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Valmont Industries, Inc. (VMI)

Q1 2024 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Greetings. Welcome to Valmont Industries, Inc. First Quarter 2024 Earnings Conference Call. At this time, all participants are in a listen-only mode. A brief question-and-answer session will follow the formal presentation. We ask that you please limit yourself to one question and one brief follow-up question and return to the queue. [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 2024 earnings call. With me today are Avner Applbaum, President and Chief Executive Officer; and Tim Francis, Interim Chief Financial Officer. This morning, Avner will provide a brief summary of our first quarter results, current market dynamics and strategic priorities for 2024. Tim will review our first quarter financial performance and provide our updated outlook and indications for the year with closing remarks from Avner. 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 as outlined on slide 3 of the presentation and will be read in full at the end of today's call.

Finally, stay updated with Valmont's latest news releases and information, please sign up for email alerts on our Investors site. We also invite investors and other interested parties 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 our President and Chief Executive Officer, Avner Applbaum.

Avner M. Applbaum

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

Thank you, Renee. Good morning, everyone, and thank you for joining us. Before discussing first quarter results, I'd like to address the recent severe weather in the Central US, including Nebraska. I'm relieved to report that our employees are safe, our facilities are undamaged and our operations have not been disrupted. The extent of the damage to local irrigation system and utility infrastructure throughout the area is not yet clear. But we're ready to support our dealers and customers with any need repairs and replacements. We extend our heartfelt concerns to everyone impacted by these events.

Now, turning to slide 5 and first quarter results. We've had a strong start to 2024 delivering results that exceeded our expectations with significant commercial and operational achievements and solid financial performance. Our success this quarter demonstrates the strength of our organization and the value we create through the Valmont business model, guided by our core values and aligned around our focused areas, we're a more resilient company and are more adaptable to dynamic market conditions.

Through this strong performance, we expanded operating margins 240 basis points and grew diluted earnings per share nearly 25%, despite sales decreasing 8%. Our focus on commercial execution, operational excellence and reduced SG&A expenses has allowed us to improve profitability in an environment of lower demand from some [ph] end markets (03:50). This was a true team effort across the organization. I'm very proud of what we were able to accomplish.

Overall, I'm encouraged by our ability to execute and drive profitability. Our success reflects our shared core capabilities across the organization, including product innovation, talent development and operational excellence. Our legacy was built on leveraging these core competencies to build a resilient company with a broad market exposure. The strength of our portfolio diversity is evident in our first quarter results as the size and strength of our Infrastructure segment is helping to balance soft demand in Agriculture.

This quarter saw continued strong demand in Infrastructure, notably in our TD&S business, driven by the multi-year energy transition and needed investment to build a more resilient grid. Our strategic investments to enhance flexibility in our footprint are helping to drive favorable product mix and generate higher returns.

For example, this quarter, we grew our Transmission business but also successfully increasing the production of Distribution and Substation products. Stable demand in Lighting and Transportation markets continue even as IIJA funding has yet to benefit our business. As expected, demand in telecommunications markets remains muted as carrier investments normalize to support network expansion.

Turning to Agriculture. Demand in North America continues to be soft but stable and generally in line with our expectation. We are encouraged by the trend of a higher order rates during the spring selling season compared to last year as center pivot continued to be a compelling investment for growers.

In Brazil, we continue to see muted grower sentiment and general market softness. Lower crop prices are weighing on gross profitability, causing them to defer certain capital investments, including irrigation equipment. International projects shipments this quarter were lower, largely due to challenging conditions in Egypt. We effectively navigated these delays and are pleased to report that shipments have resumed in the second quarter.

Turning to slide 6 and shifting our view from near-term dynamics to long-term fundamentals. Our end markets have several multi-year demand drivers. In our Infrastructure segment, the energy transition, replacement of aging infrastructure for enhanced resiliency, and rising consumption of data and technology are all multi-year megatrends driving increased demand for our products. Investments in grid infrastructure are increasing to support these megatrends with projections for US electricity demand growth over the next five years doubling from last year's estimate.

This growth is driven by both expansion of data centers to manage AI's extensive data needs and by increased manufacturing for high demand industries such as chips, batteries and electric vehicles. Requested rate increases by utilities set a record in 2023 for the third consecutive year supporting their capital investment plans. [ph] Our (07:30) high interest rates and the approval timing of rate increases can lead to project movement for certain customers. We have built flexibility in our footprint to be agile and adjust quickly to evolving customer needs.

