

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
Washington, D.C. 20549

Form 10-Q

(Mark One)

**QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934**

For the quarterly period ended **September 28, 2019**

or

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934**

For the transition period from _____ to _____
Commission file number **1-31429**

Valmont Industries, Inc.

(Exact name of registrant as specified in its charter)

Delaware	47-0351813
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)

One Valmont Plaza, Omaha, Nebraska	68154-5215
(Address of Principal Executive Offices)	(Zip Code)

(402) 963-1000

(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

Securities registered pursuant to Section 12(b) of the Act:

<u>Title of each class</u>	<u>Symbol</u>	<u>Name of exchange on which registered</u>
Common Stock \$1.00 par value	VMI	New York Stock Exchange

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Sections 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>	Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
Emerging growth company	<input type="checkbox"/>						

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes

No

21,525,585

Outstanding shares of common stock as of October 25, 2019

VALMONT INDUSTRIES, INC.

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VALMONT INDUSTRIES, INC. AND SUBSIDIARIES
PART I. FINANCIAL INFORMATION
CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS
(Dollars in thousands, except per share amounts)
(Unaudited)

	Thirteen weeks ended		Thirty-nine weeks ended	
	September 28, 2019	September 29, 2018	September 28, 2019	September 29, 2018
Product sales	\$ 605,439	\$ 597,469	\$ 1,829,919	\$ 1,816,597
Services sales	84,901	81,223	253,431	243,184
Net sales	690,340	678,692	2,083,350	2,059,781
Product cost of sales	457,750	460,547	1,393,236	1,389,832
Services cost of sales	56,504	53,805	168,485	161,370
Total cost of sales	514,254	514,352	1,561,721	1,551,202
Gross profit	176,086	164,340	521,629	508,579
Selling, general and administrative expenses	112,223	110,200	338,950	326,809
Impairment of goodwill and intangible assets	—	15,780	—	15,780
Operating income	63,863	38,360	182,679	165,990
Other income (expenses):				
Interest expense	(9,976)	(10,954)	(29,971)	(33,819)
Interest income	969	1,000	2,815	3,713
Gain on investments (unrealized)	402	1,068	4,754	1,146
Costs associated with refinancing of debt	—	(14,820)	—	(14,820)
Loss from divestiture of grinding media business	—	—	—	(6,084)
Other	768	1,428	1,938	2,053
	(7,837)	(22,278)	(20,464)	(47,811)
Earnings before income taxes	56,026	16,082	162,215	118,179
Income tax expense (benefit):				
Current	12,375	10,777	33,053	35,214
Deferred	1,388	(1,686)	7,098	814
	13,763	9,091	40,151	36,028
Net earnings	42,263	6,991	122,064	82,151
Less: Earnings attributable to noncontrolling interests	(2,119)	(2,543)	(4,042)	(5,462)
Net earnings attributable to Valmont Industries, Inc.	\$ 40,144	\$ 4,448	\$ 118,022	\$ 76,689
Earnings per share:				
Basic	\$ 1.86	\$ 0.20	\$ 5.43	\$ 3.42
Diluted	\$ 1.85	\$ 0.20	\$ 5.41	\$ 3.40

See accompanying notes to condensed consolidated financial statements.

VALMONT INDUSTRIES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Dollars in thousands)
(Unaudited)

	Thirteen Weeks Ended		Thirty-nine Weeks Ended	
	September 28, 2019	September 29, 2018	September 28, 2019	September 29, 2018
Net earnings	42,263	6,991	122,064	82,151
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustments:				
Unrealized translation gain (loss)	(23,781)	(10,632)	(20,466)	(50,781)
Realized loss on divestiture of grinding media business recorded in earnings	—	—	—	9,203
Gain (loss) on hedging activities:				
Net investment hedges	2,580	1,223	3,360	2,830
Realized loss on net investment hedge for grinding media business recorded in earnings	—	—	—	1,215
Amortization cost included in interest expense	(16)	395	(48)	439
Deferred loss on interest rate hedges	—	—	—	(2,467)
Commodity hedges	(21)	226	(2,130)	1,571
Realized gain (loss) on commodity hedges recorded in earnings	1,329	(717)	1,329	(717)
Cross currency swaps	5,443	(2,037)	3,771	(2,037)
Other comprehensive income	(14,466)	(11,542)	(14,184)	(40,744)
Comprehensive income	27,797	(4,551)	107,880	41,407
Comprehensive income attributable to noncontrolling interests	(1,297)	(2,389)	(3,390)	(8,250)
Comprehensive income attributable to Valmont Industries, Inc.	<u>\$ 26,500</u>	<u>\$ (6,940)</u>	<u>\$ 104,490</u>	<u>\$ 33,157</u>

See accompanying notes to condensed consolidated financial statements.

VALMONT INDUSTRIES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(Dollars in thousands)
(Unaudited)

	September 28, 2019	December 29, 2018
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 327,200	\$ 313,210
Receivables, net	501,215	483,963
Inventories	377,300	383,566
Contract asset - costs and profits in excess of billings	120,376	112,525
Prepaid expenses and other assets	50,420	42,800
Refundable income taxes	11,893	4,576
Total current assets	<u>1,388,404</u>	<u>1,340,640</u>
Property, plant and equipment, at cost	1,233,762	1,160,865
Less accumulated depreciation and amortization	685,394	646,873
Net property, plant and equipment	<u>548,368</u>	<u>513,992</u>
Goodwill	421,679	385,207
Other intangible assets, net	177,734	175,956
Other assets	189,257	114,479
Total assets	<u>\$ 2,725,442</u>	<u>\$ 2,530,274</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Current installments of long-term debt	\$ 745	\$ 779
Notes payable to banks	19,324	10,678
Accounts payable	197,535	218,115
Accrued employee compensation and benefits	78,540	79,291
Accrued expenses	226,715	91,942
Dividends payable	8,088	8,230
Total current liabilities	<u>530,947</u>	<u>409,035</u>
Deferred income taxes	43,778	43,489
Long-term debt, excluding current installments	764,524	741,822
Defined benefit pension liability	121,282	143,904
Operating lease liabilities	78,790	—
Deferred compensation	43,837	46,107
Other noncurrent liabilities	11,113	10,394
Shareholders' equity:		
Common stock of \$1 par value -		
Authorized 75,000,000 shares; 27,900,000 issued	27,900	27,900
Retained earnings	2,119,843	2,027,596
Accumulated other comprehensive loss	(316,717)	(303,185)
Treasury stock	(744,335)	(692,549)
Total Valmont Industries, Inc. shareholders' equity	<u>1,086,691</u>	<u>1,059,762</u>
Noncontrolling interest in consolidated subsidiaries	44,480	75,761
Total shareholders' equity	<u>1,131,171</u>	<u>1,135,523</u>
Total liabilities and shareholders' equity	<u>\$ 2,725,442</u>	<u>\$ 2,530,274</u>

See accompanying notes to condensed consolidated financial statements.

VALMONT INDUSTRIES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Dollars in thousands)
(Unaudited)

	Thirty-nine weeks ended	
	September 28, 2019	September 29, 2018
Cash flows from operating activities:		
Net earnings	\$ 122,064	\$ 82,151
Adjustments to reconcile net earnings to net cash flows from operations:		
Depreciation and amortization	60,424	62,018
Noncash loss on trading securities	(48)	(62)
Impairment of property, plant and equipment	—	4,197
Impairment of goodwill & intangible assets	—	15,780
Loss on divestiture of grinding media business	—	6,084
Stock-based compensation	8,889	8,076
Defined benefit pension plan benefit	(382)	(1,713)
Contribution to defined benefit pension plan	(17,426)	(1,555)
Gain on sale of property, plant and equipment	(465)	(353)
Deferred income taxes	7,098	814
Changes in assets and liabilities:		
Receivables	(21,117)	(612)
Inventories	5,348	(33,004)
Prepaid expenses and other assets	(14,451)	(18,486)
Contract asset - costs and profits in excess of billings	(7,850)	(33,029)
Accounts payable	(19,256)	(19,069)
Accrued expenses	129,901	7,288
Other noncurrent liabilities	(4,563)	(1,249)
Income taxes refundable	(8,936)	(9,223)
Net cash flows from operating activities	239,230	68,053
Cash flows from investing activities:		
Purchase of property, plant and equipment	(71,981)	(48,919)
Proceeds from sale of assets	1,325	64,786
Acquisitions, net of cash acquired	(81,841)	(125,309)
Settlement of net investment hedges	11,184	(1,621)
Other, net	2,117	(2,371)
Net cash flows from investing activities	(139,196)	(113,434)
Cash flows from financing activities:		
Proceeds from short-term agreements	9,284	3,217
Proceeds from long-term borrowings	31,000	236,936
Principal payments on long-term borrowings	(10,578)	(252,952)
Settlement of financial derivatives	—	(2,467)
Debt issuance costs	—	(2,322)
Dividends paid	(24,554)	(25,415)
Dividends to noncontrolling interest	(6,549)	(5,737)
Purchase of noncontrolling interest	(27,845)	(5,510)
Purchase of treasury shares	(55,172)	(86,919)
Proceeds from exercises under stock plans	3,211	6,376
Purchase of common treasury shares—stock plan exercises	(1,456)	(1,914)
Net cash flows from financing activities	(82,659)	(136,707)
Effect of exchange rate changes on cash and cash equivalents	(3,385)	(15,095)
Net change in cash and cash equivalents	13,990	(197,183)
Cash, cash equivalents, and restricted cash—beginning of year	313,210	492,805
Cash, cash equivalents, and restricted cash—end of period	\$ 327,200	\$ 295,622

See accompanying notes to condensed consolidated financial statements.

VALMONT INDUSTRIES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(Dollars in thousands)
(Unaudited)

	Common stock	Additional paid-in capital	Retained earnings	Accumulated other comprehensive income (loss)	Treasury stock	Noncontrolling interest in consolidated subsidiaries	Total shareholders' equity
Balance at June 30, 2018	\$ 27,900	\$ —	\$ 2,023,919	\$ (311,166)	\$ (628,487)	\$ 37,658	\$ 1,149,824
Net earnings	—	—	4,448	—	—	2,543	\$ 6,991
Other comprehensive income (loss)	—	—	—	(11,388)	—	(154)	\$ (11,542)
Cash dividends declared (\$0.375 per share)	—	—	(8,311)	—	—	—	\$ (8,311)
Dividends to noncontrolling interests	—	—	—	—	—	(885)	\$ (885)
Addition of noncontrolling interest	—	—	—	—	—	37,369	\$ 37,369
Purchase of treasury shares; 309,198 shares acquired	—	—	—	—	(42,920)	—	\$ (42,920)
Stock plan exercises; 1,033 shares acquired	—	—	—	—	(145)	—	\$ (145)
Stock options exercised; 6,191 shares issued	—	(2,713)	2,482	—	896	—	\$ 665
Stock option expense	—	987	—	—	—	—	\$ 987
Stock awards; 82 shares issued	—	1,726	—	—	(11)	—	\$ 1,715
Balance at September 29, 2018	\$ 27,900	\$ —	\$ 2,022,538	\$ (322,554)	\$ (670,667)	\$ 76,531	\$ 1,133,748
Balance at June 29, 2019	\$ 27,900	\$ —	\$ 2,085,594	\$ (303,072)	\$ (728,680)	\$ 45,272	\$ 1,127,014
Net earnings	—	—	40,144	—	—	2,119	\$ 42,263
Other comprehensive income (loss)	—	—	—	(13,645)	—	(821)	\$ (14,466)
Cash dividends declared (\$0.375 per share)	—	—	(8,085)	—	—	—	\$ (8,085)
Dividends to noncontrolling interests	—	—	—	—	—	(2,090)	\$ (2,090)
Purchase of treasury shares; 126,734 shares acquired	—	—	—	—	(16,822)	—	\$ (16,822)
Stock plan exercises; 4,403 shares acquired	—	—	—	—	(629)	—	\$ (629)
Stock options exercised; 12,856 shares issued	—	(2,514)	2,190	—	1,791	—	\$ 1,467
Stock option expense	—	600	—	—	—	—	\$ 600
Stock awards; 223 shares issued	—	1,914	—	—	5	—	\$ 1,919
Balance at September 28, 2019	\$ 27,900	\$ —	\$ 2,119,843	\$ (316,717)	\$ (744,335)	\$ 44,480	\$ 1,131,171

See accompanying notes to the condensed consolidated financial statements.

