10 and first quarter results, my comments will focus on the adjusted results as outlined in the press release and in the Reg G disclosure in the presentation appendix.

First quarter operating income of $99 million, or 10.1% of sales, grew 28% year-over-year, driven by substantial pricing across the portfolio, leading to higher gross profit margin and improved fixed cost leverage, including SG&A. Diluted earnings per share grew 19.5% to $3.07, attributable to higher operating income, partially offset by a higher tax rate, which is primarily due to a change in the geographic mix of earnings compared to last year.

Turning to the segments and starting with Infrastructure on slide 11. Operating income increased to $77.5 million, or 11.4% of sales, as we realized the benefits of pricing across all product lines, notably in transmission, distribution, and substation; and lighting and transportation, which we will refer to as TD&S and L&T, respectively, in future quarters.

Moving to slide 12; in the Agriculture segment, operating income increased to $41.6 million, or 13.7% of sales. Higher operating income was driven by favorable price management and higher North American volumes, partially offset by incremental SG&A from the Prospera acquisition and lower international project sales.

Turning to cash flow on slide 13; we delivered operating cash flows of $2.7 million, reflecting high working capital levels to support strong sales growth. As we've stated in prior quarters, we have taken decisive actions to strategically source raw materials throughout the year to help secure availability and meet strong demand. While we expect to continue these actions in the second quarter, we also expect a notable improvement in cash generation and working capital levels in the second half of the year.

As we've demonstrated in the past, we're confident that our actions will help us deliver strong cash flow, as supply chain and material cost stabilize, with full year operating cash flows expected to considerably exceed net earnings in 2022.

Turning to slide 14 for a summary of capital deployment. Capital spending was $27 million this quarter, including $10 million for strategic growth investments. Additionally, $11 million of capital was returned to shareholders through dividends, and we ended the quarter with approximately $150 million of cash. We continue to maintain a balanced approach to capital allocation that enables us to grow and reinvest in our businesses, while returning cash to shareholders.

Moving to slide 15, our balance sheet remains strong, and total debt to adjusted EBITDA of 1.9 times remains within our desired range of 1.5 to 2.5 times.

Let me now turn to slide 16 for our updated 2022 outlook. We're increasing the full year guidance metrics that we stated last quarter. Net sales are now expected to increase 11% to 17% year-over-year to a range of $3.9 billion to $4.1 billion, which assumes no foreign currency translation impact. Adjusted earnings per share is now estimated to increase 19% to 24% year-over-year to a range of $13 to $13.50, excluding any further restructuring activity.

These metrics reflect strong market demand, the solid execution by our team, and our confidence in our ability to continue this performance. We also assume that steel costs for the year have stabilized, and expect a full year tax rate of approximately 26.5%, due to our expected geographic mix of earnings. Other metrics and assumptions are summarized on in the slide and in the press release.

The strong market demand across our businesses, strength and flexibility of our global team, and our continued pricing strategy give us confidence in achieving our sales and earnings per share target. Additionally, investments in technology and strategic growth initiatives across the portfolio remain a priority for us this year. Finally, for modeling purposes, in the Agriculture segment, a reminder that the third quarter is a lower sales quarter in this segment compared to the rest of the year due to normal business seasonality.

With that, I will now turn the call back over to Steve.

Stephen G. Kaniewski

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

Thank you, Avner. Turning to slide 17, we are benefiting from the long-term secular drivers in all of our businesses, as evidenced by another record global backlog of more than $1.8 billion, an increase of 12.5% from year-end 2021. These demand drivers are providing momentum as we look ahead for the rest of 2022, and our business portfolio is well-positioned for growth. Like others, we are closely monitoring inflation, supply chain volatility, and labor availability. We are ready to take additional actions to address these issues across all our businesses, as needed.

Turning to slide 18; in summary, I could not be more pleased with our collective efforts as a team over the past few years to advance our journey as a company. Together, we continue to demonstrate our ability to grow sales through innovation and execution. At the same time, we have increased profitability by executing on our pricing strategies and advancing operational excellence across our footprint.

We have invested in our employees and technologies to drive new products and services to build upon the strength of our operations. We remain disciplined in allocating capital to high-growth strategic investments, while also returning capital to shareholders through dividends and share repurchases. We continue to focus on managing what we can control. Because of this, we are poised to grow and drive shareholder value well into the future. This playbook has served us well, and I am confident in our continued performance in 2022 and beyond.