Transmission demand continues to grow at high rates and all of TD&S is supported by compelling global megatrends. Lighting and Transportation products typically delivered in the latter stages of projects financed by IJFA funding, along with coating services, which protects steel from corrosion and harsh environments, also stand to benefit from these enduring multi-year drivers.

In telecom markets, our customers expect carrier CapEx spending to remain muted this year following record years in 2021 and 2022. We stand ready to quickly respond to the anticipated uptick in demand driven by spectrum deployment and continued 5G expansion.

Turning to Agriculture. Projected net farm income levels and lower crop prices plus natural variation in weather pattern all impact grower sentiment, especially in larger markets such as North America and Brazil. While global ag market conditions remain soft in the near-term, several factors are poised to drive demand growth in the global irrigation market beyond 2024.

Climate change, water scarcity and sustainability consideration are key drivers. Food security concerns and population growth will further bolster demand for our irrigation products. North America and Brazil both remain key geographic regions for our business, each projected to have favorable long-term growth trends.

Our international project pipeline remains strong. I'm pleased to share that we have recently secured over \$50 million in new projects for Middle East market. We expect to complete most of these shipments in 2024. This specific region is seeing an overall strategic shift from flood to center pivot irrigation. The drivers for this shift include water conservation, increasing land productivity and reducing crop inputs, key aspects of sustainable agriculture and improving resource efficiency. Valley irrigation is well-positioned to support these significant projects utilizing our advanced technology, manufacturing footprint and strong dealer network.

As you can see, given the softness in certain markets, our broad and diverse revenue streams are paying off. We have strategically built our end market exposure around our core capabilities. Our growth strategy is aligned with multi-year demand drivers across these markets. This diversification makes us less susceptible to a downturn in any single market, enhancing the stability and consistency of our profitability and growth.

Turning to slide 7. I'd like to highlight our strategic priorities for this year. These are grounded in the Valmont business model, which we shared last quarter, and are the foundation for value creation. Each priority tied back to our key focus areas. Starting with our people. This quarter's accomplishments underscore the high performance culture we're building, one that drives market leadership and fosters innovation. We continue to live our core

values of passion, integrity and continuous improvement as we deliver results on our journey towards excellence. I want to thank our team for their extraordinary efforts.

Next is return on invested capital. We are sharpening our focus on core competencies to enhance ROIC. This ensures we are maintaining our competitive edge, allocating resources where they generate the highest returns for maximum value creation. Finally, sustainability is embedded in our operation and the innovative solution we offer to our customers.

In Infrastructure, as a trusted leader across our markets, we are advancing sustainable products that can endure a changing climate, conserve resources and last long into the future. Our concrete utility pole facility in Bristol, Indiana, demonstrates this commitment. It produces transmission and distribution poles using low carbon processes and materials to support the growing need of our utility customers, while aligning with their own sustainability goals. A 500 kilowatt solar array with our award-winning solar trackers was built to fully offset the facility's annual electricity usage, highlighting our commitment to sustainable operations.

In Agriculture, technology enhances efficiency on the farm by reducing inputs, increasing lab productivity and lowering labor costs. Our fully integrated tech teams have developed a roadmap to deliver exceptional value to our customers. We are actively engaging our core engineering teams with AI and machine learning capabilities to embed predictive analytics into our products. This strategic integration positions Valley technology at the forefront of the industry, delivering distinct competitive edge by enabling smarter and more efficient irrigation solution. I'm very pleased with our progress and excited about our future.

To summarize, we've had a strong start to 2024 delivering impressive results despite demand headwinds in some markets. I am confident that our focus on operational excellence and value creation for our stakeholders will continue to drive positive outcomes.

Now, I'll turn it over to Tim for our first quarter financial review and an updated 2024 outlook.

Timothy P. Francis

Interim Chief Financial Officer, Valmont Industries, Inc.

Thank you, Avner, and good morning, everyone. Turning to slide 9 and first quarter results. Net sales of \$977.8 million decreased 8% year-over-year. Operating income increased 11% to \$131.6 million, and operating margins improved meaningfully to 13.5%. Diluted earnings per share of \$4.32 increased nearly 25% year-over-year. The steps we have taken to control expenses and reduce our cost structure are clearly having a favorable impact on our profitability.

