

21-Jul-2022

Valmont Industries, Inc. (VMI)

Q2 2022 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Hello, everybody, and welcome to today's Valmont Industries Second Quarter 2022 Earnings Call. My name is Drew, and I'll be coordinating your call today. [Operator Instructions]

I'm now going to hand over to Ms. Campbell to begin. Please go ahead.

Renee L. Campbell

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

Thank you, and good morning. Welcome to Valmont Industries second quarter 2022 earnings call. With me today are Steve Kaniewski, President and Chief Executive Officer; 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 second quarter results commenting on our market and long-term business strategy. 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. Yesterday afternoon, we announced another record quarter results, delivering on our commitments and growing both our top and bottom lines. A strong demand continued across our portfolio, driven by higher volumes and improved profitability. Despite ongoing supply chain volatility, we have continued to deliver products and solutions to our customers as they strive to meet robust demand across global infrastructure and agriculture markets.

During the volatile times, we are taking specific steps to control what we can. For example, our procurement teams are partnering with engineering to identify and qualify alternative sources, reducing our dependency on single-source products to mitigate the impact of supply chain disruptions. We have also leveraged our global footprint to expand manufacturing of certain key components in other facilities such as Dubai and Brazil, often with the added benefits of localization. We're doing a good job of attracting and retaining the talent we have, maintaining stability in the workforce, and reducing costs. While our actions do not eliminate challenges, they have positioned us better to manage through the volatility that we face.

Returning to our second quarter performance on slide 4, sales grew 27% year-over-year due to continued strong end market demand, our teams' focused efforts to increase volume across our footprint, and continued pricing actions. This quarter marked the seventh consecutive quarter of double-digit year-over-year sales growth. Robust demand trends in infrastructure and agriculture markets show no signs of abating, as evidenced by our growing backlog. And we continue to deploy an operating model that drives improvements across the organization.

In addition, we are committed to a disciplined and strategic pricing framework to ensure that we adequately capture the value we provide to our customers. I believe our results demonstrate that our strategy is working, and I am very proud of the performance of our Valmont team around the world.

Turning to the segments. Infrastructure sales grew 24% year-over-year with double-digit sales growth in all product lines led by higher volumes, primarily in Renewable Energy, Telecommunications, and TDS; as well as favorable pricing globally. Ongoing electrification of our infrastructures continues to lead investments in the utility grid and in renewable energy sources. And recent announcement of funding for domestic solar panel production and a pause on tariffs are driving demand well into next year.

Additionally, we expect to begin seeing the benefits of the US infrastructure bill in 2023. And with the addition of our newest acquisition, ConcealFab, which I will discuss in more detail shortly, we are well-prepared for continued growth in the telecommunications market, offering industry-leading products and outstanding service to our valued customers.

Turning to Agriculture. Sales grew 34% year-over-year with strength from all regions as global agricultural markets remained strong. We recognized double-digit volume growth in both North America and also in international markets, notably in Brazil and Western Europe, with strong demand for irrigation equipment and ag solar projects in those regions.

Ag Tech sales also improve year-over-year. Enhancing food security and strengthening local economies remains a priority for many nations and customers around the world. A recent World Bank study showed that global grain supplies, including corn and wheat, have tightened for the second year in a row. And the aggregate [ph] stockfeed (00:05:46) ratio is expected to drop for a third consecutive season. We are in a unique position to supply irrigation, solar, and technology solutions to improve land productivity and reduce input costs for the grower with a global reach that provides us with a more resilient business model to adapt to these market dynamics and cycles.

Despite current economic volatility, we believe our current demand environment will continue to be very positive. And with our aligned management structure and centralized operational framework, we are rising to the challenge to deliver results through a greater customer focus, improved productivity, and increased efficiency in our factories. We are a stronger organization today and have demonstrated that we are better positioned to navigate ongoing macroeconomic challenges.