I will now turn the call back over to Renee.

Renee L. Campbell

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

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

QUESTION AND ANSWER SECTION

Operator: Thank you. [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 few questions. Obviously, recognizing price was the big driver in Q1, was volume growth stronger in either of the Infrastructure or Agriculture segments? And roughly, kind of where was it, in the mid-single digits? Or maybe just talk a little about volume at this point?

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

A

All right. Good morning. This is Avner. I'll take that question. So, for volume what we've seen in Q1, if I break it by the two segments; for Infrastructure, it was around low single digits. And just as a reminder, early in the quarter we did have impact from Omicron which impacted mostly our coatings business, which probably drove it down from the mid-single to the low-single digits. If you look at the Agriculture, volume was also low single digits. But there we did have the Egypt project that we mentioned. If you kind of normalize that, you would see double-digit volume growth in Agriculture; and the remainder was pricing.

Christopher Moore
Analyst, CJS Securities, Inc.

Q

Got it. That's helpful. So, obviously solar is an area that – lots of promise. Seems like there's – supply chain has kind of gotten more difficult again recently. Just can you maybe talk about what you're seeing on the solar front, particularly in North America, and kind of how you see that playing out over the balance of the year?

Stephen G. Kaniewski
President, Chief Executive Officer & Director, Valmont Industries, Inc.

A

Yeah, Chris. This is Steve. I'll also ask Aaron to comment here. But modules, panel availability will be somewhat in question again, particularly with the government investigations, proceeding. So, the larger-scale utility projects will probably feel the most brunt of that. But as you know, we've been targeting much more of a distributed generation utility scale mix, and that's allowing for us to not be as impacted by the delays because the DG projects tend to move much quicker through the system.

And then I'll ask Aaron to talk a little bit about the international mix and how Brazil plays into that.

Aaron M. Schapper
Group President-Infrastructure, Valmont Industries, Inc.

A

Yeah. I mean, a large part of our business is international. So, we really – North America is just one of the markets for our solar product. Obviously, we have tremendous strength in Brazil as far as our market position there. We feel good about what we're doing internationally. The US climate will change. Obviously, it's a big priority for the administration to keep pushing green energy along.

Right now, a lot of the projects, there will be some pause; but this is just in North America. So we've really primarily been internationally focused. It is a global product for us. So as a result, it doesn't have as much of a larger impact.

Stephen G. Kaniewski
President, Chief Executive Officer & Director, Valmont Industries, Inc.

A

And in both our Infrastructure and Agriculture segments, we feel like our guidance is still relatively conservative and we feel good about it.

Christopher Moore
Analyst, CJS Securities, Inc.

Q

Got it. Very helpful. Last one for me. Maybe just, could you give a quick update in terms of Prospera, what your expectations are over the next 12 months?

Stephen G. Kaniewski
President, Chief Executive Officer & Director, Valmont Industries, Inc.

A

Yeah. Prospera is developing along quite nicely. I would say, from an integration perspective, we're pretty much done. We're also working a lot of the back-end office integration with the existing irrigation group. And from a technology rollout perspective, I think we're really working on highly innovative, big changes for the industry, and we're seeing good traction and pickup of what we have out there.

The margins are coming in as we expected. The growth, the 27% is there, kind of where we expected. And SG&A a little bit as we lap last year will start to normalize. Q1, we didn't have Prospera; and part of Q2, we didn't. So, what you're seeing there mostly is just an additional Prospera this year versus last year.

Christopher Moore
Analyst, CJS Securities, Inc.

Q

Got it. I'll leave it there. Appreciate it, guys.

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.

Stephen G. Kaniewski
President, Chief Executive Officer & Director, Valmont Industries, Inc.

A

Good morning.

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

Q

Just wanted to pick up on the price/volume. I mean, you guys beat 1Q 2022 revenue numbers here by a long way, and you beat 4Q 2021 numbers also by a long way. I would imagine you know how much growth you're going to get from pricing at the beginning of every quarter; and the difference has to be volume here. And I think, Avner, you said low single-digit Ag, mid-single digit Infrastructure, which would imply that you must have been expecting something like down mid-single digits in volume in 1Q 2022.

So maybe you could just talk about what came in better than you were anticipating or were there disruptions you were expecting that didn't materialize; or, just, the last couple of quarters the revenue numbers have been much, much higher than had been implied in guidance.