Turning to the segments in slide 10. Infrastructure sales of \$723.6 million, decreased 1.7% year-over-year. Higher volumes in TD&S and Solar supported by continued strong utility market demand and favorable pricing across the portfolio were more than offset by significantly lower telecommunications volumes. Operating income increased to \$117.9 million or 16.4% of net sales. The improvement in operating margins was driven by successful commercial execution, including pricing strategies, deliberate actions to improve cost of goods sold, and lower SG&A expenses. We also realized benefits from strategic investments in our manufacturing facilities, enabling us to increase production of higher margin products.

Moving to slide 11. Agriculture sales of \$258.7 million decreased 22.1% year-over-year. In North America, the irrigation equipment volumes were lower as the first quarter of 2023 benefited from the ongoing delivery of elevated backlog. Average system selling prices were slightly lower compared to last year.

International sales decreased, primarily driven by lower sales in Brazil due to more normalized backlog levels, as compared to the first quarter of 2023 and softer soybean prices impacting grower sentiment. Middle East project sales were also lower. The sales contribution from the HR Products acquisition partially offset the lower sales. Operating income decreased to \$41 million or 15.9% of net sales. Improvement in gross profit margins and the benefit of lower SG&A expenses were more than offset by the impact of lower volumes.

Turning to cash flows and liquidity on slide 12. First quarter operating cash flows were \$23.3 million, and we ended the quarter with approximately \$169 million in cash. We expect strong cash flow throughout 2024 through earnings growth and diligent working capital management. Total debt to adjusted EBITDA of 1.82 times was within our desired range of 1.5 times to 2.5 times. Our cash balances, available credit and flexible balance sheet provide us with ample liquidity to execute our capital allocation strategy.

Turning to slide 13, first – on the first quarter capital deployment. Capital spending was \$15 million. Strategic CapEx spending is a cornerstone in elevating the performance and resilience of our businesses. A standout initiative in response to rising customer demand is increasing capacity at multiple sites for concrete transmission and distribution structures. We have strategically increased the flexibility of our operations, leading to improved and more consistent performance across our product lines. These targeted investments underscore our dedication to maintaining a competitive edge and meeting our long-term financial goals.

Our acquisition strategy this year is sharply focused on natural adjacencies to our core capabilities that would enhance our portfolio or expand our addressable markets. This targeted approach ensures that our investments strengthen our existing market presence and promote sustainable profitable growth. Our capital deployment approach balances growth investments with returning cash to shareholders. This quarter, we returned approximately \$12 million of capital to shareholders through dividends and completed the \$120 million Accelerated Share Repurchase program that commenced in the fourth quarter of 2023.

I will now share our updated 2024 outlook as shown on slide 14. We expect net sales to be down 2% to up 0.5%, an improvement from our previous guidance of down 3% to flat. Turning to the segments. Our outlook for Infrastructure is unchanged as we expect volume growth approaching mid-single digits this year. In Agriculture, we expect continued market softness this year due to lower grain prices and current farm income projections.

However, we now have better visibility into international projects and anticipate segment sales to be down between 10% and 15% compared to prior year, an improvement from our previous forecast of a 15% to 20% decline. We remain focused on targeted pricing strategies and increasing adoption of our technology solutions.

Our updated outlook expects diluted earnings per share to be in the range of \$15.40 to \$16.40. We also expect second quarter earnings per share to be slightly below first quarter 2024 results. Doing the math, this implies a lower quarterly EPS during the second half of this year.

Let me walk you through the moving pieces. In Infrastructure, we anticipate full year gross profit margins to be improved compared to full year 2023, but likely not as high as the first quarter, which benefited from favorable product mix and an opportunistic steel purchase. While we are always striving to drive margins higher, our guidance assumes these positive factors will not recur at the same level we experienced in first quarter.

In Agriculture, a higher mix of international projects during the second half of the year is expected to pressure segment margins, although this will be partially mitigated by reduced SG&A expenses compared to last year. We expect second half segment operating margins to be similar to the fourth quarter of 2023, which was 10.3% on an adjusted basis. Our outlook also assumes consolidated SG&A as a percentage of net sales will be better than last

year, reflecting meaningful process changes we've implemented to ensure effective cost management moving forward.