Turning to slide 5. During the quarter, we acquired a majority interest in ConcealFab. This exciting transaction aligns well with our strategy to invest in high-growth market sectors and enhances our portfolio of telecommunications solutions. ConcealFab is a fast-growing industry leader in 5G infrastructure and passive intermodulation or PIM mitigation. PIM interference arises when signals at the cell site are mixed, which tend to create system performance and lead to unreliable coverage and spotty data feeds. ConcealFab's portfolio of PIM solutions helps both identify the issues and solve the problem to improve performance.

Joining the Valmont team provides immediate commercial benefits as we are now able to accelerate expansion in telecom markets in partnership with the industry leader, Ericsson, who remains a minority owner of the business. This is a tremendous step towards enhancing our access to markets and carriers around the world.

With our combined experience in this space and leveraging Valmont's engineering expertise and global manufacturing footprint, we are positioned to address critical pain points and further accelerate the delivery of 5G technology to the market. We are excited to welcome the ConcealFab team to Valmont.

Turning so slide 6 and an update on our ESG initiatives. For Valmont, our approach to sustainability begins with our tagline: Conserving Resources, Improving Life. It's at the core of everything we do. It includes our commitment to our 2025 environmental and diversity goals and the four United Nations Sustainable Development Goals that naturally align with our business.

Today, I would like to share with you a couple examples that exemplify our progress toward those goals. We recently opened a new spun concrete pole factory in Bristol, Indiana. This plant expands production of concrete utility products and gives us an important presence in the Northern part of the US. The transmission poles manufactured here will be used by our customers to help build a more reliable and a resilient electrical grid.

At this site, we are in the early stages of installing a 500-kilowatt solar array using our single-access tracker solution. This installation complements the production of highly engineered, low-carbon concrete transmission poles. We have also signed a net metering agreement with the local power provider that will allow us to net meter at retail price, demonstrating that ESG initiatives when done right are good for business.

Upon completion, the solar field is expected to fully offset all of the site's electricity consumption, an example of a real zero-emissions plant. We work with partners and formed agreements that make these capital investments compelling and enhance profitable growth, a true win-win.

Elsewhere, Valmont was recently recognized by the Department of Energy for our Alternative Energy-Mobile Source project, which successfully replaced 100 gasoline vehicles with electric vehicles at our Valley, Nebraska campus. This has reduced the site's Scope 1 greenhouse gas emissions by more than 130 metric tons annually with an associated annual fuel cost savings.

For the project, we were presented with the Better Project Award as a part of the DOE's Better Buildings Initiative. This annual award recognizes organizations for outstanding accomplishments in implementing industrial energy,

water, and waste projects at individual facilities and improve efficiency or reduce emissions and waste. These efforts have led to the launch of our Green Fleet Initiative across all of Valmont, and we plan to use this project as a model to enhance sustainability throughout our global footprint.

Before turning the call over to Avner, in summary, we performed well in the second quarter, achieving record revenue, EPS, and backlog. Our team is delivering innovative solutions to our customers, end market demand in both infrastructure and agricultural markets remains strong. As Avner will detail in a few minutes, we are also raising our 2022 outlook. Our financial strength enables us to support strategic growth initiatives while returning cash to our shareholders to further expand shareholder value. I am pleased with our results and excited about our future.

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

Avner M. Applbaum

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

Thank you, Steve, and good morning, everyone. Turning to slide 8 and second 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.

Second quarter operating income of \$122.9 million or 10.8% of net sales grew 35% year-over-year, driven by higher volume, improved fixed-cost leverage, and our ability to successfully execute on pricing strategy. Diluted earnings per share grew 21% to \$3.70 due to higher operating income, partially offset by a higher tax expense, 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 9. Operating income increased to \$84.6 million or 11.1% of net sales driven by favorable pricing and improved fixed cost leverage, including SG&A.

Moving to slide 10. In the Agriculture segment, operating income increased to \$62.2 million or 16.6% of net sales. The benefit of higher average selling prices and additional volume leverage was partially offset by higher SG&A, including incremental R&D expense for technology investments.