VALMONT INDUSTRIES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(Dollars in thousands)
(Unaudited)

	Common stock	Additional paid-in capital	Retained earnings	Accumulated other comprehensive income (loss)	Treasury stock	Noncontrolling interest in consolidated subsidiaries	Total shareholders' equity
Balance at December 30, 2017	\$ 27,900	\$ —	\$ 1,954,344	\$ (279,022)	\$ (590,386)	\$ 38,959	\$ 1,151,795
Net earnings	—	—	76,689	—	—	5,462	82,151
Other comprehensive income (loss)	—	—	—	(43,532)	—	2,788	(40,744)
Cash dividends declared (\$1.125 per share)	—	—	(25,204)	—	—	—	(25,204)
Dividends to noncontrolling interests	—	—	—	—	—	(5,737)	(5,737)
Cumulative impact of ASC 606 adoption	—	—	9,771	—	—	—	9,771
Impact of ASU 2016-16 adoption	—	—	1,038	—	—	—	1,038
Addition of noncontrolling interest	—	—	—	—	—	40,569	40,569

Purchase of noncontrolling interest	—	—	—	—	—	(5,510)	(5,510)
Purchase of treasury shares; 614,454 shares acquired	—	—	—	—	(86,919)	—	(86,919)
Stock plan exercises; 12,971 shares acquired	—	—	—	—	(1,914)	—	(1,914)
Stock options exercised; 52,404 shares issued	—	(7,172)	5,900	—	7,648	—	6,376
Stock option expense	—	3,138	—	—	—	—	3,138
Stock awards; 7,774 shares issued	—	4,034	—	—	904	—	4,938
Balance at September 29, 2018	\$ 27,900	\$ —	\$ 2,022,538	\$ (322,554)	\$ (670,667)	\$ 76,531	\$ 1,133,748
Balance at December 29, 2018	\$ 27,900	\$ —	\$ 2,027,596	\$ (303,185)	\$ (692,549)	\$ 75,761	\$ 1,135,523
Net earnings	—	—	118,022	—	—	4,042	122,064
Other comprehensive income (loss)	—	—	—	(13,532)	—	(652)	(14,184)
Cash dividends declared (\$1.125 per share)	—	—	(24,424)	—	—	—	(24,424)
Dividends to noncontrolling interests	—	—	—	—	—	(6,549)	(6,549)
Purchase of noncontrolling interest	—	277	—	—	—	(28,122)	(27,845)
Impact of ASC 842 adoption	—	—	(8,886)	—	—	—	(8,886)
Purchase of treasury shares; 433,463 shares acquired	—	—	—	—	(55,172)	—	(55,172)
Stock plan exercises; 10,499 shares acquired	—	—	—	—	(1,456)	—	(1,456)
Stock options exercised; 28,493 shares issued	—	(7,756)	7,535	—	3,432	—	3,211
Stock option expense	—	2,056	—	—	—	—	2,056
Stock awards; 10,550 shares issued	—	5,423	—	—	1,410	—	6,833
Balance at September 28, 2019	\$ 27,900	\$ —	\$ 2,119,843	\$ (316,717)	\$ (744,335)	\$ 44,480	\$ 1,131,171

See accompanying notes to condensed consolidated financial statements.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands, except per share amounts)

(Unaudited)

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Condensed Consolidated Financial Statements

The Condensed Consolidated Balance Sheet as of September 28, 2019, the Condensed Consolidated Statements of Earnings, Comprehensive Income, and Shareholders' Equity for the thirteen and thirty-nine weeks ended September 28, 2019 and September 29, 2018, and the Condensed Consolidated Statements of Cash Flows for the thirty-nine week periods then ended have been prepared by the Company, without audit. In the opinion of management, all necessary adjustments (which include normal recurring adjustments) have been made to present fairly the financial statements as of September 28, 2019 and for all periods presented.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted. These Condensed Consolidated Financial Statements should be read in conjunction with the financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended December 29, 2018. The accounting policies and methods of computation followed in these interim financial statements are the same as those followed in the financial statements for the year ended December 29, 2018 with the exception of the lease accounting policy which changed from adopting Accounting Standards Update ("ASU") 2016-02 and is discussed in footnote 9. The results of operations for the period ended September 28, 2019 are not necessarily indicative of the operating results for the full year.

Inventories

Approximately 38% and 37% of inventory is valued at the lower of cost, determined on the last-in, first-out (LIFO) method or market as of September 28, 2019 and December 29, 2018. All other inventory is valued at the lower of cost, determined on the first-in, first-out (FIFO) method or market. Finished goods and manufactured goods inventories include the costs of acquired raw materials and related factory labor and overhead charges required to convert raw materials to manufactured and finished goods. The excess of replacement cost of inventories over the LIFO value is approximately \$48,080 and \$53,619 at September 28, 2019 and December 29, 2018, respectively.

Inventories consisted of the following:

	September 28, 2019	December 29, 2018
Raw materials and purchased parts	\$ 172,064	\$ 190,115
Work-in-process	34,696	35,566
Finished goods and manufactured goods	218,620	211,504
Subtotal	425,380	437,185
Less: LIFO reserve	48,080	53,619
	<u>\$ 377,300</u>	<u>\$ 383,566</u>

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands, except per share amounts)

(Unaudited)

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes

Earnings before income taxes for the thirteen and thirty-nine weeks ended September 28, 2019 and September 29, 2018, were as follows:

	Thirteen weeks ended		Thirty-nine weeks ended	
	2019	2018	2019	2018
United States	\$ 44,897	\$ 15,596	\$ 134,417	\$ 99,697
Foreign	11,129	486	27,798	18,482
	<u>\$ 56,026</u>	<u>\$ 16,082</u>	<u>\$ 162,215</u>	<u>\$ 118,179</u>

Pension Benefits

The Company incurs expenses in connection with the Delta Pension Plan ("DPP"). The DPP was acquired as part of the Delta plc acquisition in fiscal 2010 and has no members that are active employees. In order to measure expense and the related benefit obligation, various assumptions are made including discount rates used to value the obligation, expected return on plan assets used to fund these expenses and estimated future inflation rates. These assumptions are based on historical experience as well as current facts and circumstances. An actuarial analysis is used to measure the expense and liability associated with pension benefits.

The components of the net periodic pension (benefit) expense for the thirteen and thirty-nine weeks ended September 28, 2019 and September 29, 2018 were as follows:

	Thirteen weeks ended		Thirty-nine weeks ended	
	2019	2018	2019	2018
Net periodic (benefit) expense:				
Interest cost	\$ 4,075	\$ 4,400	\$ 12,602	\$ 13,602
Expected return on plan assets	(4,815)	(5,704)	(14,893)	(17,633)
Amortization of actuarial loss	617	750	1,909	2,318
Net periodic expense (benefit)	<u>\$ (123)</u>	<u>\$ (554)</u>	<u>\$ (382)</u>	<u>\$ (1,713)</u>

Stock Plans

The Company maintains stock-based compensation plans approved by the shareholders, which provide that the Human Resource Committee of the Board of Directors may grant incentive stock options, nonqualified stock options, stock appreciation rights, restricted stock awards, restricted stock units, and bonuses of common stock. At September 28, 2019, 1,403,051 shares of common stock remained available for issuance under the plans.

Under the plans, the exercise price of each option equals the closing market price at the date of the grant. Options vest beginning on the first anniversary of the grant in equal amounts over three years to six years or on the grant's fifth anniversary. Expiration of grants is seven years from the date of grant. Restricted stock units and awards generally vest in equal installments over three years beginning on the first anniversary of the grant.

The Company's compensation expense (included in selling, general and administrative expenses) and associated income tax benefits related to stock options and restricted stock for the thirteen and thirty-nine weeks ended September 28, 2019 and September 29, 2018, respectively, were as follows:

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands, except per share amounts)

(Unaudited)

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

	Thirteen weeks ended		Thirty-nine weeks ended	
	2019	2018	2019	2018
Compensation expense	\$ 2,519	\$ 2,702	\$ 8,889	\$ 8,076
Income tax benefits	630	676	2,222	2,019

Fair Value

The Company applies the provisions of Accounting Standards Codification 820, *Fair Value Measurements* ("ASC 820") which defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. The provisions of ASC 820 apply to other accounting pronouncements that require or permit fair value measurements. As defined in ASC 820, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

ASC 820 establishes a three-level hierarchy for fair value measurements based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. Inputs refer broadly to the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk. Financial assets and liabilities carried at fair value will be classified and disclosed in one of the following three categories:

Level 1: Quoted market prices in active markets for identical assets or liabilities.

Level 2: Observable market based inputs or unobservable inputs that are corroborated by market data.

Level 3: Unobservable inputs that are not corroborated by market data.

The categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. Following is a description of the valuation methodologies used for assets and liabilities measured at fair value.

Trading Securities: The assets and liabilities recorded for the investments held in the Valmont Deferred Compensation Plan of \$35,144 (\$37,516 at December 29, 2018) represent mutual funds, invested in debt and equity securities, classified as trading securities in accordance with Accounting Standards Codification ("ASC") 320, *Accounting for Certain Investments in Debt and Equity Securities*, considering the employee's ability to change investment allocation of their deferred compensation at any time. The Company's ownership of shares in Delta EMD Pty. Ltd. (JSE:DTA) is also classified as trading securities. The shares are valued at \$80 and \$2,508 as of September 28, 2019 and December 29, 2018, respectively, which is the estimated fair value. Quoted market prices are available for these securities in an active market and therefore categorized as a Level 1 input.

Derivative Financial Instruments: The fair value of foreign currency and commodity forward contracts, and cross currency contracts is based on a valuation model that discounts cash flows resulting from the differential between the contract price and the market-based forward rate.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands, except per share amounts)

(Unaudited)

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

	Carrying Value September 28, 2019	Fair Value Measurement Using:		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Trading Securities	\$ 35,224	\$ 35,224	\$ —	\$ —
Derivative financial instruments, net	9,408	—	9,408	—

	Carrying Value December 29, 2018	Fair Value Measurement Using:		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Trading Securities	\$ 40,024	\$ 40,024	\$ —	\$ —
Derivative financial instruments, net	9,147	—	9,147	—

Long-Lived Assets

The Company's other non-financial assets include goodwill and other intangible assets, which are classified as Level 3 items. These assets are measured at fair value on a non-recurring basis as part of annual impairment testing. Note 5 to these condensed consolidated financial statements contain additional information related to goodwill and intangible asset impairments.

Comprehensive Income

Comprehensive income includes net earnings, currency translation adjustments, certain derivative-related activity and changes in net actuarial gains/losses from a pension plan. Results of operations for foreign subsidiaries are translated using the average exchange rates during the period. Assets and liabilities are translated at the exchange rates in effect on the balance sheet dates. Accumulated other comprehensive income (loss) consisted of the following at September 28, 2019 and December 29, 2018:

	Foreign Currency Translation Adjustments	Gain/(Loss) on Hedging Activities	Defined Benefit Pension Plan	Accumulated Other Comprehensive Loss
Balance at December 29, 2018	\$ (230,261)	\$ 11,171	\$ (84,095)	\$ (303,185)
Current-period comprehensive income (loss)	(19,814)	6,282	—	(13,532)
Balance at September 28, 2019	\$ (250,075)	\$ 17,453	\$ (84,095)	\$ (316,717)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands, except per share amounts)

(Unaudited)

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)*Revenue Recognition*

The Company determines the appropriate revenue recognition for our contracts by analyzing the type, terms and conditions of each contract or arrangement with a customer. Contracts with customers for all businesses are fixed-price with sales tax excluded from revenue, and do not include variable consideration. Discounts included in contracts with customers, typically early pay discounts, are recorded as a reduction of net sales in the period in which the sale is recognized. Contract revenues are classified as product when the performance obligation is related to the manufacturing of goods. Contract revenues are classified as service when the performance obligation is the performance of a service. Service revenue is primarily related to the Coatings segment.

Customer acceptance provisions exist only in the design stage of our products and acceptance of the design by the customer is required before the project is manufactured and delivered to the customer. The Company is not entitled to any compensation solely based on design of the product and does not recognize revenue associated with the design stage. There is one performance obligation for revenue recognition. No general rights of return exist for customers once the product has been delivered and the Company establishes provisions for estimated warranties. The Company does not sell extended warranties for any of its products.

Shipping and handling costs associated with sales are recorded as cost of goods sold. The Company elected to use the practical expedient of treating freight as a fulfillment obligation instead of a separate performance obligation and ratably recognize freight expense as the structure is being manufactured, when the revenue from the associated customer contract is being recognized over time. With the exception of the Utility segment and the wireless communication structures product line, the Company's inventory is interchangeable for a variety of each segment's customers. The Company elected the practical expedient to not disclose the partially satisfied performance obligation at the end of the period when the contract has an original expected duration of one year or less. In addition, the Company elected the practical expedient to not adjust the amount of consideration to be received in a contract for any significant financing component if payment is expected within twelve months of transfer of control of goods or services; the Company expects all consideration to be received in one year or less at contract inception.