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

Avner M. Applbaum

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

Thank you, Tim. Turning to slide 15. In closing, I want to once again highlight the effectiveness of the Valmont team in navigating current market dynamics. We're actively managing what we can control through commercial excellence and focusing on our core competencies. We are proactively taking steps across our global operations, investing in our footprint to support growth, enhance productivity and maximize returns while driving strong cash flow generation.

This strength across our portfolio demonstrates a level of resilience and forward momentum that was not achieved in previous agriculture down cycle, demonstrating the progress we've made on creating a high performance culture and positioning us for sustained financial success. With these ongoing actions, we are primed to further expand margins as volume recover in agriculture and telecom markets, supported by long-term megatrends in Infrastructure and Agriculture, our diverse portfolio positions us well to meet our long-term financial targets and deliver lasting value to our shareholders.

I will now turn the call back over to Renee.

Renee L. Campbell

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

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

QUESTION AND ANSWER SECTION

Operator: Thank you. At this time, we will be conducting a question-and-answer session. [Operator Instructions] Thank you. Our first question comes from 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. Yeah. Maybe start on the ag side. So Brazil was roughly, I think 50% of international ag in 2023. What's a reasonable estimate for 2024? And as – are you looking at 2024 as an anomaly or fair to think that Brazil might be smaller in 2025 as well?

Timothy P. Francis

Interim Chief Financial Officer, Valmont Industries, Inc.

A

This is Tim. I will take that one. We've – we typically don't comment on how much Brazil is as a percentage of the total segment, but we do see it down as a percentage of the total. That's partially attributed to the fact that for the full year of 2024 we are expecting more project work in the international markets. But overall, from a long-term perspective, we're very bullish on Brazil.

The main thing we're watching right there is soybean prices, there – the item that correlates the best to the outlook for what we expect for sales in that market. And we'll continue to watch that and as those prices improve, we'd expect the Brazil market to rebound for us.

Christopher Moore

Analyst, CJS Securities, Inc.

Q

Helpful. Thanks, Tim.

Avner M. Applbaum

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

A

Yeah. Chris, hey, this is Avner. Let me just add to that as well. So far, actually, we're just coming off the agri show now in Brazil and we're three days into that show. So, the initial indication are, we're actually seeing a lot of current and new customers at the booth, which is encouraging. And a lot of the feedback that we are getting from our customers at this point is that they're very impressed with the technology offering, the expertise around our knowledge and the team there. And maybe the biggest takeaways is the feedback that we're getting from the customers. They understand the ROI that they are getting from the [indiscernible] (25:24) pivot and the value that our products to – that we're getting back to them.

So, overall, when we look at the long-term, we're very much encouraged by the opportunity in Brazil. There's a lot of land to be irrigated, the pivot – there is great growing conditions there, and the pivot has a strong ROI. So we will see softness this year based on what Tim just said. The soybean has an impact on their EBITDA margins coming off a year back. But overall, the long-term outlook for Brazil is very strong for us.

Christopher Moore

Analyst, CJS Securities, Inc.

Q

Got it. Very helpful. Maybe just stay with ag. So ag is expected to be down 10% to 15% at this point. How do you look at parts in that equation? And is the parts much different internationally versus North America?

Avner M. Applbaum

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

A

Yeah. Chris, I'll continue on this line. So at this point, I would say that the North America would be at the lower end of the range and then that the international part would be at the higher. So North America closer to 10%, international overall at 15%. And as we said early in the conversation is that North America, overall, we're actually – we're pleased to see that our orders are stronger than they've been last year. And the market has underlying strong fundamentals around the North America market. So we'll continue to watch the crop prices. Clearly, corn is at lower levels. We'll keep on watch the USDA projection. But we are encouraged by the order rates that we're seeing right now and we'll just keep our pulse on the market.

Christopher Moore

Analyst, CJS Securities, Inc.

Q

Got it. On the – specifically, on the parts piece of that is the revenue – parts revenues are going down less than the overall revenue or how should we look at that?

Avner M. Applbaum

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

A

I'd say that overall it's around the same.

Christopher Moore

Analyst, CJS Securities, Inc.

Q

Okay. All right. I appreciate it, guys. I'll jump back in line.

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

Brent Thielman

Analyst, D.A. Davidson & Co.