Turning to cash flow on slide 11. Year-to-date, operating cash flow of \$68 million reflects a sequential improvement compared to first quarter as expected, even as working capital levels remain elevated to meet strong sales growth. As previously stated, we expect to see a notable improvement in cash generation and working capital level in the second half of the year. We're confident that our actions as a team will help us deliver strong cash flow as working capital levels improve with full-year operating cash flows expected to exceed net earnings in 2022.

Turning to slide 12 for a summary of capital deployment. Year-to-date, capital spending is \$50 million, including \$80 million for strategic growth investments. We've spent \$39 million on M&A in the second quarter for the acquisition of ConcealFab. Additionally, over \$32 million of capital has been returned to shareholders year-to-date through dividends and share repurchases, and we ended the quarter with approximately \$155 million of cash. We continue to maintain a balanced approach to capital allocation that enables us to grow organically and inorganically, reinvesting in our businesses, and returning cash to shareholders.

Moving to slide 13. Our balance sheet remains strong. And total debt to adjusted EBITDA of 1.8 times remains within our desired range of 1.5 to 2.5 times.

Let me now turn to slide 14 for updated 2022 outlook. Based on our strong year-to-date results and positive outlook for the second half of 2022, we are increasing our full-year guidance. Net sales are now expected to increase 20% to 21% year-over-year to approximately \$4.2 billion primarily due to pricing to offset continued broad-based inflation. This also assumes an unfavorable foreign currency translation effect of 2% of full-year net sales and its associated unfavorable EPS impact. Full-year volume growth is expected to be in the mid single-digit. Adjusted earnings per share is now estimated to increase 24% to 28% year-over-year to a range of \$13.60 to \$14. This reflects a higher expected full-year tax rate of approximately 27.5% due to our expected geographic mix of earning. Other metrics and assumptions are summarized in the slide and in the press release.

The strong market demand across our businesses, the strength and flexibility of our global team, and our continued pricing strategies give us confidence in achieving our financial target. Additionally, investments in technology and strategic growth initiatives across our portfolio remain a priority for us this year.

Finally, for modeling purposes in the Agriculture segment, a reminder that the third quarter is typically a lower sales quarter compared to the rest of the year. However, we expect a lower seasonality effect this year due to ongoing delivery of backlog in the segment.

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 15. We delivered great results this quarter as market demand remains robust and order activity was strong, evidenced by another quarter of record revenue while growing record global backlog of \$2 billion, up nearly 25% from year-end 2021. Looking through the end of 2022 and into 2023, we expect the strong demand momentum to continue.

Turning to slide 16. In summary, I am extremely pleased with how our team has performed. Over the past few years, we have been very intentional with our strategy by leveraging our position of financial strength and flexibility while continuing to invest in our employees and technology to deliver growth over the long term. Our diversified portfolio of products and solutions, focus on operational excellence, and the enduring long-term market drivers of our businesses haven't changed. We recognize that these are challenging times across the global – current global economy, and there is growing uncertainty around recessionary pressures. Our markets are supported by strong secular growth drivers that are independent of the general economy and less correlated to macroeconomic cycles, giving us confidence into 2023 and beyond.

We remain focused on our customers and driving growth in innovation and execution. And our disciplined approach to capital allocation has served us well as we have effectively balanced investing in growth with returning capital to shareholders. We continue to focus on managing what we can control, and I am confident this approach will lead to a continued strong performance in 2022 and beyond, enabling us to deliver shareholder value well into the future.

I will now turn the call back over to Renee.

Renee L. Campbell

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

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

QUESTION AND ANSWER SECTION

Operator: Hello. [Operator Instructions] When preparing to ask your question, please ensure your phone is unmuted locally, and we ask that you ask one question with one follow-up. And if you have multiple, to rejoin the queue after your first question.

So, our first question is going to come from Chris Moore from CJS Securities, and I will just open your line now.

Christopher Moore

Analyst, CJS Securities, Inc.

Q

[audio gap] (00:19:26) question or two.

Operator: Your line is now open.

Christopher Moore

Analyst, CJS Securities, Inc.