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

A

Yeah. So first of all, we're very pleased with our execution. We've been able to execute very well, getting a lot of productivity through our plans, which obviously help drive volume. Pricing, we keep on taking pricing actions, right. It's not one and done. We continue and we take actions, and we're able to in some areas impact within the quarter as well. So, we've been able to execute and kind of outperform, which we'll expect to do kind of throughout the year. And we'll get more of the mid-single digit volume for the remainder of the year. So, we're looking forward to kind of keep on that momentum going.

Stephen G. Kaniewski
President, Chief Executive Officer & Director, Valmont Industries, Inc.

A

And, Nathan, I would add that I think the pricing elasticity was a little better than we thought as well across all markets. And we were able to – because of the muscle reflex is there now that as an example, as zinc went up, we were quicker into the market. As aluminum moved, we were quicker with pricing. And I think over two years now of following metals, the newer inflation that's coming in around labor and healthcare and gas costs and freight costs, we're just handling that all a lot better; and I think that's a big piece of it. I would also say that our solar business, particularly in Ag, is kind of outperforming our initial expectations, and we're accounting for that now and to the balance of the year into the increased guidance.

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

Q

It's sure better than being picked on for it being the other way around. I guess, the second question I wanted to focus on was a comment by Aaron there, focused on product lines and geographies that are offering better growth and margins which I'm sure is not something new. But maybe you could talk a little bit about what the most promising area is for you to invest in growth, in terms of the product lines and geographies might be?

Aaron M. Schapper
Group President-Infrastructure, Valmont Industries, Inc.

A

Yeah. So, when we look at – in terms of portfolio management, I really try to focus on the businesses that will have outsized return as opposed to the individual products in those. So, we look at those businesses, we look to make sure we maximize the right products within those businesses. So, if you looked at a utility market, there's obviously pieces and parts of utility that are more profitable. So, we just make sure that we prioritize capital and be very disciplined about making sure that capital follows the biggest opportunities in those markets and businesses. And really, so from just a philosophy point of view, that's the way we look at that portfolio.

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

Q

Okay. Thanks for taking my questions.

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. Thanks for taking my questions. There's been just so much volatility again in the price of steel especially toward the end of March. Really impressive, the guide that you're able to provide given that. What price of steel do you have incorporated into the guidance for the balance of the year; or at least, directionally, what are you assuming in that guidance from here?

Stephen G. Kaniewski
President, Chief Executive Officer & Director, Valmont Industries, Inc.
A

Yeah, Brian. It's Steve. It's a balance because we don't have any one piece of steel that we buy. So, it's indexed across the businesses differently. But I would just say what we did is we took kind of that mid-March, end of March steel costs, and that's what we've assumed as we look out the rest of the year.

Brian Drab
Analyst, William Blair & Co. LLC
Q

So, kind of taking the recent peak and projecting that forward, not forecasting a decline?

Stephen G. Kaniewski
President, Chief Executive Officer & Director, Valmont Industries, Inc.
A

That's correct.

Brian Drab
Analyst, William Blair & Co. LLC
Q

Okay. And then, Steve, about a year ago, you gave the longer-term guidance that included getting to greater than 12% operating margin. And wondering if you could just revisit that and, given what's happening with steel, I know that's become out of reach in the near-term, but what needs to happen to get to that level of operating margin?

Avner M. Applbaum
Chief Financial Officer & Executive Vice President, Valmont Industries, Inc.
A

Hey, I'll start off with – so, first of all, right, that is one of our long-term kind of goals, three to five years. Clearly, the higher cost does impact your margin percentage, but we do have a road map to get there and we have seen improvement in Q1. We will see Q2, which is one of our stronger quarters throughout the year, especially with these ag markets, we'll continue to see improvement. So, we will show improvement in our margins in 2022. In 2023 is one can really show additional progress towards the goal.

How we get there is through the actions that we've been taking through our pricing leadership, getting that pricing over inflation with what we're doing in all our operations, with our productivity, with our lean, with our Industry 4.0 automation, with focusing on those products that have a higher margin profile. Telecom would be a good example there. So, I think everything that we're kind of doing gives us a road map and confidence that we can achieve our 12% operating margin goal.