Q

Hey. Thanks. Good morning, Avner, Tim, Renee. I guess, just wondering if you could unpack the moving pieces on the Infrastructure margin this quarter. How much did the opportunistic steel purchase could positively impact the margin versus favorable mix? And I guess I'm also wondering just around the mix, wouldn't a weaker telecom business be a net negative to margin in that segment?

Timothy P. Francis

Interim Chief Financial Officer, Valmont Industries, Inc.

A

Hi, Brent. It's Tim. I'll take that one. First of all, we are very pleased with the first quarter Infrastructure gross profit margin of 31.3%. In terms of force ranking the two items, as it pertains to first quarter, the opportunistic purchase of steel did have the most effect on the improvement in that margin.

In terms of the second factor that drove the better gross profit margins, it's really a shift in product mix within TD&S. And we saw an acceleration of our strategy to be able to design and produce more distribution and substation structures, where we're seeing demand is strong and pricing is favorable right now. I'm very pleased with the work of all of our teams. That required our engineering resources to modify some of the processes, and

of course, it required some strategic investments we've been making in the last few years to add that flexibility in our manufacturing facilities.

So that – you are right in terms of history would say that our telecommunications product line is more favorable or helps adjust up the total Infrastructure segment margin. But what we saw here in the first quarter, that second factor and we expect to see for the rest of the year is this shift to more distribution and substation structures is going to help the margin profile out of that segment.

Avner M. Applbaum

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

A

And this is Avner. If I just broaden it kind of your – like Tim said, you're exactly right about telecom has accretive margin. But when you look at Valmont overall, when you look at Agriculture down and telecom down, and the fact that we've been able to increase our earnings year-over-year is a testament to what we said earlier today is the strength of our portfolio are able to execute against these market dynamics. So we're very pleased with our Q1 results.

Brent Thielman

Analyst, D.A. Davidson & Co.

Q

Yeah. Impressive for sure. I guess the second question would just be back on Agriculture. I saw you secured the new awards in the Middle East. Is the better outlook contingent on winning other project awards you may pursuing [indiscernible] (30:31) pursuing? And maybe Avner, if you could just talk about the project pipeline out there and other opportunities to book new awards on the international piece.

Avner M. Applbaum

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

A

Absolutely. So overall, when I look at our project work, we continue to have a very strong pipeline as we've been mentioning this over the last several quarters, and we are very pleased with the award of the \$50 million project in that region, which shows or solidifies our strong position in that region, the compelling ROI of the pivot and the focus on food security and sustainability in that region.

But when I look specifically at your question, there's always project timing where – we don't need to bank on any additional large awards. It's just normal course of business. We're pleased the fact that we continue our shipments on the Egypt project and some of that could be pushed into 2025 at this point. But we factor that into our guidance. So we're comfortable with our overall guidance for Agriculture of the 10% to 15% down and very confident with our ability to execute on that forecast.

Brent Thielman

Analyst, D.A. Davidson & Co.

Q

Okay. Very good. I'll pass it on.

Operator: [Operator Instructions] Our next question comes from line of Brian Drab with William Blair. Please proceed with your question.

Brian Drab

Analyst, William Blair & Co. LLC

Q

Hey. Good morning. Thanks for taking my questions. On the margin dynamics for the year, I'm just wondering if you could put a finer point on this or maybe repeat what – some of what you said. So 31.3% gross margin in the first quarter, is the expectation that it sounded like that might step down slightly in the second quarter and then maybe were down back into, what the 28% range in the second half of the year. To the extent if you can – can you put a finer point on what we should expect for gross margin for the year?

Timothy P. Francis

Interim Chief Financial Officer, Valmont Industries, Inc.

A

Hi, Brian. It's Tim. I'll take that one. Yes. So in total, we expect the Infrastructure segment to see an improvement in its full year gross profit margin when compared to the full year of 2023. So what that means is the opportunistic purchase steel that we saw in first quarter doesn't – the effect of that is less in the second quarter. So we'll see a slightly reduced gross profit margin in Q2, and then we will see a slightly reduced gross profit margin in the second half of the year to make the math work for why the gross profit margin is better for the full year versus 2023.

Brian Drab

Analyst, William Blair & Co. LLC

Q

Okay. All right. Thanks. And then, you gave us some directional commentary on the volumes for TD&S, L&T or I guess you gave TD&S, but you didn't give L&T. And can you – I guess to the extent that you are willing to, can you tell us how much volume change for some of these sub-segments? And what was L&T, because I'm looking at L&T up or sorry, that one was down, I think. What – I have no idea how much pricing affected L&T, so I don't know what to think here with total revenue down 3% for the sub-segment what did volume do there?