Q

Obviously – good morning. Thanks for taking a couple questions. So, just in terms of the growth by segment, could you break out the price and volume a little bit further within Infrastructure and Agriculture?

Avner M. Applbaum

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

A

Hi. Good morning. Yeah. Thanks for your question. So, overall, as we stated, if I start from Agriculture, right, we do have double-digit volume growth in the quarter, and expectation is to be the same for remainder of the year. When you look in Infrastructure, pretty much across the board, we are getting volume growth, as we stated, kind of mid single digits and expecting to get mid single-digit volume growth throughout the year pretty much across the product lines in the segment.

Christopher Moore

Analyst, CJS Securities, Inc.

Q

Got it. And just for my follow-up, so you're talking about strategically expanding capacity in key growth markets. Can you provide just maybe a little more detail there and talk about which segments or sub-segments are perhaps closest to capacity at this point?

Stephen G. Kaniewski

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

A

Hi, Chris. This is Steve. Irrigation, we've been methodically adding capacity in different parts of the world. Brazil, notably, obviously, to meet the increased demand down there. In Dubai, we pretty much doubled the size of the facility over the past 2.5 years. We have added in the Utility area and Telecom area in Monterrey, Mexico, again, over about the past year and a half. And so those are some of the areas that we are watching closely and making sure that we keep a proper balance of capacity versus volume coming through them.

Also, that's one of the reasons we're really pushing our lean efforts and productivity efforts around advanced manufacturing and robotics so that we can continue to gain production hours without a lot of brick-and-mortar.

Christopher Moore*Analyst, CJS Securities, Inc.*

Got it. I appreciate it. I'll leave it there.

Q

Operator: Thank you. Our next question comes from Nathan Jones from Stifel. Nathan, your line is now open.

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

Good morning, everyone. I want to start with a question on gross margins. In the face of heavy inflation and a lot of price pass-through, I thought it was pretty impressive that gross margins actually expanded 10 basis points. Hoping you can provide a little bit more color on whether or not you're able to pass through the inflation with some margin on it, the operational efficiencies, leverage on volume that's keeping those gross margins really healthy given all the inflation that's running through.

Q

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

Thank you, Nathan. This is Avner. I'll take that one. So, first of all, yes, we're pretty pleased with our ability to expand margin in this inflationary environment. And frankly, it's pretty much product line by product line, market by market. It differs, and we do have opportunities to expand our margins through pricing in many areas. Additionally, we are getting leverage on additional volume. We're taking advantage of productivity improvement. As we mentioned, we're doing localization for a region that is driving improvement as well. And so all in all, we are able to expand margin [ph] and very pleased (00:23:16) with the fact that we're doing that in this difficult environment.

A

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

And, Nathan, I'll just add that...

A

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

Just to put it now, [ph] where do you guide (00:23:24)?

Q

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

Sorry. I was just going to add that inflation is this ever-evolving thing that's out there. And so we're just staying hyperattentive to any parts of the business that have inflation. Obviously, in the second quarter, fuel and fuel surcharges really ramped up above most people's expectations, and so that's something that we'll still play catchup on. But as Avner talked about from a productivity perspective, the plants have done an excellent job.

A

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

Great. Thanks. I guess I'll ask a price versus volume question on the backlog as well, just to get a finer point on that. Is there any color you can give us on how much the backlog is up price versus volume?

Q

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

A

I think it's pretty reflective of what we're seeing right now in the business where we're getting additional volume in the backlog as well as pricing. So, they're pretty indicative of what you're seeing in our results today and sort of remainder of the year.

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

Q

The [indiscernible] (00:24:28) is the revenue then?

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

A

Yes. That is correct.

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

Q

Thanks very much for taking the questions.

Operator: Our next question comes from Brian Drab from William Blair. Your line is now open, Brian.

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

Q

Hi. Thank you. I wanted to ask just a question about interest rates and whether you're seeing any change in project activity or conversations around larger projects, particularly in Utility changing at all as maybe the ROIC and some of these projects doesn't look as attractive given the higher interest rate environment in the second half of 2022 and into 2023. Is that a concern?