Segment and Product Line Revenue Recognition

The global Utility segment revenues are derived from manufactured steel and concrete structures for the North America utility industry and offshore and other complex structures used in energy generation and distribution outside of the United States. Steel and concrete utility structures are engineered to customer specifications resulting in limited ability to sell the structure to a different customer if an order is canceled after production commences. The continuous transfer of control to the customer is evidenced either by contractual termination clauses or by our rights to payment for work performed to-date plus a reasonable profit as the products do not have an alternative use to the Company. Since control is transferring over time, revenue is recognized based on the extent of progress towards completion of the performance obligation. The selection of the method to measure progress towards completion requires judgment. For our steel and concrete utility and wireless communication structure product lines, we generally recognize revenue on an inputs basis, using total production hours incurred to-date for each order as a percentage of total hours estimated to produce the order. The completion percentage is applied to the order's total revenue and total estimated costs to determine reported revenue, cost of goods sold and gross profit. Production of an order, once started, is typically completed within three months. Revenue from the offshore and other complex structures business is also recognized using an inputs method, based on the ratio of costs incurred to date to the total estimated costs at completion of the performance obligation. External sales agents are used in certain sales of steel and concrete structures; the Company has chosen to use the practical expedient to expense estimated commissions owed to third parties by recognizing them proportionately as the goods are manufactured.

The global ESS segment revenues are derived from the manufacture and distribution of engineered metal, composite structures and components for lighting and traffic and roadway safety, engineered access systems, and wireless communication. For the lighting and traffic and roadway safety product lines, revenue is recognized upon shipment or delivery of goods to the customer depending on contract terms, which is the same point in time that the customer is billed. For Access Systems, revenue is generally recognized upon delivery of goods to the customer which is the same point in time that the customer is billed. The wireless communication product line has large regional customers who have unique product

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands, except per share amounts)

(Unaudited)

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

specifications for communication structures. When the customer contract includes a cancellation clause that would require them to pay for work completed plus a reasonable margin if an order was canceled, revenue is recognized over time based on hours worked as a percent of total estimated hours to complete production. For the remaining wireless communication product line customers which do not provide a contractual right to bill for work completed on a canceled order, revenue is recognized upon shipment or delivery of the goods to the customer which is the same point in time that the customer is billed.

The global Coatings segment revenues are derived by providing coating services to customers' products, which include galvanizing, anodizing, and powder coating. Revenue is recognized once the coating service has been performed and the goods are ready to be picked up or delivered to the customer which is the same time that the customer is billed.

The global Irrigation segment revenues are derived from the manufacture of agricultural irrigation equipment and related parts and services for the agricultural industry and tubular products for industrial customers. Revenue recognition for the irrigation segment is generally upon shipment of the goods to the customer which is the same point in time that the customer is billed. The remote monitoring subscription services are primarily billed annually and revenue is recognized on a straight-line basis over the subsequent twelve months.

Disaggregation of revenue by product line is disclosed in the Segment footnote. A breakdown by segment of revenue recognized over time and at a point in time for the thirteen and thirty-nine weeks ended September 28, 2019 and September 29, 2018 is as follows:

	<i>Point in Time</i>	<i>Over Time</i>	<i>Point in Time</i>	<i>Over Time</i>
	Thirteen weeks ended September 28, 2019	Thirteen weeks ended September 28, 2019	Thirty-nine weeks ended September 28, 2019	Thirty-nine weeks ended September 28, 2019
Utility Support Structures	\$ 3,418	\$ 200,778	\$ 43,642	\$ 612,821
Engineered Support Structures	252,501	13,993	713,574	38,454
Coatings	76,922	—	228,242	—
Irrigation	139,093	3,635	436,907	9,710
Total	<u>\$ 471,934</u>	<u>\$ 218,406</u>	<u>\$ 1,422,365</u>	<u>\$ 660,985</u>

	<i>Point in Time</i>	<i>Over Time</i>	<i>Point in Time</i>	<i>Over Time</i>
	Thirteen weeks ended September 29, 2018	Thirteen weeks ended September 29, 2018	Thirty-nine weeks ended September 29, 2018	Thirty-nine weeks ended September 29, 2018
Utility Support Structures	\$ 6,090	\$ 211,853	\$ 6,090	\$ 618,243
Engineered Support Structures	235,948	12,483	680,863	29,525
Coatings	74,547	—	217,544	—
Irrigation	134,710	3,061	475,744	8,692
Other	—	—	23,080	—
Total	<u>\$ 451,295</u>	<u>\$ 227,397</u>	<u>\$ 1,403,321</u>	<u>\$ 656,460</u>

Both steel and concrete utility customers are generally invoiced upon shipment or delivery of the goods to the customer's specified location and there are normally no up-front or progress payments. The offshore and complex steel structures business invoices customers a number of ways including advanced billings, progress billings, and billings upon shipment.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands, except per share amounts)

(Unaudited)

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

At September 28, 2019 and December 29, 2018, the contract liability for revenue recognized over time was \$123,878 and \$4,906, respectively. The contract liability is included in Accrued Expenses on the condensed consolidated balance sheets.

During the thirteen and thirty-nine weeks ended September 28, 2019, the Company recognized \$314 and \$2,242 of revenue that was included in the liability as of December 29, 2018. In the thirteen and thirty-nine weeks ended September 29, 2018, the Company recognized \$0 and \$4,456 of revenue that was included in the liability as of December 30, 2017. The revenue recognized was due to applying advance payments received for projects completed during the period.

Recently Adopted Accounting Pronouncements

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, which provides revised guidance on leases requiring lessees to recognize a right-of-use asset and a lease liability for virtually all of their leases (other than leases that meet the definition of a short-term lease). The Company implemented a lease management tool to support the new reporting requirements and adopted the ASU on the first day of fiscal 2019. The Company made an accounting policy election to keep leases with an initial term of 12 months or less off of the balance sheet for all classes of underlying assets. The Company elected to not recast its comparative periods in transition (the "Comparatives Under 840 Option") as allowed under ASU 2018-11. The new standard did not have an impact in the condensed consolidated statements of earnings; footnote 9 provides the impact on the condensed consolidated balance sheet including the transition adoption adjustment recorded to retained earnings.

(2) ACQUISITIONS

On May 13, 2019, the Company acquired the assets of Connect-It Wireless, Inc. ("Connect-It") for \$6,034 in cash. Connect-It operates in Florida and is a manufacturer and distributor of wireless site components and safety products. In the preliminary purchase price allocation, goodwill of \$3,299 and customer relationships of \$828 were recorded and the remainder is net working capital. A portion of the goodwill is deductible for tax purposes. Connect-It is included in the ESS segment and was acquired to expand the Company's wireless component distribution network. The Company expects the purchase price allocation to be finalized in the fourth quarter of 2019, after all management reviews have been completed.

On February 11, 2019, the Company acquired the outstanding shares of United Galvanizing ("United"), a provider of coatings services for \$26,000 in cash. The agreed upon purchase price was \$28,000, with \$2,000 being contingent on seller representations and warranties that will be settled within 12 months of the acquisition date. The acquisition of United, located in Houston, Texas further expands the Company's galvanizing footprint in North America and will be reported in the Coatings segment. The preliminary fair values assigned were \$11,715 for goodwill, \$4,034 for customer relationships, trade name of \$894, \$11,016 for property, plant, and equipment, and the remainder is net working capital. Goodwill is not deductible for tax purposes and the customer relationship will be amortized over 10 years. The trade name has an indefinite life. The Company expects the purchase price allocation to be finalized in the fourth quarter of 2019, once the contingent payment is settled and management reviews are complete.

(2) ACQUISITIONS (Continued)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands, except per share amounts)

(Unaudited)

On December 31, 2018, the Company acquired the assets of Larson Camouflage ("Larson"), an industry leading provider of architectural and camouflage concealment solutions for the wireless telecommunication market for \$31,106 in cash. The agreed upon purchase price was \$34,562, with 10% being held back for seller representations and warranties and will be settled within 12 months of the acquisition date. Larson was acquired to grow our product offerings in the wireless communication market and will be reported in the ESS segment. The preliminary fair values assigned were \$17,050 for customer relationships, \$14,519 for goodwill, \$1,151 for property, plant, and equipment and the remainder is net working capital. Goodwill is deductible for tax purposes and the customer relationships will be amortized over 12 years. The Company expects the purchase price allocation to be finalized in the fourth quarter of 2019, once the hold back payment is settled and management reviews are complete.

On October 18, 2018, the Company acquired CSP Coatings Systems of Auckland, New Zealand, a provider of a wide range of coatings services for \$17,711 in cash. The acquisition further strengthens the Company's Asia-Pacific market position and is reported in the Coatings segment. The fair values assigned were \$7,373 to property, plant, and equipment, \$3,113 for customer relationships, \$5,120 for goodwill, with the remainder net working capital. Goodwill is not deductible for tax purposes and the customer relationships will be amortized over 10 years. The purchase price allocation was finalized in the second quarter of 2019.

On August 3, 2018, the Company purchased approximately 72% of the outstanding shares of Walpar, LLC ("Walpar") for \$57,805 in cash. Walpar is an industry leader in the design, engineering and manufacturing of overhead sign structures for the North America transportation market. Walpar is located in Birmingham, Alabama and its operations are reported in the ESS segment. The transaction was funded with cash on hand. The acquisition of Walpar was completed to expand the Company's product offering in the sign structure market. Customer relationships are amortized over 12 years and the trade name has an indefinite life. Goodwill is not deductible for tax purposes.

In January 2019, the 28% non-controlling interest shares of Walpar, LLC were acquired for \$23,082. During the third quarter, the Company finalized its purchase price allocation including its assessment of the value of intangibles on the opening balance sheet. As a result of updated cash flow projections it was determined that a \$3,500 reduction in customer relationships, along with an offsetting increase in goodwill less deferred tax, was necessary to adjust the preliminary allocation of fair value to assets acquired and liabilities assumed. The following table summarizes the fair values of the assets acquired and liabilities assumed of Walpar as of the date of acquisition:

	At August 3, 2018
Current assets	\$ 13,210
Customer relationships	28,500
Trade name	3,500
Goodwill	45,453
Total fair value of assets acquired	\$ 90,663
Current liabilities	2,197
Deferred taxes	7,579
Total fair value of liabilities assumed	\$ 9,776
Non-controlling interest	23,082
Net assets acquired	\$ 57,805

VALMONT INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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(Unaudited)

On August 3, 2018, the Company acquired 75% of the outstanding shares of Convert Italia SpA ("Convert") for \$43,504 in cash. In the second quarter of 2019, the Company paid the former owners approximately \$18,700 additional purchase price which was reflected in the contingent consideration liability on the fair value of assets and liabilities assumed on acquisition. Convert is a designer and provider of engineered solar tracker solutions that is headquartered in Italy, with offices in Brazil and Argentina. The Company acquired Convert to grow market adjacencies in the Utility Support Structures segment.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands, except per share amounts)

(Unaudited)

(2) ACQUISITIONS (Continued)

Patents and proprietary technology will be amortized over 15 years and the trade name has an indefinite life. Goodwill is not deductible for tax purposes. The fair value measurement process and purchase price allocation was finalized in the third quarter of 2019. The following table summarizes the fair values of the assets acquired and liabilities assumed of Convert as of the date of acquisition:

	At August 3, 2018
Current assets	\$ 18,349
Other assets	3,166
Patent and Proprietary Technology	16,554
Trade name	8,701
Goodwill	42,169
Total fair value of assets acquired	<u>\$ 88,939</u>
Current liabilities	5,376
Contingent consideration liability	19,497
Deferred taxes	6,061
Total fair value of liabilities assumed	<u>\$ 30,934</u>
Non-controlling interest	14,501
Net assets acquired	<u>\$ 43,504</u>

The Company's condensed consolidated statements of earnings for the thirteen and thirty-nine weeks ended September 28, 2019 included net sales of \$26,999 and \$94,975 resulting from these acquisitions. In aggregate, these acquisitions did not contribute net earnings to the Company's consolidated 2019 results. The proforma effect of these acquisitions on the thirteen and thirty-nine weeks of 2019 and 2018 is as follows:

	Thirteen weeks ended September 28, 2019	Thirteen weeks ended September 29, 2018	Thirty-nine weeks ended September 28, 2019	Thirty-nine weeks ended September 29, 2018
Net sales	\$ 690,340	\$ 698,306	\$ 2,088,524	\$ 2,129,968
Net earnings	40,144	5,002	118,555	80,842
Earnings per share-diluted	1.85	0.22	5.43	3.58

Acquisitions of Noncontrolling Interests

In April 2019, the Company acquired the remaining 4.8% of Valmont SM that it did not own for \$4,763. In March 2018, the Company acquired the remaining 10% of Valmont Industria e Comercio Ltda. that it did not own for \$5,510. As these transactions were for the acquisition of all of the remaining shares of a consolidated subsidiary with no change in control, they were recorded within shareholders' equity and as a financing activity in the Consolidated Statements of Cash Flows.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands, except per share amounts)

(Unaudited)

(3) DIVESTITURE

On April 30, 2018, the Company completed the sale of Donhad, its grinding media business in Australia, reported in the Other segment. The business was sold because it did not fit the long-term strategic plans for the Company. The grinding media business historical annual sales, operating profit, and net assets are not significant for discontinued operations presentation. The grinding media business had an operating loss of \$0 and \$913 for the thirteen and thirty-nine weeks ended September 29, 2018. The Company received Australian \$82,500 (U.S. \$62,518) in proceeds from the sale.