Timothy P. Francis

Interim Chief Financial Officer, Valmont Industries, Inc.

A

Sure. So as it pertains to first quarter, for L&T pricing was flat. We did have a little bit of unfavorable currency. That was about \$2 million of the decrease. And then we did do some very selective de-selection of some very small sub-product lines. And that's really tied to Valmont being focused on the profitable growth that de-selection won't continue for the rest of the year, but really that's the main driver of why volume was down slightly for first quarter is as we look at some of our international markets, we chose to exit some very small product lines.

Avner M. Applbaum

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

A

Yeah. And let me just add a little bit more color to kind of overall our segment. So L&T specifically is following the macro trends that we're seeing in the market. So if you look at the Transportation, it's trending in conjunction with the Infrastructure or road spend. So we're seeing strength in that market. On the Lighting side, we are seeing some areas where it's not growing at that level. We mentioned that also in the past, some of the residential build doesn't affect our business and we track that and we expected some softness in that space. But overall, the L&T has strong drivers and we expect that throughout the year.

Telecommunication, we addressed that as well. Telecom will be soft following some of the CapEx spending by the large carriers. If you listen to both Verizon and AT&T, they reduced their CapEx spend in Q1, just in their earnings, 27%, 28%. So they're going to go back to business as usual. That's impacting our telecom business. But we're going to control what we can control. We continue to enhance our geographic reach, work with our partners such as Ericsson, increase our product offering and again, the telecom market has – the long-term is very positive. If you just look at some of the stats, expecting 5G to cover over 85% of the population in the future. So telecom this year will be soft. L&T positive on the Transportation side. So hopefully that gives you additional

color. But overall, when you look at Infrastructure, getting close to that mid-single digit range is where we're expecting that to be.

Brian Drab

Analyst, William Blair & Co. LLC

Q

Okay. Thank you very much.

Operator: Our next question comes from line of Jon Braatz with Kansas City Capital. 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.

A

Good morning.

Renee L. Campbell

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

A

Good morning.

Jon Braatz

Analyst, Kansas City Capital Associates

Q

Avner, you mentioned that or maybe Tim mentioned that pricing was down a little bit in irrigation. And trying to get a better sense between pricing in Brazil versus North America.

Avner M. Applbaum

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

A

Okay. So I'll take that question. So when I look at the pricing in North America, what we're doing there, it's very strategic, it's in very few targeted markets that we're taking some actions to maintain – around our strategy to maintain our market share overall. So very strategic in North America.

In Brazil, I would say, the approach that we're taking is the pricing is better in Brazil. But right now, as you do more larger scale projects that could just impact some of your mix and you'll get less pricing per pivot there. But overall, that is the dynamics around the markets. And like I said earlier, we're pleased with what we're seeing on the order intake on both regions, and we'll continue monitoring. And like I said, the long-term on both of these regions is very positive for us.

Jon Braatz

Analyst, Kansas City Capital Associates

Q

Avner, in this – in the current market conditions [ph] as (38:26) maybe been a little bit tighter. Are you seeing buyers purchase the full complement of technology solutions when they purchase a pivot?

Avner M. Applbaum

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

A

Yeah. So when we, overall, I would say the answer to that is yes. The Tech actually is what gives the pivot a stronger value proposition and our sophisticated buyers and dealers and growers, they see that and we are selling the full suite of technology.

Jon Braatz

Analyst, Kansas City Capital Associates

Q

Okay. And last question, SG&A costs have been controlled nicely. And how much of that goes beyond maybe what we saw the actions that you took last year and from Prospera how much of it goes beyond the cost savings because of the actions you took with Prospera?

Timothy P. Francis

Interim Chief Financial Officer, Valmont Industries, Inc.

A

Well – this is Tim. Let me try answering that. It was beyond Prospera, right? It was – we did a full realignment program that touched Infrastructure, Agriculture and corporates. So what – so that was approximately \$36 million of cost. What we're seeing right now is that our SG&A savings this year will be beyond that. And another way to think about it is our SG&A as a percentage of sales will be lower this year than it was in fiscal year 2023 on a consolidated basis.