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

A

Yeah. Brian, we don't really see anything as of yet that has been impacted by interest rates. The return on equities, particularly in Utility, are still very strong. They outperform most other investment vehicles in the market. And so therefore, I think with the renewables targets, with the amount of electrical grid, congestion that we're starting to see, and just the need for grid hardening, I think that those will continue fairly unabated. And everything we've been looking out from the demand profile as we look into 2023 and 2024 still looks very strong in terms of not just maintaining the base, but continuing to grow on top of the base.

I think telecom providers, while it may be affecting their financing to a degree, the fact is, they spent a ton of money on the C-band auctions and some of the subsequent auctions where they're going to – and they have performance guarantees to get coverage. They're going to have to install what they have out there too. So, the two areas that will be most affected by financing actually look to be pretty healthy.

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

Q

Okay. Thank you. And I hate to blow my second question on tax rate, but I'm going to just because it's going to have bearing on the 2023 models here. But it looks like if 27.5% is the right number for the – or the best guess for

the full year 2022, does that put us in a kind of a 27.5% to 28% range for the second half of the year? And is there any reason to think that that would not be the best guess for 2023?

Avner M. Applbaum

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

A

Yeah. So, really, the main drivers, like we mentioned, was geographic mix. And we are seeing very strong performance out of Brazil, which currently have a higher tax rate, as you're all familiar with the – going back and forth with the treasury and kind of Brazil and getting penalized for double taxation there. Assuming that situation stays the same and we continue to get strength in Brazil, we will see a slightly higher tax rate. So, that's how I kind of look at it right now.

Stephen G. Kaniewski

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

A

So, 27.5% is where we believe it will stay at this point.

Brian Drab

Analyst, William Blair & Co. LLC

Q

Okay. All right. Thanks very much.

Operator: Our next question comes from Brian Wright from ROTH Capital Partners. Your line is now open, Brian.

Brian Wright

Analyst, ROTH Capital Partners LLC

Q

Thanks. Good morning. Congrats on the quarter. Really impressive results. I wanted to just drill down a little from – just try and get a little help on the modeling side as far as breaking down the revenue growth profile kind of between Infrastructure and the ag irrigation side for the year. Just kind of any help you could give on that would be great.

Avner M. Applbaum

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

A

Yeah. So, this is so Avner. So, the way I look at it right now is, when you look at it for the remainder of the year, you look at Agriculture, we should continue to expect to see double-digit volume growth in both North America and internationally, actually. And then when you look at Infrastructure, assume that we're going to grow mid single-digit volume growth pretty much across those Infrastructure product lines is the way I would look, and the remainder would be pricing.

Brian Wright

Analyst, ROTH Capital Partners LLC

Q

Okay. And just following up on that, recently the commodity prices in the past kind of month or so have come in a bit, and just kind of think about like where the sensitivities are on that, and if things were to continue, just kind of how that would impact things?

Stephen G. Kaniewski

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

A

Yeah. If it's on the cost side, with steel and zinc and others on the decline, we have no plans to give that back other than we're contractual in kind of our utility space. There are so many other inflationary factors on the – through the other parts of the business that there's no need to give it back at this point. And we've been able to do that with the supply/demand profile that exists.

From a – if you'll go to the farmer input costs side, if those are the commodities that you're thinking about with corn and soy and some recent pullback there, a lot of that's due to the dollar strength. As the dollar has strengthened, you'll see those pull back. If the dollar were to weaken, they'd probably go back up. And we're kind of in this lull period from a North American harvest perspective or even a crop health assessment to see what's going to happen out there.

But farmers remain very positive. We actually had some economists then who kind of rightly predicted the upturn in the ag markets, who believe 2023 should see no difference from 2022. And so the net farm income will change as fertilizer costs have stabilized or come down a little bit. That will obviously help the farmer as they think about 2023. So, overall, not much change due to the recent commodity changes out there.