The pre-tax loss recorded during the second quarter of 2018 from the divestiture is reported in other income (expense). The loss is comprised of the proceeds from buyer, less deal-related costs, less the net assets of the business which resulted in a gain of \$4,334. Offsetting this amount is a \$(10,418) realized loss on foreign exchange translation adjustments and net investment hedges previously reported in shareholders' equity.

Pre-tax gain from divestiture, before recognition of currency translation loss	\$ 4,334
Recognition of cumulative currency translation loss and hedges (out of OCI)	(10,418)
Net pre-tax loss from divestiture of the grinding media business	<u>\$ (6,084)</u>

The transaction did not result in a taxable capital gain as the cash proceeds were less than the tax carrying value of the business. There is an insignificant tax benefit from the tax deductibility of deal related expenses.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands, except per share amounts)

(Unaudited)

(4) RESTRUCTURING ACTIVITIES

During 2018, the Company executed certain regional restructuring activities (the "2018 Plan") primarily in the ESS and Utility segments to transform its operational business model including exiting certain local markets. During the full year of 2018, the Company incurred \$18,380 of cost of sales and \$15,651 of selling, general, and administrative expense for the 2018 Plan. In connection with exiting certain local markets as a result of the 2018 Plan, the Company also recorded \$7,944 of impairments of current and other assets during fiscal 2018, primarily inventory.

The following pre-tax expense were recognized during the third quarter of 2018:

	<u>ESS</u>	<u>Utility</u>	<u>Corporate</u>	<u>Total</u>
Severance	\$ 1,706	\$ —	\$ —	\$ 1,706
Other cash restructuring expenses	326	497	—	823
Asset impairments/net loss on disposals	1,406	—	—	1,406
Total cost of sales	<u>3,438</u>	<u>497</u>	<u>—</u>	<u>3,935</u>
Severance	1,757	—	—	1,757
Other cash restructuring expenses	551	—	—	551
Asset impairments/net loss on disposals	—	—	—	—
Total selling, general and administrative expenses	<u>2,308</u>	<u>—</u>	<u>—</u>	<u>2,308</u>
Consolidated total	<u>\$ 5,746</u>	<u>\$ 497</u>	<u>\$ —</u>	<u>\$ 6,243</u>

In the first three quarters of 2018, the Company recognized the following pre-tax restructuring expenses:

	<u>ESS</u>	<u>Utility</u>	<u>Corporate</u>	<u>Total</u>
Severance	\$ 3,732	\$ 515	\$ —	\$ 4,247
Other cash restructuring expenses	478	2,228	—	2,706
Asset impairments/net loss on disposals	3,812	—	—	\$ 3,812
Total cost of sales	<u>8,022</u>	<u>2,743</u>	<u>—</u>	<u>10,765</u>
Severance	5,268	—	—	\$ 5,268
Other cash restructuring expenses	1,118	—	126	1,244
Asset impairments/net loss on disposals	385	—	—	385
Total selling, general and administrative expenses	<u>6,771</u>	<u>—</u>	<u>126</u>	<u>6,897</u>
Consolidated total	<u>\$ 14,793</u>	<u>\$ 2,743</u>	<u>\$ 126</u>	<u>\$ 17,662</u>

Liabilities recorded for the restructuring plans and changes therein for the first three quarters of 2019 were as follows:

	<u>Balance at December 29, 2018</u>	<u>Recognized Restructuring Expense</u>	<u>Costs Paid or Otherwise Settled</u>	<u>Balance at September 28, 2019</u>
Severance	\$ 6,594	\$ —	\$ (6,237)	\$ 357
Other cash restructuring expenses	3,462	—	(2,982)	480
Total	<u>\$ 10,056</u>	<u>\$ —</u>	<u>\$ (9,219)</u>	<u>\$ 837</u>

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands, except per share amounts)

(Unaudited)

(5) GOODWILL AND INTANGIBLE ASSETS

Amortized Intangible Assets

The components of amortized intangible assets at September 28, 2019 and December 29, 2018 were as follows:

	September 28, 2019		
	Gross Carrying Amount	Accumulated Amortization	Weighted Average Life
Customer Relationships	\$ 236,029	\$ 143,306	13 years
Patents & Proprietary Technology	22,936	5,945	14 years
Other	7,494	6,886	5 years
	<u>\$ 266,459</u>	<u>\$ 156,137</u>	

	December 29, 2018		
	Gross Carrying Amount	Accumulated Amortization	Weighted Average Life
Customer Relationships	\$ 219,508	\$ 132,180	13 years
Patents & Proprietary Technology	23,662	4,837	14 years
Other	7,971	6,891	5 years
	<u>\$ 251,141</u>	<u>\$ 143,908</u>	

Amortization expense for intangible assets for the thirteen and thirty-nine weeks ended September 28, 2019 and September 29, 2018, respectively was as follows:

Thirteen weeks ended		Thirty-nine weeks ended	
2019	2018	2019	2018
\$ 4,484	\$ 3,721	\$ 13,506	\$ 11,176

Estimated annual amortization expense related to finite-lived intangible assets is as follows:

	Estimated Amortization Expense
2019	\$ 17,687
2020	17,821
2021	15,523
2022	13,286
2023	11,594

The useful lives assigned to finite-lived intangible assets included consideration of factors such as the Company's past and expected experience related to customer retention rates, the remaining legal or contractual life of the underlying arrangement that resulted in the recognition of the intangible asset and the Company's expected use of the intangible asset.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands, except per share amounts)

(Unaudited)

(5) GOODWILL AND INTANGIBLE ASSETS (Continued)

Non-amortized intangible assets

Intangible assets with indefinite lives are not amortized and consist solely of trade names. The carrying value of trade names at September 28, 2019 and December 29, 2018 are as follows:

	September 28, 2019	December 29, 2018	Year Acquired
Newmark	\$ 11,111	\$ 11,111	2004
Webforge	8,587	8,872	2010
Convert Italia S.p.A	8,203	8,580	2018
Valmont SM	7,799	8,155	2014
Ingal EPS/Ingal Civil Products	7,001	7,233	2010
Walpar	3,500	4,300	2018
Shakespeare	4,000	4,000	2014
Other	17,211	16,472	
	<u>\$ 67,412</u>	<u>\$ 68,723</u>	

In its determination of these intangible assets as indefinite-lived, the Company considered such factors as its expected future use of the intangible asset, legal, regulatory, technological and competitive factors that may impact the useful life or value of the intangible asset and the expected costs to maintain the value of the intangible asset. The Company expects that these intangible assets will maintain their value indefinitely. Accordingly, these assets are not amortized.

The Company's trade names were tested for impairment in the third quarter of 2019. The values of each trade name was determined using the relief-from-royalty method. Based on this evaluation, no trade names were determined to be impaired. The Company recorded a charge of \$1,425 in the third quarter of 2018 for the offshore and other complex steel structures (Valmont SM) trade name.

Goodwill

The carrying amount of goodwill by segment as of September 28, 2019 and December 29, 2018 was as follows:

	Engineered Support Structures Segment	Utility Support Structures Segment	Coatings Segment	Irrigation Segment	Total
Gross Balance December 29, 2018	\$ 204,735	\$ 123,618	\$ 80,937	\$ 25,164	\$ 434,454
Accumulated impairment losses	(18,670)	(14,355)	(16,222)	—	(49,247)
Balance at December 29, 2018	186,065	109,263	64,715	25,164	385,207
Acquisitions	21,043	7,889	11,715	—	40,647
Foreign currency translation	(2,652)	(1,758)	(133)	368	(4,175)
Balance at September 28, 2019	<u>\$ 204,456</u>	<u>\$ 115,394</u>	<u>\$ 76,297</u>	<u>\$ 25,532</u>	<u>\$ 421,679</u>

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands, except per share amounts)

(Unaudited)

(5) GOODWILL AND INTANGIBLE ASSETS (Continued)

The Company's annual impairment test of goodwill was performed during the third quarter of 2019, using the discounted cash flow method. The estimated fair value of all of our reporting units exceeded their respective carrying value, so no goodwill was impaired. The access systems reporting unit with \$43,400 of goodwill, is the reporting unit that did not have a substantial excess of estimated fair value over its carrying value. The model assumes geographic expansion of its architectural product lines which realized recent organic growth in its existing market. If architectural systems sales do not increase, the Company will be required to perform an interim test of goodwill. A hypothetical 1.0% change in the discount rate would increase/decrease the fair value of this reporting unit by approximately \$15,000, which approximates the cushion between the estimated fair value and carrying value of this reporting unit. In the third quarter of 2018, the Company recognized a goodwill impairment totaling \$14,355, which represented all of the goodwill of the offshore and other complex steel reporting unit.

(6) CASH FLOW SUPPLEMENTARY INFORMATION

The Company considers all highly liquid temporary cash investments purchased with an original maturity of three months or less at the time of purchase to be cash equivalents. Cash payments for interest and income taxes (net of refunds) for the thirty-nine weeks ended September 28, 2019 and September 29, 2018 were as follows:

	2019	2018
Interest	\$ 19,440	\$ 23,624
Income taxes	39,850	36,855

VALMONT INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands, except per share amounts)

(Unaudited)

(7) EARNINGS PER SHARE

The following table provides a reconciliation between Basic and Diluted earnings per share (EPS):

	Basic EPS	Dilutive Effect of Stock Options	Diluted EPS
Thirteen weeks ended September 28, 2019:			
Net earnings attributable to Valmont Industries, Inc.	\$ 40,144	\$ —	\$ 40,144
Weighted average shares outstanding (000's)	21,556	128	21,684
Per share amount	\$ 1.86	\$ 0.01	\$ 1.85
Thirteen weeks ended September 29, 2018:			
Net earnings attributable to Valmont Industries, Inc.	\$ 4,448	\$ —	\$ 4,448
Weighted average shares outstanding (000's)	22,215	137	22,352
Per share amount	\$ 0.20	\$ —	\$ 0.20
Thirty-nine weeks ended September 28, 2019			
Net earnings attributable to Valmont Industries, Inc.	\$ 118,022	\$ —	\$ 118,022
Weighted average shares outstanding (000's)	21,725	101	21,826
Per share amount	\$ 5.43	\$ (0.02)	\$ 5.41
Thirty-nine weeks ended September 29, 2018:			
Net earnings attributable to Valmont Industries, Inc.	\$ 76,689	\$ —	\$ 76,689
Weighted average shares outstanding (000's)	22,421	153	22,574
Per share amount	\$ 3.42	\$ (0.02)	\$ 3.40

At September 28, 2019 and September 29, 2018, there were 177,153 and 190,021 outstanding stock options with exercise prices exceeding the market price of common stock that were excluded from the computation of diluted earnings per share, respectively.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands, except per share amounts)

(Unaudited)

(8) HEDGING ACTIVITIES

The Company manages interest rate risk, commodity price risk, and foreign currency risk related to foreign currency denominated transactions and investments in foreign subsidiaries. Depending on the circumstances, the Company may manage these risks by utilizing derivative financial instruments. Some derivative financial instruments are marked to market and recorded in the Company's consolidated statements of earnings, while others may be accounted for as fair value, cash flow, or net investment hedges. Derivative financial instruments have credit and market risk. The Company manages these risks of derivative instruments by monitoring limits as to the types and degree of risk that can be taken, and by entering into transactions with counterparties who are recognized, stable multinational banks.