Jon Braatz

Analyst, Kansas City Capital Associates

Q

Okay. Got it, Tim.

Avner M. Applbaum

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

A

Let me just add – yeah, I'll just add to that. We're very pleased with the SG&A savings. But another – what's very important here or more important is actually we have a organization that is leaner and we've been able to execute and we see that in our Q1 results that we have an organization that is very much focused on execution, driving our long-term strategy. So while we get – it's a double benefit. One, we get the reduction in the P&L, but we also get a more focused and lean organization and we're able to execute well on our strategy.

Jon Braatz

Analyst, Kansas City Capital Associates

Q

Okay. Thank you, Avner.

Avner M. Applbaum

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

A

Thank you.

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

Brian Drab

Analyst, William Blair & Co. LLC

Q

Hi. Just wondering if I could just ask one follow-up on the TD&S business. And again, sorry if I missed this. I'm trying to take notes as best as I can. The total sales for TD&S was up 3%, and you said pricing was favorable there. So how is – I'm trying to reconcile that, this business I would expect is one of your stronger growing businesses in 2024. But if pricing is up, I mean volumes up less than 3%. And then you also mentioned that the Distribution and Substation business doing quite well. So just trying to get some insight into like what we should be expecting for the core large transmission structures business in 2024 in terms of volume and pricing.

Timothy P. Francis

Interim Chief Financial Officer, Valmont Industries, Inc.

A

Sure. So you're right, Brian, on what you heard. A couple of things there. Because of the mix shift to the smaller structures that smaller transmission structures as well as the Distribution and Substation, we saw favorable pricing mix from that, but we also saw a negative on pricing from the steel deflation tied to the steel index in the pricing contracts with our alliance customers. So we were able to overcome that steel deflation and still see higher pricing.

As we continue through the year, we will see an increase in our volumes in TD&S. Again, we're very pleased with how quickly we were able to adjust and get more of the smaller structures produced, and we expect that to accelerate through the rest of the year while we still see good demand for the transmission structures as well.

[indiscernible] (42:33)

Avner M. Applbaum

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

A

So, I'll just add a little bit more color. And I'm actually glad you asked about TD&S. That business is doing very well for us and we're seeing growth in all areas of that business. Transmission is growing nicely, but, the focus also been on Distribution, growing our market share there, Substations with all the data centers that are coming up, the use of the AI, very strong demand in that area. And we've been able to utilize our footprint and the flexibility to support the strong demand. And on top of that, with our product offering that there's no one else in the industry that can do around our steel structures, our concrete structures basically give the whole suite of products. And we are supporting our customers and very favorable in that market. And we're going to see that that market continue to grow for us in the high-single digits. And we're very excited about what we're seeing in that market.

Brian Drab

Analyst, William Blair & Co. LLC

Q

Okay. Thanks for that detail. Can I just ask [indiscernible] (43:33) it sounded there's a lot of moving parts here. So for the larger structures in the first quarter, the larger transmission structures, pricing was down, but I guess volume was up in that business specifically. Is that fair to conclude?

Timothy P. Francis

Interim Chief Financial Officer, Valmont Industries, Inc.

A

We don't break that out. I mean, I will tell you...

Brian Drab

Analyst, William Blair & Co. LLC

Q

Sure.

Timothy P. Francis

Interim Chief Financial Officer, Valmont Industries, Inc.

...that volume was up TD&S in totality.

A

Avner M. Applbaum

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

Yeah.

A

Brian Drab

Analyst, William Blair & Co. LLC

Okay.

Q

Avner M. Applbaum

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

And the pricing specifically is around the pricing mechanism. I just want to make it clear, right? We're not reducing pricing, we're pricing for the value that we provide to our customers. And there's significant value that we're providing there. So it's all around the mechanism around the pricing is what's...

A

Brian Drab

Analyst, William Blair & Co. LLC

Yeah.

Q

Avner M. Applbaum

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

... [indiscernible] (44:14).

A

Brian Drab

Analyst, William Blair & Co. LLC

Understood about the de-escalators in the country. Understood. Okay. Thanks for the detail.

Q

Operator: Thank you. We have reached the end of the question-and-answer session. And I will now turn the call 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 the Private Securities Litigation Reform Act of 1995. Such statements involve known and unknown risks, uncertainties and other factors that could cause the actual 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 on 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.

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