Brian Wright

Analyst, ROTH Capital Partners LLC

Q

Great. Great. And then as part of it, just to think about it, it's a process and it takes time to get everything kind of through into the pricing. And so there, the catch-up, so to speak, is – would be more than offset kind of any near term kind of further pressure on some of the – on the metal side?

Stephen G. Kaniewski

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

A

Yeah. That's correct. And we have inventory that we purchased, but they had higher rates, and that's why it was priced at that point. And with the backlog, let's say, and the longest backlog in the utility area around 26 weeks, you've already kind of marked-to-market it at the time that you purchased and you took your order. So, that should just move through without a lot of squeeze, let's say, for downward pressure on pricing.

Brian Wright

Analyst, ROTH Capital Partners LLC

Q

Excellent. Thank you so much. Thank you.

Operator: [Operator Instructions] We ask that you ask one question with one follow-up. And if you have multiple, to rejoin the queue after your first question. Our next question comes from Ryan Connors from Northcoast Research. Your line is now open, Ryan.

Ryan Michael Connors

Analyst, Northcoast Research

Q

Great. Thanks for taking my question this morning. I wonder, Steve, if you could discuss in a little more depth the decision-making process around deploying capital toward the new manufacturing plant. I'm showing my age, I'm old enough to remember the transmission industry kind of getting ahead of its SKUs. I guess that was 10, 12 years ago. And a lot of capacity going in at a later point in the cycle, and the result being a pretty tough pricing cycle. So, with that background, I'm just curious and I'm sure that there was a lot of due diligence, but can you [audio gap] (00:33:10) the thought process and the different considerations on that front?

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

A

Yeah. I think the dynamic is a little different than 2012 and 2013 specifically in this sense. One, most of us are battle-tested through that, and we remember it quite distinctly. And so now, the real push is on productivity as a way to gain capacity through the plants. So, the capital positions are more, first and foremost, focused with automation, improved flow through the facilities, better cutting machines, better welding machines, things that can really help you just move more of the products through your existing footprint. In terms of a big brick-and-mortar, it's like the last thing that we want to do. And so therefore, we're going to stay very close to the market. We'll be very close on lead times.

I think the other big dynamic is the market has acted very consistently, particularly over the last five years. It's been a steady growth curve with no real big projects like back then with CREZ, which was the big Texas build-out for renewables, kind of lurking in the background. And so as long as we stay very close to the utilities on their demand profile, as long as we are continuing to build productivity year-over-year, which everyone expects from the operations teams, and then really putting the right capital, smart capital, I call it, towards those productivity things, that's where we're going to act.

Now, the market, obviously, if you compound these numbers out, there may be a need somewhere down the line. But we've been fairly successful because of our operations model of as one product line declined slightly, our volume is not quite where we expected. We can quickly put in another product line's product. That came through the centralization of our operations group. So, that's also given us a large boost of capacity that frankly was latent to sit in there for us to take. And so that's helped us to-date.

Ryan Michael Connors*Analyst, Northcoast Research*

Q

Yes. Okay. That's very helpful. And then, I guess my other one is more – is for Avner, really. Avner, the SG&A line is something we've been kind of having a tougher time modeling. In some quarters, it seems like it grows in line with sales, other times, you seem to be getting some pretty good leverage there [ph] ahead (00:35:47). How can we think about that? Is there a growth rate in SG&A we should think about with inflation and that type of cost? Or is it more of a percent of sales you're targeting? Anything you can help us out with there would be appreciated.

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

A

Yeah. So, overall, I look at SG&A. Of course, it goes up and down with sales. That's clear. Like there's a correlation there. Continued investment in R&D is another area that you can track through the P&L. Possibly when you look at incentive side, that can kind of – that will go up and that will impact your increase in your SG&A as well. Those are kind of the main areas I kind of focus on when I look at the SG&A.

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

A

Yeah. And I would just say, from a base SG&A, we are gaining leverage. We're choosing to strategically invest in R&D, both in agriculture and infrastructure along the technology front at a run rate that would exceed last year. So, if you throw that with the incentives piece, more than likely, the two may offset from a leverage on the base side to what we're reinvesting on the other side. But we gained leverage this quarter.