Fair value of derivative instruments at September 28, 2019 and December 29, 2018 are as follows:

Derivatives designated as hedging instruments:	Balance sheet location	September 28,	December 29,
		2019	2018
Commodity forward contracts	Prepaid expenses and other assets	\$ —	\$ (285)
Foreign currency forward contracts	Prepaid expenses and other assets	4,936	8,357
Cross currency swap contracts	Prepaid expenses and other assets	4,472	1,075
		\$ 9,408	\$ 9,147

Gains (losses) on derivatives recognized in the condensed consolidated statements of earnings for the thirteen and thirty-nine weeks ended September 28, 2019 and September 29, 2018 are as follows:

	Statements of earnings location	Thirteen weeks ended		Thirty-nine weeks ended	
		September 28, 2019	September 29, 2018	September 28, 2019	September 29, 2018
Commodity forward contracts	Product cost of sales	\$ (1,329)	\$ 717	\$ (1,425)	\$ 717
Foreign currency forward contracts	Other income (expenses)	123	230	827	230
Foreign currency forward contracts	Loss from divestiture of grinding media business	\$ —	—	—	(1,215)
Interest rate hedges	Interest expense	(16)	(395)	(48)	(439)
Cross currency swap contracts	Interest expense	769	206	2,096	206
		\$ (453)	\$ 758	\$ 1,450	\$ (501)

Cash Flow Hedges

In 2019 and 2018, the Company entered into steel hot rolled coil (HRC) forward contracts that qualified as a cash flow hedge of the variability in cash flows attributable to future steel purchases. In 2019, the forward contracts had a notional amount of \$12,128 for the purchase of 3,500 short tons for each month from May 2019 to September 2019. In 2018, the forward contracts entered into had a notional amount of \$8,469 for the purchase of 3,500 short tons for each month from July 2018 to September 2018 and a notional amount of \$15,563 for the purchase of 6,500 short tons for each month from October 2018 to December 2018. The gain/(loss) realized upon settlement is recorded in product cost of sales in the condensed consolidated statements of earnings over average inventory turns. The forward contracts were closed out in the third quarter of 2019.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands, except per share amounts)

(Unaudited)

(8) HEDGING ACTIVITIES (Continued)

On June 19, 2018, the Company issued and sold \$200,000 aggregate principal amount of the Company's 5.00% senior notes due 2044 and \$55,000 aggregate principal amount of the Company's 5.25% senior notes due 2054. During the second quarter of 2018, the Company executed contracts to hedge the risk of potential fluctuations in the treasury rates on the 2044 Notes and 2054 Notes which would change the amount of net proceeds received from the debt offering. These contracts had a combined notional amount of \$175,000. On June 8, 2018, these contracts were settled with the Company paying \$2,467 to the counterparties which was recorded in Other Comprehensive Income ("OCI") and will be amortized as an increase to interest expense over the term of the debt. Due to the retirement of the 2020 bonds in July 2018, the Company wrote off the remaining \$411 unamortized loss on the related cash flow hedge.

Net Investment Hedges

In the second quarter of 2019, all net investment hedges incepted in 2018 were early settled and the Company received proceeds of \$11,184, which will remain in OCI until either the sale or substantially complete liquidation of the related subsidiaries.

In the second quarter of 2019, the Company entered into a new foreign currency forward contract to mitigate foreign currency risk of the Company's investment in its Australian dollar denominated businesses. The forward contract, which qualifies as a net investment hedge, has a maturity date of April 2021 and a notional amount to sell Australian dollars to receive \$100,000. The Australian dollar forward contract effectiveness was assessed under the spot method with forward points excluded totaling \$881, which the Company has elected to amortize in other income (expense) in the condensed consolidated statements of earnings using the straight-line method over the remaining term of the contract.

In the second quarter of 2019, the Company entered into two new fixed-for-fixed cross currency swaps ("CCS"), swapping U.S. dollar principal and interest payments on a portion of its 5.00% senior unsecured notes due 2044 for Danish krone (DKK) and Euro denominated payments. The CCS were entered into in order to mitigate foreign currency risk on the Company's Euro and DKK investments and to reduce interest expense. Interest is exchanged twice per year on April 1 and October 1.

Key terms of the two CCS are as follows:

<u>Currency</u>	<u>Notional Amount</u>	<u>Termination Date</u>	<u>Swapped Interest Rate</u>	<u>Settlement Amount</u>
Danish Krone, DKK	\$ 50,000	April 1, 2024	2.68%	DKK 333,625
Euro	\$ 80,000	April 1, 2024	2.825%	€71,550

The Company designated the full notional amount of the two CCS (\$130,000) as a hedge of the net investment in certain Danish and European subsidiaries under the spot method, with all changes in the fair value of the CCS that are included in the assessment of effectiveness (changes due to spot foreign exchange rates) are recorded as cumulative foreign currency translation within OCI, and will remain in OCI until either the sale or substantially complete liquidation of the related subsidiaries. Net interest receipts will be recorded as a reduction of interest expense over the life of the CCS.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands, except per share amounts)

(Unaudited)

(9) LEASES

The Company has operating leases for plant locations, corporate offices, sales offices, and certain equipment. Outstanding leases at September 28, 2019 have remaining lease terms of one year to fifteen years, some of which include options to extend leases for up to five years. The Company does not have any financing leases. The Company elected practical expedients not to reassess whether existing contracts are or contain leases, to not reassess the lease classification of any existing leases, to not reassess initial direct costs for any existing leases, to use hindsight in determining the lease term and in assessing impairment of the right-of-use asset, and to not separate lease and non-lease components for all classes of underlying assets.

The Company determines if an arrangement is a lease at inception. Operating leases are included in operating lease right-of-use ("ROU") assets, accrued expenses, and operating lease liabilities in our condensed consolidated balance sheets. ROU assets represent the right to use an underlying asset for the lease term and lease liabilities represent the obligation to make future lease payments arising from the lease. Operating lease ROU assets and liabilities are recognized at commencement date based on the present value of lease payments over the lease term. As most of the leases do not provide an implicit rate, the Company used its incremental borrowing rate based on information available at the date of adoption in determining the present value of future lease payments. The operating lease ROU asset also includes any lease payments made and excludes any lease incentives and impairments. Some of the Company's facility leases include options to extend the lease when it is reasonably certain that the option will be exercised. Lease expense is recognized on a straight-line basis over the lease term.

Lease cost and other information related to the Company's operating leases are as follows:

	Thirteen weeks ended September 28, 2019	Thirty-nine weeks ended September 28, 2019
Operating lease cost	\$ 5,002	\$ 15,471
Short-term lease cost	\$ 650	\$ 1,919
Total lease cost	<u>\$ 5,652</u>	<u>\$ 17,390</u>
Operating cash outflows from operating leases	\$ 5,499	\$ 16,966
ROU assets obtained in exchange for lease obligations	\$ 626	\$ 3,057
Weighted average remaining lease term	10 years	10 years
Weighted average discount rate	3.9%	3.9%

As part of the adoption of ASC 842, the Company evaluated at the historical and projected cash flow generation of the operations at each of its long-term leased facilities. One of those facilities, a galvanizing operation in Melbourne, Australia, will not generate sufficient cash flows on an undiscounted cash flow basis to recover the carrying value of the right of use asset. The Company then estimated a value for this operation using a discounted cash flow model. The result was an impairment of the right-of-use lease asset of approximately \$12,063. The after-tax balance of \$8,444 was recorded as a reduction to retained earnings for the transition adjustment of adoption.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands, except per share amounts)

(Unaudited)

(9) LEASES (Continued)

Supplemental balance sheet information related to operating leases for the third quarter of 2019 is as follows:

	Classification	September 28, 2019
Operating lease assets	Other assets	\$ 80,715
Operating lease short-term liabilities	Accrued expenses	14,634
Operating lease long-term liabilities	Operating lease liabilities	78,790
Total lease liabilities		<u>\$ 93,424</u>

Minimum lease payments under operating leases expiring subsequent to September 28, 2019 are as follows:

Fiscal year ending:		
2019 (excluding the nine months ended September 28, 2019)		\$ 4,738
2020		17,397
2021		14,154
2022		11,508
2023		8,684
Subsequent		57,574
Total minimum lease payments		<u>\$ 114,055</u>
Less: Interest		<u>\$ 20,631</u>
Present value of minimum lease payments		<u>\$ 93,424</u>

The below table as of December 29, 2018 is carried forward, including certain amounts that were historically included in the table as a result of the historical lease term conclusions but were not included in the initial ROU asset and lease liability measurement as of December 30, 2018 due to the Company's election of the hindsight practical expedient. The Company also determined one of its leases with escalating rent payments should be expensed using the straight-line method over a longer term and the result was an additional reduction to retained earnings of \$442 for a transition adjustment. Minimum lease payments for operating leases under ASC 840 expiring subsequent to December 29, 2018 are as follows:

Fiscal year ending:		
2019		\$ 18,757
2020		16,830
2021		13,992
2022		11,932
2023		8,866
Subsequent		76,438
Total minimum lease payments		<u>\$ 146,815</u>

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands, except per share amounts)

(Unaudited)

(10) BUSINESS SEGMENTS

The Company has four reportable segments based on its management structure. Each segment is global in nature with a manager responsible for segment operational performance and the allocation of capital within the segment. Net corporate expense is net of certain service-related expenses that are allocated to business units generally on the basis of employee headcounts.

Reportable segments are as follows:

ENGINEERED SUPPORT STRUCTURES: This segment consists of the manufacture of engineered metal and composite poles, towers, and components for global lighting, traffic, and wireless communication markets, engineered access systems, integrated structure solutions for smart cities, and highway safety products;

UTILITY SUPPORT STRUCTURES: This segment consists of the manufacture of engineered steel and concrete structures for the global utility transmission, distribution, and generation applications, renewable energy generation equipment, and substations;

COATINGS: This segment consists of galvanizing, painting, and anodizing services; and

IRRIGATION: This segment consists of the manufacture of agricultural irrigation equipment, parts, services, tubular products, water management solutions, and technology for precision agriculture.

In addition to these four reportable segments, the Company had other businesses and activities that individually are not more than 10% of consolidated sales, operating income or assets. This includes the manufacture of forged steel grinding media for the mining industry and is reported in the "Other" category until its divestiture in 2018.

The Company evaluates the performance of its business segments based upon operating income and invested capital. The Company does not allocate LIFO expense, interest expense, non-operating income and deductions, or income taxes to its business segments.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands, except per share amounts)

(Unaudited)

(10) BUSINESS SEGMENTS (Continued)

Summary by Business

	Thirteen weeks ended		Thirty-nine weeks ended	
	September 28, 2019	September 29, 2018	September 28, 2019	September 29, 2018
SALES:				
Engineered Support Structures segment:				
Lighting, Traffic, and Highway Safety Products	\$ 191,262	\$ 183,184	\$ 530,021	\$ 522,558
Communication Products	48,391	35,985	138,710	109,690
Access Systems	28,405	32,355	88,363	94,941
Engineered Support Structures segment	268,058	251,524	757,094	727,189
Utility Support Structures segment:				
Steel	153,433	161,847	460,309	471,947
Concrete	28,011	27,715	88,415	81,562
Engineered Solar Tracker Solutions	3,418	6,090	43,642	6,090
Offshore and Other Complex Steel Structures	20,096	22,617	66,343	66,251
Utility Support Structures segment	204,958	218,269	658,709	625,850
Coatings segment	92,957	90,433	278,142	266,952
Irrigation segment:				
North America	82,840	78,168	294,127	301,887
International	61,340	62,007	158,054	189,177
Irrigation segment	144,180	140,175	452,181	491,064
Other	—	—	—	23,080
Total	710,153	700,401	2,146,126	2,134,135
INTERSEGMENT SALES:				
Engineered Support Structures segment	1,564	3,093	5,066	16,801
Utility Support Structures segment	762	326	2,246	1,517
Coatings segment	16,035	15,886	49,900	49,408
Irrigation segment	1,452	2,404	5,564	6,628
Total	19,813	21,709	62,776	74,354
NET SALES:				
Engineered Support Structures segment	266,494	248,431	752,028	710,388
Utility Support Structures segment	204,196	217,943	656,463	624,333
Coatings segment	76,922	74,547	228,242	217,544
Irrigation segment	142,728	137,771	446,617	484,436
Other	—	—	—	23,080
Total	\$ 690,340	\$ 678,692	\$ 2,083,350	\$ 2,059,781
OPERATING INCOME:				
Engineered Support Structures segment	\$ 21,825	\$ 16,499	\$ 55,152	\$ 36,411
Utility Support Structures segment	20,362	2,090	61,443	46,298
Coatings segment	13,865	14,373	39,037	41,108
Irrigation segment	18,204	21,302	59,868	82,917
Other	—	—	—	(913)
Adjustment to LIFO inventory valuation method	2,799	(2,780)	5,539	(5,512)
Corporate	(13,192)	(13,124)	(38,360)	(34,319)
Total	\$ 63,863	\$ 38,360	\$ 182,679	\$ 165,990

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands, except per share amounts)

(Unaudited)

11) GUARANTOR/NON-GUARANTOR FINANCIAL INFORMATION

The Company has two tranches of senior unsecured notes. All of the senior notes are guaranteed, jointly, severally, fully and unconditionally (subject to certain customary release provisions, including sale of the subsidiary guarantor, or sale of all or substantially all of its assets) by certain of the Company's current and future direct and indirect domestic and foreign subsidiaries (collectively the "Guarantors"), excluding its other current domestic and foreign subsidiaries which do not guarantee the debt (collectively referred to as the "Non-Guarantors"). All Guarantors are 100% owned by the parent company.