Stephen G. Kaniewski
President, Chief Executive Officer & Director, Valmont Industries, Inc.
A

Yeah. And, Brian, I would just add that the focus on the two segments also is really allowing us to drive that growth towards that operating income percentage. The demand drivers are pretty similar across Infrastructure. The demand drivers in Agriculture are there. It's really now developing and using this as an opportunity to continue to develop the organization and the management team to stay focused on exactly what Aaron just discussed; go after growth, allocate capital to growth, and then really work on the operational excellence piece on the back side to get as much cash out of the business to continue to fund things like Ag Solar, things like telecom growth, et cetera.

Brian Drab
Analyst, William Blair & Co. LLC

Q

Got it. Appreciate it. Thank you.

Operator: Thank you. Our next question comes from the line of Ryan Connors with Boenning & Scattergood. Please proceed with your question.

Ryan Michael Connors
Analyst, Boenning & Scattergood, Inc.

Q

Good morning. Thanks for taking my question and congratulations on the record results. I wanted to talk a little bit about pricing from a more strategic angle, Stephen. We've talked a lot about the tactical margin impact and price cost. But when you have these kind of magnitude of pricing action, I mean, are you surcharging for things and customers are expecting that to roll down and kind of able to watch the steel price in their Wall Street Journal and look for a decline when it goes down; or are these list price increases? And what's the long-term structural impact on margins if, in fact, the Fed does? It seems like they want to ultimately tamp this inflation down and brings down the commodities a little bit.

Stephen G. Kaniewski
President, Chief Executive Officer & Director, Valmont Industries, Inc.

A

Yeah, Ryan. It's a good question. We avoid surcharges because of what you exactly described is, you have to give them back as things change. And what we're trying to do is continue to build value for the customer to deliver quicker, have less quality issues, to be complete and on time, and to be innovative with our solutions, so that in the field things go up quicker, there's more resiliency to our product, less inspection, et cetera.

So over, I'd say, the last four years, if you really take kind of that pricing advantage mind set, that's what we've developed across all the teams. And outside of utility which there is obviously some indexing to what we call the AMM, as we renegotiate contracts, we're looking for price outside of metals and getting really incremental pricing that can stick for the future. We've taken that mantra just kind of as you saw during much of the pandemic. People were willing to pay more if you could get it to them on time and deliver it with quality. And so, if we can be that player then that will help us sustain pricing for the long term and not just have to turn around and give it back.

Ryan Michael Connors
Analyst, Boenning & Scattergood, Inc.

Q

Got it. Okay. That's very helpful color. My next one was, there was a comment earlier that grid renewable projects and so forth are a priority for the administration. But there was some interesting news this week that, apparently, the administration is going to re-impose these NEPA environmental review and permitting regulations. And already some of the trade groups around the electric grid transmission have said that that's bad news; that those things were actually loosened a little bit under the prior administration that helped project activity to percolate. Any early read on what that could do to the backlog trajectory from here?

Aaron M. Schapper
Group President-Infrastructure, Valmont Industries, Inc.

A

Yeah. This is Aaron. I'll take this one. Yeah. When we look at it, it's true; the administration sometimes you do hear mixed signals that are coming out from that. However, our read is, for the most part we're fortunate we're in a lot of distributed generation pieces, which are smaller projects and they tend to get better – they tend to move through faster. Some of the big utility scale projects absolutely run into this, because the environmental impacts are much larger. So, in North America we tend to very much focus on the DG side of the business. We think that that is a better route for us in North America. And given all the regulatory issues, it's proven out to be a successful strategy.

Now, what that looks like in the back half of the year, and who's to say? These things work through. Sometimes projects get pushed. I think you're going to find more volatility on the large utility scale side. And once again, we're a global solar business. And so, North America is just a portion of our revenue in solar. So, we really make sure that we focus on the international side.

Ryan Michael Connors
Analyst, Boenning & Scattergood, Inc.

Q

Got it. Okay. And I did have one really quick, just a housekeeping, if you don't mind. I happened to catch a story in the Omaha World-Herald there about the Nebraska maybe lowering the corporate tax rate and that did get traction in the state legislature. Is that something that could actually benefit the tax line in the future?

Timothy P. Francis
Senior Vice President & Corporate Controller, Valmont Industries, Inc.

A

Hey. This is Tim Francis. I'll take that one. There is a number of tax credit programs in the State of Nebraska that allow us to already benefit from a very, very low corporate tax rate. So, this new lower corporate tax rate really won't affect us much.

Ryan Michael Connors
Analyst, Boenning & Scattergood, Inc.