Ryan Michael Connors*Analyst, Northcoast Research*

Q

Okay. Great. Hey, thanks for your time.

Operator: Thank you. Our final question comes from Bill Baldwin from Baldwin Anthony Securities. Your line is now open.

Bill Baldwin*Analyst, Baldwin Anthony Securities, Inc.*

Q

Okay. Thank you very much. I was very impressed with the double-digit growth, volume growth in the North American ag business. Can you provide a little insight as to what's driving that outstanding performance?

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

A

Thanks, Bill. North America has been performing very well. It's a mature market. There is a lot of demand that's out there. And I think our team did a really good job of capturing that. We did have, let's say, a little bit more than normal storm damage from some of the events, particularly in the Midwest. But the growth has been pretty universal across all different regions, whether it's the Southeast, the Northwest, the Midwest. And a lot of our dealer performance program and what we're doing to incentivize the dealers, the additional services, the additional tech that they're selling really has led to that kind of volume growth.

Yeah. But that being said, we probably have more backlog than we normally would this time of year that will carry over into the third quarter. So, it could have been maybe even a little bit better, albeit because of some of the supply chain issues. So, the market's strong, and it really represents kind of the global net farm income story and the need for food security. No different here than it is in the developing world for Western Europe.

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

A

And maybe I'll add just one more thing. This is Avner. So, on the production side, because of our localization efforts, we've been able to support region for region. And North America can support the North American region, which help us produce against the demand that we had.

Bill Baldwin*Analyst, Baldwin Anthony Securities, Inc.*

Q

Steve, do you – does it look like you're actually gaining new customers in that business in addition to upgrading the existing customers or replacement for existing customers? Are you capturing new customers?

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

A

I think, to a degree, yes. North America, we have some efforts around going after cattle farmers. We have certain crops like potatoes and peanuts that I think are new to the mix of sales that we would have had historically. We've had some solar projects in North America that have also contributed to that. So, I think the need for irrigation and conserving water is really becoming [ph] a thematic (00:40:01) for all the growers because of who they sell to also asking for conservation measures to be put in place. So, think of PepsiCo or Unilever. They want to have and buy from a sustainable farm, and they want those farms to be able to substantiate that. And I think that's kind of the new driver that's driving the additional growth in the market, particularly in North America.

Bill Baldwin*Analyst, Baldwin Anthony Securities, Inc.*

Q

Very interesting. And just one last quick question. Do you think your technology platform that you developed in the ag area is driving any of this demand for hardware for pivot systems?

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

A

I think the technology definitely enhances the payback story on a pivot. The ability to operate remotely, the ability to get plant insights, particularly around emergence and pest and disease really makes the pivot a much more valuable tool to the farmer. And so therefore, yes, to answer your question. If the pivot were static and just – all it did was mechanical irrigation, then I think it doesn't have the same value proposition because most growers' equipment, other pieces of equipment have advanced in technology as well. And so it's, I believe, just a simple market expectation. And our solution is pretty unique in the insights area and being able to look at the crop very early on and straight through to the harvest process.

Bill Baldwin*Analyst, Baldwin Anthony Securities, Inc.*

Q

Thank you very much.

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

A

Thanks, Bill.

Operator: Thank you. That concludes today's Q&A session. I will now refer back to Ms. Campbell for further remarks.

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

Thank you, everyone, 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, and we look forward to speaking with you again next quarter.

Operator: This release contains 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 perception of historical trends, current conditions, expected future developments, and other factors believed to be appropriate under the circumstances.

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These factors include, among other things, the continuing and developing effects of COVID-19, including the effects of the outbreak on the general economy and the specific economic effects of the company's business and

that of its customers and suppliers, 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 condition, 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, geopolitical risks, and actions and policy change of domestic and foreign governments.

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

That concludes today's call. Thank you for your participation. You may now disconnect your line.

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