Consolidated financial information for the Company ("Parent"), the Guarantor subsidiaries and the Non-Guarantor subsidiaries is as follows:

CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS
For the Thirteen weeks ended September 28, 2019

	Parent	Guarantors	Non-Guarantors	Eliminations	Total
Net sales	\$ 302,461	\$ 135,392	\$ 310,676	\$ (58,189)	\$ 690,340
Cost of sales	223,949	96,566	251,561	(57,822)	514,254
Gross profit	78,512	38,826	59,115	(367)	176,086
Selling, general and administrative expenses	67,366	2,325	42,532	—	112,223
Operating income	11,146	36,501	16,583	(367)	63,863
Other income (expense):					
Interest expense	(9,471)	(2,544)	(504)	2,543	(9,976)
Interest income	607	2	2,903	(2,543)	969
Other	849	12	309	—	1,170
	(8,015)	(2,530)	2,708	—	(7,837)
Earnings before income taxes and equity in earnings of nonconsolidated subsidiaries	3,131	33,971	19,291	(367)	56,026
Income tax expense (benefit)	2,084	8,834	2,930	(85)	13,763
Earnings before equity in earnings of nonconsolidated subsidiaries	1,047	25,137	16,361	(282)	42,263
Equity in earnings of nonconsolidated subsidiaries	39,097	2,017	—	(41,114)	—
Net earnings	40,144	27,154	16,361	(41,396)	42,263
Less: Earnings attributable to noncontrolling interests	—	—	(2,119)	—	(2,119)
Net earnings attributable to Valmont Industries, Inc.	\$ 40,144	\$ 27,154	\$ 14,242	\$ (41,396)	\$ 40,144

VALMONT INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands, except per share amounts)

(Unaudited)

(11) GUARANTOR/NON-GUARANTOR FINANCIAL INFORMATION (Continued)

CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS
For the Thirty-nine weeks ended September 28, 2019

	Parent	Guarantors	Non-Guarantors	Eliminations	Total
Net sales	\$ 915,436	\$ 413,050	\$ 939,484	\$ (184,620)	\$ 2,083,350
Cost of sales	675,093	307,209	763,499	(184,080)	1,561,721
Gross profit	240,343	105,841	175,985	(540)	521,629
Selling, general and administrative expenses	175,000	28,301	135,649	—	338,950
Operating income	65,343	77,540	40,336	(540)	182,679
Other income (expense):					
Interest expense	(28,638)	(8,583)	(1,333)	8,583	(29,971)
Interest income	1,060	32	10,306	(8,583)	2,815
Other	6,264	33	395	—	6,692
	(21,314)	(8,518)	9,368	—	(20,464)
Earnings before income taxes and equity in earnings of nonconsolidated subsidiaries	44,029	69,022	49,704	(540)	162,215
Income tax expense (benefit)	9,856	16,691	13,680	(76)	40,151
Earnings before equity in earnings of nonconsolidated subsidiaries	34,173	52,331	36,024	(464)	122,064
Equity in earnings of nonconsolidated subsidiaries	83,849	8,843	—	(92,692)	—
Net earnings	118,022	61,174	36,024	(93,156)	122,064
Less: Earnings attributable to noncontrolling interests	—	—	(4,042)	—	(4,042)
Net earnings attributable to Valmont Industries, Inc.	\$ 118,022	\$ 61,174	\$ 31,982	\$ (93,156)	\$ 118,022

VALMONT INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands, except per share amounts)

(Unaudited)

(11) GUARANTOR/NON-GUARANTOR FINANCIAL INFORMATION (Continued)

CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS

For the Thirteen weeks ended September 29, 2018

	Parent	Guarantors	Non-Guarantors	Eliminations	Total
Net sales	\$ 293,070	\$ 132,059	\$ 319,129	\$ (65,566)	\$ 678,692
Cost of sales	227,467	100,130	252,353	(65,598)	514,352
Gross profit	65,603	31,929	66,776	32	164,340
Selling, general and administrative expenses	51,159	12,908	61,913	—	125,980
Operating income	14,444	19,021	4,863	32	38,360
Other income (expense):					
Interest expense	(10,511)	(3,600)	(443)	3,600	(10,954)
Interest income	174	47	4,379	(3,600)	1,000
Other	(13,765)	15	1,426	—	(12,324)
	(24,102)	(3,538)	5,362	—	(22,278)
Earnings before income taxes and equity in earnings of nonconsolidated subsidiaries	(9,658)	15,483	10,225	32	16,082
Income tax expense (benefit)	(4,497)	4,732	8,882	(26)	9,091
Earnings before equity in earnings of nonconsolidated subsidiaries	(5,161)	10,751	1,343	58	6,991
Equity in earnings of nonconsolidated subsidiaries	9,609	4,041	—	(13,650)	—
Net earnings	4,448	14,792	1,343	(13,592)	6,991
Less: Earnings attributable to noncontrolling interests	—	—	(2,543)	—	(2,543)
Net earnings attributable to Valmont Industries, Inc.	\$ 4,448	\$ 14,792	\$ (1,200)	\$ (13,592)	\$ 4,448

VALMONT INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands, except per share amounts)

(Unaudited)

(11) GUARANTOR/NON-GUARANTOR FINANCIAL INFORMATION (Continued)

CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS

For the Thirty-nine weeks ended September 29, 2018

	Parent	Guarantors	Non-Guarantors	Eliminations	Total
Net sales	\$ 906,978	\$ 386,793	\$ 966,764	\$ (200,754)	\$ 2,059,781
Cost of sales	683,740	293,238	776,254	(202,030)	1,551,202
Gross profit	223,238	93,555	190,510	1,276	508,579
Selling, general and administrative expenses	147,949	37,360	157,280	—	342,589
Operating income	75,289	56,195	33,230	1,276	165,990
Other income (expense):					
Interest expense	(32,788)	(11,229)	(1,031)	11,229	(33,819)
Interest income	655	62	14,225	(11,229)	3,713
Other	(15,773)	41	(1,973)	—	(17,705)
	(47,906)	(11,126)	11,221	—	(47,811)
Earnings before income taxes and equity in earnings of nonconsolidated subsidiaries	27,383	45,069	44,451	1,276	118,179
Income tax expense (benefit)	6,181	12,260	17,525	62	36,028
Earnings before equity in earnings of nonconsolidated subsidiaries	21,202	32,809	26,926	1,214	82,151
Equity in earnings of nonconsolidated subsidiaries	55,487	37,939	—	(93,426)	—
Net earnings	76,689	70,748	26,926	(92,212)	82,151
Less: Earnings attributable to noncontrolling interests	—	—	(5,462)	—	(5,462)
Net earnings attributable to Valmont Industries, Inc.	\$ 76,689	\$ 70,748	\$ 21,464	\$ (92,212)	\$ 76,689

VALMONT INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands, except per share amounts)

(Unaudited)

(11) GUARANTOR/NON-GUARANTOR FINANCIAL INFORMATION (Continued)

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the Thirteen weeks ended September 28, 2019

	Parent	Guarantors	Non-Guarantors	Eliminations	Total
Net earnings	\$ 40,144	\$ 27,154	\$ 16,361	\$ (41,396)	\$ 42,263
Other comprehensive income (loss), net of tax:					
Foreign currency translation adjustments:					
Unrealized translation gain (loss)	—	4,512	(28,293)	—	(23,781)
Gain (loss) on hedging activities	9,315	—	—	—	9,315
Equity in other comprehensive income	(22,959)	—	—	22,959	—
Other comprehensive income (loss)	(13,644)	4,512	(28,293)	22,959	(14,466)
Comprehensive income (loss)	26,500	31,666	(11,932)	(18,437)	27,797
Comprehensive income attributable to noncontrolling interests	—	—	(1,297)	—	(1,297)
Comprehensive income (loss) attributable to Valmont Industries, Inc.	\$ 26,500	\$ 31,666	\$ (13,229)	\$ (18,437)	\$ 26,500

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the Thirty-nine weeks ended September 28, 2019

	Parent	Guarantors	Non-Guarantors	Eliminations	Total
Net earnings	\$ 118,022	\$ 61,174	\$ 36,024	\$ (93,156)	\$ 122,064
Other comprehensive income (loss), net of tax:					
Foreign currency translation adjustments:					
Unrealized translation gain (loss)	—	291	(20,757)	—	(20,466)
Gain (loss) on hedging activities	6,282	—	—	—	6,282
Equity in other comprehensive income	(19,814)	—	—	19,814	—
Other comprehensive income (loss)	(13,532)	291	(20,757)	19,814	(14,184)
Comprehensive income (loss)	104,490	61,465	15,267	(73,342)	107,880
Comprehensive income attributable to noncontrolling interests	—	—	(3,390)	—	(3,390)
Comprehensive income (loss) attributable to Valmont Industries, Inc.	\$ 104,490	\$ 61,465	\$ 11,877	\$ (73,342)	\$ 104,490

VALMONT INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands, except per share amounts)

(Unaudited)

(11) GUARANTOR/NON-GUARANTOR FINANCIAL INFORMATION (Continued)

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the Thirteen weeks ended September 29, 2018

	Parent	Guarantors	Non-Guarantors	Eliminations	Total
Net earnings	\$ 4,448	\$ 14,792	\$ 1,343	\$ (13,592)	\$ 6,991
Other comprehensive income (loss), net of tax:					
Foreign currency translation adjustments:					
Unrealized translation gain (loss)	—	4,289	(14,921)	—	(10,632)
Realized loss on divestiture of grinding media business recorded in earnings	—	—	—	—	—
Gain (loss) on hedging activities	(910)	—	—	—	(910)
Equity in other comprehensive income	(10,478)	—	—	10,478	—
Other comprehensive income (loss)	(11,388)	4,289	(14,921)	10,478	(11,542)
Comprehensive income (loss)	(6,940)	19,081	(13,578)	(3,114)	(4,551)
Comprehensive income attributable to noncontrolling interests	—	—	(2,389)	—	(2,389)
Comprehensive income (loss) attributable to Valmont Industries, Inc.	\$ (6,940)	\$ 19,081	\$ (15,967)	\$ (3,114)	\$ (6,940)

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the Thirty-nine weeks ended September 29, 2018

	Parent	Guarantors	Non-Guarantors	Eliminations	Total
Net earnings	\$ 76,689	\$ 70,748	\$ 26,926	\$ (92,212)	\$ 82,151
Other comprehensive income (loss), net of tax:					
Foreign currency translation adjustments:					
Unrealized translation gain (loss)	—	2,122	(52,903)	—	(50,781)
Realized loss on divestiture of grinding media business recorded in earnings	—	—	9,203	—	9,203
Gain (loss) on hedging activities	834	—	—	—	834
Equity in other comprehensive income	(44,366)	—	—	44,366	—
Other comprehensive income (loss)	(43,532)	2,122	(43,700)	44,366	(40,744)
Comprehensive income (loss)	33,157	72,870	(16,774)	(47,846)	41,407
Comprehensive income attributable to noncontrolling interests	—	—	(8,250)	—	(8,250)
Comprehensive income (loss) attributable to Valmont Industries, Inc.	\$ 33,157	\$ 72,870	\$ (25,024)	\$ (47,846)	\$ 33,157

VALMONT INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands, except per share amounts)

(Unaudited)

(11) GUARANTOR/NON-GUARANTOR FINANCIAL INFORMATION (Continued)