Q

Got it. Clear enough. Thanks again.

Stephen G. Kaniewski
President, Chief Executive Officer & Director, Valmont Industries, Inc.

A

Thanks, Ryan.

Operator: Thank you. [Operator Instructions] Our next question comes from the line of Jon Braatz with Kansas City Capital. Please proceed with your question.

Jon Braatz
Analyst, Kansas City Capital Associates

Q

Morning, everyone.

Stephen G. Kaniewski
President, Chief Executive Officer & Director, Valmont Industries, Inc.

A

Good morning, Jon.

Jon Braatz
Analyst, Kansas City Capital Associates
Q

Steve, obviously food security has been a growing issue since COVID, and it's only been accentuated by the Ukraine invasion. And I guess my question is, you can read a lot about what maybe Egypt is planning, but can you talk a little bit about maybe what else might be happening beyond Egypt, if there is anything? And also, what might be the impediments for some of these projects going forward? Is it water availability, funding, or is it everything? Can you speak to a little bit more about the food security issues beyond maybe just Egypt?

Stephen G. Kaniewski
President, Chief Executive Officer & Director, Valmont Industries, Inc.
A

Sure. If you look around, we kind of segment Africa by North Africa, West Africa, and sub-Saharan Africa; and there are very strong opportunities across all of those regions. There's a lot of planning. There's oftentimes a lot of NGO money that's coming in, at least to help with the financing of the programs that are going to be put in place. And that is typically the biggest impediment is the financing, and the fact that we and many others in the industry want to get paid upfront in order to that work. And so if you look at finance typically being the biggest impediment, their availability to dollars will also be an issue as it goes across there.

But secondarily to that is infrastructure. And so do you have power? Do you have pumps? Do you have wells? And that's one of the things in Egypt is, we're just waiting for the infrastructure to catch up with our own progress there. So, one of the reasons we developed the kind of solar pivot was so that you didn't have to have all of that infrastructure in place to start to grow. And so in a place like Sudan, which I think we featured last quarter, it allowed us to create a product out of a need.

And I think you'll see more of that, particularly because grid expense is so expensive. And to Ryan's earlier question, you don't have the same environmental, you're not running across all those wind. And so, those are the things that we think will really help that market. And it's not just Africa; the Middle East has a number of projects going forward. Other places in Eastern Europe; take Romania, Hungary, and some of those places also have a real strong pipeline, which will probably be emboldened due to the Ukrainian crisis, because they know they have to feed the region.

Jon Braatz
Analyst, Kansas City Capital Associates
Q

Okay. Speaking specifically about Egypt, there are some reports that they want to add incrementally, 1 million acres or 2 million acres, I'm a little bit confused about exactly what they want to add. But any sense on how – assuming everything falls into place and funding is available, how quickly some of these projects can go forward in Egypt?

Stephen G. Kaniewski
President, Chief Executive Officer & Director, Valmont Industries, Inc.
A

It usually depends on what level the government is involved. And right now the president is personally involved in the development in the South, in the Toshka area and parts of the military and kind of west of Cairo. So, when that happens, you tend to see things move pretty quickly. And so, over the next year to two years, there could be some significant projects of 1 million acres kind of move forward.

Jon Braatz
Analyst, Kansas City Capital Associates
Q

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

Operator: Thank you. Ladies and gentlemen, that concludes our question and answer session. I'll turn the floor back to Ms. Campbell for any final 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: Included in this discussion are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements are based on assumptions that management has made in light of experience in the industries in which Valmont operates, as well as management's perceptions of historical trends, current conditions, expected future developments, and other factors believed to be appropriate under the circumstances.

As you listen to and consider these comments, you should understand that these statements are not guarantees of performance or results. They involve risks, uncertainties, some of which are beyond Valmont's control, and assumptions. Although management believes that these forward-looking statements are based on reasonable assumptions, you should be aware that many factors could affect Valmont's actual financial results and cause them to differ materially from those anticipated in the forward-looking statements.

These factors include, among other things, risk factors described from time-to-time in Valmont's reports to 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 material; availability and market acceptance of new products; product pricing; domestic and international competitive environments; and actions and policy changes of domestic and foreign governments.

The company cautions that any forward-looking statement included in this discussion is made as of the date of this discussion, and the company does not undertake to update any forward-looking statement.

This concludes today's teleconference. You may disconnect your lines at this time. Thank you for your participation.