CONDENSED CONSOLIDATED BALANCE SHEETS

September 28, 2019

	Parent	Guarantors	Non-Guarantors	Eliminations	Total
ASSETS					
Current assets:					
Cash and cash equivalents	\$ 179,765	\$ 1,963	\$ 145,472	\$ —	\$ 327,200
Receivables, net	161,260	79,077	260,878	—	501,215
Inventories	125,240	46,133	208,869	(2,942)	377,300
Contract asset - costs and profits in excess of billings	58,713	35,195	26,468	—	120,376
Prepaid expenses and other assets	15,569	4,866	29,985	—	50,420
Refundable income taxes	11,893	—	—	—	11,893
Total current assets	552,440	167,234	671,672	(2,942)	1,388,404
Property, plant and equipment, at cost	614,979	199,176	419,607	—	1,233,762
Less accumulated depreciation and amortization	411,808	100,692	172,894	—	685,394
Net property, plant and equipment	203,171	98,484	246,713	—	548,368
Goodwill	20,108	140,095	261,476	—	421,679
Other intangible assets	36	46,758	130,940	—	177,734
Investment in subsidiaries and intercompany accounts	1,333,420	1,138,854	840,925	(3,313,199)	—
Other assets	78,721	4,859	105,677	—	189,257
Total assets	\$ 2,187,896	\$ 1,596,284	\$ 2,257,403	\$ (3,316,141)	\$ 2,725,442
LIABILITIES AND SHAREHOLDERS' EQUITY					
Current liabilities:					
Current installments of long-term debt	\$ —	\$ —	\$ 745	\$ —	\$ 745
Notes payable to banks	—	—	19,324	—	19,324
Accounts payable	64,256	18,681	114,598	—	197,535
Accrued employee compensation and benefits	41,371	5,994	31,175	—	78,540
Accrued expenses	162,640	13,024	51,051	—	226,715
Dividends payable	8,088	—	—	—	8,088
Total current liabilities	276,355	37,699	216,893	—	530,947
Deferred income taxes	16,645	—	27,133	—	43,778
Long-term debt, excluding current installments	734,417	119,716	30,107	(119,716)	764,524
Defined benefit pension liability	—	—	121,282	—	121,282
Other noncurrent liabilities	73,788	3,622	56,330	—	133,740
Shareholders' equity:					
Common stock of \$1 par value	27,900	457,950	648,957	(1,106,907)	27,900
Additional paid-in capital	—	162,906	1,107,536	(1,270,442)	—
Retained earnings	2,119,843	733,109	416,932	(1,150,041)	2,119,843
Accumulated other comprehensive income (loss)	(316,717)	81,282	(412,247)	330,965	(316,717)
Treasury stock	(744,335)	—	—	—	(744,335)
Total Valmont Industries, Inc. shareholders' equity	1,086,691	1,435,247	1,761,178	(3,196,425)	1,086,691
Noncontrolling interest in consolidated subsidiaries	—	—	44,480	—	44,480
Total shareholders' equity	1,086,691	1,435,247	1,805,658	(3,196,425)	1,131,171
Total liabilities and shareholders' equity	\$ 2,187,896	\$ 1,596,284	\$ 2,257,403	\$ (3,316,141)	\$ 2,725,442

VALMONT INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands, except per share amounts)

(Unaudited)

(11) GUARANTOR/NON-GUARANTOR FINANCIAL INFORMATION (Continued)

CONDENSED CONSOLIDATED BALANCE SHEETS
December 29, 2018

	Parent	Guarantors	Non-Guarantors	Eliminations	Total
ASSETS					
Current assets:					
Cash and cash equivalents	\$ 104,256	\$ 5,518	\$ 203,436	\$ —	\$ 313,210
Receivables, net	134,943	75,204	273,816	—	483,963
Inventories	138,158	37,019	210,791	(2,402)	383,566
Contract asset - costs and profits in excess of billings	50,271	35,200	27,054	—	112,525
Prepaid expenses and other assets	21,858	746	20,196	—	42,800
Refundable income taxes	4,576	—	—	—	4,576
Total current assets	454,062	153,687	735,293	(2,402)	1,340,640
Property, plant and equipment, at cost	579,046	172,050	409,769	—	1,160,865
Less accumulated depreciation and amortization	390,438	93,374	163,061	—	646,873
Net property, plant and equipment	188,608	78,676	246,708	—	513,992
Goodwill	20,108	110,562	254,537	—	385,207
Other intangible assets	76	27,452	148,428	—	175,956
Investment in subsidiaries and intercompany accounts	1,286,545	1,161,612	932,982	(3,381,139)	—
Other assets	47,674	—	66,805	—	114,479
Total assets	\$ 1,997,073	\$ 1,531,989	\$ 2,384,753	\$ (3,383,541)	\$ 2,530,274
LIABILITIES AND SHAREHOLDERS' EQUITY					
Current liabilities:					
Current installments of long-term debt	\$ —	\$ —	\$ 779	\$ —	\$ 779
Notes payable to banks	—	—	10,678	—	10,678
Accounts payable	68,304	21,081	128,730	—	218,115
Accrued employee compensation and benefits	41,418	7,186	30,687	—	79,291
Accrued expenses	25,936	10,132	55,874	—	91,942
Dividends payable	8,230	—	—	—	8,230
Total current liabilities	143,888	38,399	226,748	—	409,035
Deferred income taxes	14,376	—	29,113	—	43,489
Long-term debt, excluding current installments	733,964	166,729	7,858	(166,729)	741,822
Defined benefit pension liability	—	—	143,904	—	143,904
Other noncurrent liabilities	45,083	620	10,798	—	56,501
Shareholders' equity:					
Common stock of \$1 par value	27,900	457,950	648,682	(1,106,632)	27,900
Additional paid-in capital	—	162,906	1,107,536	(1,270,442)	—
Retained earnings	2,027,596	624,394	467,699	(1,092,093)	2,027,596
Accumulated other comprehensive income	(303,185)	80,991	(333,346)	252,355	(303,185)
Treasury stock	(692,549)	—	—	—	(692,549)
Total Valmont Industries, Inc. shareholders' equity	1,059,762	1,326,241	1,890,571	(3,216,812)	1,059,762
Noncontrolling interest in consolidated subsidiaries	—	—	75,761	—	75,761
Total shareholders' equity	1,059,762	1,326,241	1,966,332	(3,216,812)	1,135,523
Total liabilities and shareholders' equity	\$ 1,997,073	\$ 1,531,989	\$ 2,384,753	\$ (3,383,541)	\$ 2,530,274

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands, except per share amounts)

(Unaudited)

(11) GUARANTOR/NON-GUARANTOR FINANCIAL INFORMATION (Continued)

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Thirty-nine weeks ended September 28, 2019

	Parent	Guarantors	Non-Guarantors	Eliminations	Total
Cash flows from operating activities:					
Net earnings	\$ 118,022	\$ 61,174	\$ 36,024	\$ (93,156)	\$ 122,064
Adjustments to reconcile net earnings to net cash flows from operations:					
Depreciation and amortization	19,891	10,201	30,332	—	60,424
Noncash gain on trading securities	—	—	(48)	—	(48)
Stock-based compensation	8,889	—	—	—	8,889
Defined benefit pension plan benefit	—	—	(382)	—	(382)
Contribution to defined benefit pension plan	—	—	(17,426)	—	(17,426)
Loss (gain) on sale of property, plant and equipment	103	81	(649)	—	(465)
Equity in earnings in nonconsolidated subsidiaries	(83,849)	(8,843)	—	92,692	—
Deferred income taxes	3,869	—	3,229	—	7,098
Changes in assets and liabilities:					
Net working capital	94,054	(15,715)	(6,305)	541	72,575
Other noncurrent liabilities	1,005	(5,461)	(107)	—	(4,563)
Income taxes payable (refundable)	(4,488)	(2,229)	(2,219)	—	(8,936)
Net cash flows from operating activities	157,496	39,208	42,449	77	239,230
Cash flows from investing activities:					
Purchase of property, plant and equipment	(33,321)	(12,462)	(26,198)	—	(71,981)
Proceeds from sale of assets	35	26	1,264	—	1,325
Acquisitions, net of cash acquired	—	(63,141)	(18,700)	—	(81,841)
Settlement of net investment hedge	11,184	—	—	—	11,184
Other, net	(30,475)	27,878	4,791	(77)	2,117
Net cash flows from investing activities	(52,577)	(47,699)	(38,843)	(77)	(139,196)
Cash flows from financing activities:					
Proceeds from short-term agreements	—	—	9,284	—	9,284
Proceeds from long-term borrowings	31,000	—	—	—	31,000
Principal payments on long-term borrowings	(10,000)	—	(578)	—	(10,578)
Principal payments on long-term intercompany note	—	(42,574)	42,574	—	—
Dividends paid	(24,554)	—	—	—	(24,554)
Dividends to noncontrolling interest	—	—	(6,549)	—	(6,549)
Intercompany dividends	63,650	47,541	(111,191)	—	—
Purchase of noncontrolling interest	(22,805)	—	(5,040)	—	(27,845)
Intercompany capital contribution	(13,284)	—	13,284	—	—
Purchase of treasury shares	(55,172)	—	—	—	(55,172)
Proceeds from exercises under stock plans	3,211	—	—	—	3,211
Purchase of common treasury shares - stock plan exercises	(1,456)	—	—	—	(1,456)
Net cash flows from financing activities	(29,410)	4,967	(58,216)	—	(82,659)
Effect of exchange rate changes on cash and cash equivalents	—	(31)	(3,354)	—	(3,385)
Net change in cash and cash equivalents	75,509	(3,555)	(57,964)	—	13,990
Cash and cash equivalents—beginning of year	104,256	5,518	203,436	—	313,210
Cash and cash equivalents—end of period	\$ 179,765	\$ 1,963	\$ 145,472	\$ —	\$ 327,200

VALMONT INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands, except per share amounts)

(Unaudited)

(11) GUARANTOR/NON-GUARANTOR FINANCIAL INFORMATION (Continued)

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Thirty-nine weeks ended September 29, 2018

	Parent	Guarantors	Non-Guarantors	Eliminations	Total
Cash flows from operating activities:					
Net earnings	\$ 76,689	\$ 70,748	\$ 26,926	\$ (92,212)	\$ 82,151
Adjustments to reconcile net earnings to net cash flows from operations:					
Depreciation and amortization	19,498	10,564	31,956	—	62,018
Noncash loss on trading securities	—	—	(62)	—	(62)
Impairment of property, plant and equipment	—	—	4,197	—	4,197
Impairment of Goodwill & Intangibles	—	—	15,780	—	15,780
Loss on divestiture of grinding media business	2,518	—	3,566	—	6,084
Stock-based compensation	8,076	—	—	—	8,076
Defined benefit pension plan expense	—	—	(1,713)	—	(1,713)
Contribution to defined benefit pension plan	—	—	(1,555)	—	(1,555)
Loss (gain) on sale of property, plant and equipment	7	(27)	(333)	—	(353)
Equity in earnings in nonconsolidated subsidiaries	(55,487)	(37,939)	—	93,426	—
Deferred income taxes	729	1,791	(1,706)	—	814
Changes in assets and liabilities:					
Net working capital	(28,948)	(40,255)	(26,432)	(1,277)	(96,912)
Other noncurrent liabilities	(762)	387	(874)	—	(1,249)
Income taxes payable (refundable)	(23,256)	(1,066)	15,099	—	(9,223)
Net cash flows from operating activities	(936)	4,203	64,849	(63)	68,053
Cash flows from investing activities:					
Purchase of property, plant and equipment	(16,940)	(9,546)	(22,433)	—	(48,919)
Proceeds from sale of assets	39	232	64,515	—	64,786
Acquisitions, net of cash acquired	(57,805)	—	(67,504)	—	(125,309)
Settlement of net investment hedge	(1,621)	—	—	—	(1,621)
Other, net	28,299	(3,683)	(27,050)	63	(2,371)
Net cash flows from investing activities	(48,028)	(12,997)	(52,472)	63	(113,434)
Cash flows from financing activities:					
Payments under short-term agreements	—	—	3,217	—	3,217
Proceeds from long-term borrowings	236,936	—	—	—	236,936
Principal payments on long-term borrowings	(252,219)	—	(733)	—	(252,952)
Settlement of financial derivative	(2,467)	—	—	—	(2,467)
Debt issuance costs	(2,322)	—	—	—	(2,322)
Dividends paid	(25,415)	—	—	—	(25,415)
Dividends to noncontrolling interest	—	—	(5,737)	—	(5,737)
Intercompany dividends	123,363	11,296	(134,659)	—	—
Purchase of noncontrolling interest	—	—	(5,510)	—	(5,510)
Purchase of treasury shares	(86,919)	—	—	—	(86,919)
Intercompany capital contribution	(3,492)	3,492	—	—	—
Proceeds from exercises under stock plans	6,376	—	—	—	6,376
Purchase of common treasury shares - stock plan exercises	(1,914)	—	—	—	(1,914)
Net cash flows from financing activities	(8,073)	14,788	(143,422)	—	(136,707)
Effect of exchange rate changes on cash and cash equivalents	—	(670)	(14,425)	—	(15,095)
Net change in cash and cash equivalents	(57,037)	5,324	(145,470)	—	(197,183)
Cash and cash equivalents—beginning of year	83,329	5,304	404,172	—	492,805
Cash and cash equivalents—end of period	\$ 26,292	\$ 10,628	\$ 258,702	\$ —	\$ 295,622

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Management's discussion and analysis 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 the Company 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. These statements are not guarantees of performance or results. They involve risks, uncertainties (some of which are beyond the Company's control) and assumptions. Management believes that these forward-looking statements are based on reasonable assumptions. Many factors could affect the Company'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 the Company'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 materials, availability and market acceptance of new products, product pricing, domestic and international competitive environments, and actions and policy changes of domestic and foreign governments.

This discussion should be read in conjunction with the financial statements and notes thereto, and the management's discussion and analysis included in the Company's Annual Report on Form 10-K for the fiscal year ended December 29, 2018. Segment net sales in the table below and elsewhere are presented net of intersegment sales. See Note 10 of our condensed consolidated financial statements for additional information on segment sales and intersegment sales.

Results of Operations (Dollars in millions, except per share amounts)

	Thirteen weeks ended			Thirty-nine weeks ended		
	September 28, 2019	September 29, 2018	% Incr. (Decr.)	September 28, 2019	September 29, 2018	% Incr. (Decr.)
Consolidated						
Net sales	\$ 690.3	\$ 678.7	1.7 %	\$ 2,083.4	\$ 2,059.8	1.1 %
Gross profit	176.1	164.3	7.2 %	521.6	508.6	2.6 %
<i>as a percent of sales</i>	25.5%	24.2%		25.0%	24.7%	
SG&A expense	112.2	126.0	(11.0)%	339.0	\$ 342.6	(1.1)%
<i>as a percent of sales</i>	16.3%	18.6%		16.3%	16.6%	
Operating income	63.9	38.4	66.4 %	182.7	166.0	10.1 %
<i>as a percent of sales</i>	9.3%	5.7%		8.8%	8.1%	
Net interest expense	9.0	10.0	(10.0)%	27.2	30.1	(9.6)%
Effective tax rate	24.6%	56.5%		24.8%	30.5%	
Net earnings	\$ 40.1	\$ 4.4	811.4 %	\$ 118.0	\$ 76.7	53.8 %
Diluted earnings per share	\$ 1.85	\$ 0.20	825.0 %	\$ 5.41	\$ 3.40	59.1 %
Engineered Support Structures (ESS)						
Net sales	\$ 266.5	\$ 248.4	7.3 %	\$ 752.0	\$ 710.4	5.9 %
Gross profit	62.4	58.3	7.0 %	177.8	164.5	8.1 %
SG&A expense	40.5	41.8	(3.1)%	122.6	128.1	(4.3)%
Operating income	21.9	16.5	32.7 %	55.2	36.4	51.6 %
Utility Support Structures (Utility)						
Net sales	\$ 204.2	\$ 218.0	(6.3)%	\$ 656.5	\$ 624.4	5.1 %
Gross profit	44.0	41.1	7.1 %	133.6	127.0	5.2 %
SG&A expense	23.7	39.0	(39.2)%	72.2	80.7	(10.5)%
Operating income	20.3	2.1	866.7 %	61.4	46.3	32.6 %
Coatings						
Net sales	\$ 76.9	\$ 74.5	3.2 %	\$ 228.3	\$ 217.5	5.0 %
Gross profit	24.0	23.8	0.8 %	71.7	68.6	4.5 %
SG&A expense	10.1	9.4	7.4 %	32.7	27.5	18.9 %
Operating income	13.9	14.4	(3.5)%	39.0	41.1	(5.1)%
Irrigation						
Net sales	\$ 142.7	\$ 137.8	3.6 %	\$ 446.6	\$ 484.4	(7.8)%
Gross profit	42.9	44.0	(2.5)%	133.0	153.2	(13.2)%
SG&A expense	24.7	22.7	8.8 %	73.1	70.3	4.0 %
Operating income	18.2	21.3	(14.6)%	59.9	82.9	(27.7)%
Other						
Net sales	\$ —	\$ —	NM	\$ —	\$ 23.1	(100.0)%
Gross profit	—	—	NM	—	0.8	(100.0)%
SG&A expense	—	—	NM	—	1.7	(100.0)%
Operating income	—	—	NM	—	(0.9)	(100.0)%
Adjustment to LIFO inventory valuation method						
Gross profit	\$ 2.8	\$ (2.8)	NM	\$ 5.5	\$ (5.5)	NM
Operating income	2.8	(2.8)	NM	5.5	(5.5)	NM
Net corporate expense						
SG&A expense	\$ 13.2	\$ 13.1	0.8 %	\$ 38.4	\$ 34.3	12.0 %
Operating loss	(13.2)	(13.1)	(0.8)%	(38.4)	(34.3)	(12.0)%

NM=Not meaningful

Overview

On a consolidated basis, net sales were higher in the third quarter of 2019, as compared to 2018, due to higher sales in the ESS, Coatings, and Irrigation segments and lower sales for the Utility segment. Net sales were higher in the first three quarters of 2019, as compared with the same period in 2018, due to higher sales in the ESS, Utility, and Coatings segments that were offset by lower sales in the Irrigation and Other segments. The change in net sales in the third quarter and first three quarters of fiscal 2019, as compared with the same periods in fiscal 2018, is as follows:

	Third quarter					
	<u>Total</u>	<u>ESS</u>	<u>Utility</u>	<u>Coatings</u>	<u>Irrigation</u>	<u>Other</u>
Sales - 2018	\$ 678.7	\$ 248.4	\$ 218.0	\$ 74.5	\$ 137.8	\$ —
Volume	(9.8)	15.0	(27.7)	(6.1)	9.0	—
Pricing/mix	12.6	0.5	12.8	2.8	(3.5)	—
Acquisition/(divestiture)	17.4	8.4	2.1	6.9	—	—
Currency translation	(8.6)	(5.8)	(1.0)	(1.2)	(0.6)	—
Sales - 2019	\$ 690.3	\$ 266.5	\$ 204.2	\$ 76.9	\$ 142.7	\$ —

	Year-to-date					
	<u>Total</u>	<u>ESS</u>	<u>Utility</u>	<u>Coatings</u>	<u>Irrigation</u>	<u>Other</u>
Sales - 2018	\$ 2,059.8	\$ 710.4	\$ 624.4	\$ 217.5	\$ 484.4	\$ 23.1
Volume	(77.4)	28.0	(48.0)	(18.7)	(38.7)	—
Pricing/mix	70.5	18.1	40.1	9.4	2.9	—
Acquisition/(divestiture)	70.4	20.3	43.9	25.1	4.2	(23.1)
Currency translation	(39.9)	(24.8)	(3.9)	(5.0)	(6.2)	—
Sales - 2019	\$ 2,083.4	\$ 752.0	\$ 656.5	\$ 228.3	\$ 446.6	\$ —

Volume effects are estimated based on a physical production or sales measure. Since products we sell are not uniform in nature, pricing and mix relate to a combination of changes in sales prices and the attributes of the product sold. Accordingly, pricing and mix changes do not necessarily result in operating income changes.

Average steel prices for both hot rolled coil and plate were lower in North America and China in the third quarter of 2019, as compared to 2018, contributing to lower cost of sales and improved gross profit.

The Company acquired the following businesses during 2018 and 2019:

- A majority ownership stake in Torrent Engineering and Equipment ("Torrent") in the first quarter of 2018 (Irrigation).
- Derit Infrastructure Pvt. Ltd. ("Derit") in the third quarter of 2018, which operates a lattice steel manufacturing facility located in India (Utility and Coatings).
- A majority ownership stake in Convert Italia SpA ("Convert") in the third quarter of 2018, a provider of engineered solar tracker solutions (Utility).
- Walpar in the third quarter of 2018, a domestic manufacturer of overhead sign structures (ESS).
- CSP Coating Systems ("CSP Coatings") in the fourth quarter of 2018, a coatings provider in New Zealand (Coatings).
- Larson Camouflage ("Larson") in the first quarter of 2019, an industry leading provider of architectural and camouflage concealment solutions for the wireless telecommunication market (ESS).
- United Galvanizing ("United") in the first quarter of 2019, a domestic coatings provider (Coatings).

- Connect-It Wireless, Inc. ("Connect-It") in the second quarter of 2019, a domestic communication components business (ESS).

The Company divested of its grinding media business, which was reported in Other, during the second quarter of 2018.

Restructuring Plan

In February 2018, the Company announced a restructuring plan related to certain operations in 2018, primarily in the ESS and Utility segments, through consolidation and other cost-reduction activities (the "2018 Plan"). The Company incurred pre-tax expenses from the 2018 Plan of \$6.2 million and \$17.7 million in the third quarter and first three quarters of 2018. The decrease in the third quarter and first three quarters of 2018 gross profit and operating income due to restructuring expense by segment is as follows:

<i>Gross Profit</i>	<u>Total</u>	<u>ESS</u>	<u>Utility</u>	<u>Corporate</u>
Third quarter	\$ 3.9	\$ 3.4	\$ 0.5	\$ —
Year-to-date	\$ 10.8	\$ 8.0	\$ 2.8	\$ —

<i>Operating Income</i>	<u>Total</u>	<u>ESS</u>	<u>Utility</u>	<u>Corporate</u>
Third quarter	\$ 6.2	\$ 5.7	\$ 0.5	\$ —
Year-to-date	\$ 17.7	\$ 14.8	\$ 2.8	\$ 0.1

Currency Translation

In the third quarter and first three quarters of 2019, we realized a decrease in operating profit, as compared with 2018, due in part to currency translation effects associated with a stronger U.S. dollar against most foreign currencies. The breakdown of this effect by segment was as follows:

	<u>Total</u>	<u>ESS</u>	<u>Coatings</u>	<u>Irrigation</u>	<u>Corporate</u>
Third quarter	\$ (0.7)	\$ (0.5)	\$ (0.1)	\$ (0.1)	\$ —
Year-to-date	\$ (2.2)	\$ (1.2)	\$ (0.4)	\$ (0.7)	\$ 0.1

Gross Profit, SG&A, and Operating Income

At a consolidated level, gross margin (gross profit as a percent of sales) was higher in the third quarter and first three quarters of 2019, as compared with the same periods in 2018 attributed to lower raw material costs across the Company and improved selling prices across our infrastructure businesses. In the third quarter and first three quarters of 2019, gross profit increased for the ESS, Utility, and Coatings segments and decreased for the Irrigation segment. On a year-to-date basis, lower sales volumes and associated operating leverage of fixed costs led to the decline for the Irrigation segment.

SG&A expenses decreased in the third quarter and first three quarters of 2019, as compared to the same periods in 2018. The decrease was due to impairment of the goodwill and trade name of the Offshore business in the third quarter of 2018 of \$15.8 million and restructuring costs incurred in the third quarter and first three quarters of 2018 totaling \$2.3 million and \$6.9 million, respectively. These decreases were partially offset by SG&A expenses from acquired businesses and higher deferred compensation expense (offset by an increase of the same amount in other income).

In the third quarter and first three quarters of 2019, as compared to the same periods in 2018, operating income was higher in the ESS and Utility segments and lower in the Irrigation and Coatings segments. The overall increase in operating income in the third quarter and first three quarters of 2019 is primarily attributable to the Offshore goodwill and tradename impairment and restructuring costs incurred in 2018 and a lower cost structure resulting from those activities in 2019.

Net Interest Expense and Debt

Net interest expense in the third quarter and first three quarters of 2019, as compared to 2018, was lower due to a refinancing related to retiring \$250.2 million senior unsecured notes due 2020 at 6.625% in the third quarter of 2018 and issuing new senior unsecured notes of \$200.0 million due 2044 and \$55.0 million due 2054 at 5.0% and 5.25%, respectively. Costs associated with the refinancing of debt in the third quarter of 2018 totaled \$14.8 million. In addition, the Company entered into certain cross currency swaps in 2018, which effectively swaps the Company's U.S. denominated debt for euro and Danish kroner debt at lower interest rates that resulted in lower interest expense. Interest income was lower in the first three quarters of 2019, as compared to 2018, due to having less cash on hand to invest.

Other Income/Expenses

The change in other income/expenses in the third quarter of 2019, as compared to 2018, was due to the change in valuation of deferred compensation assets which resulted in less other income of \$0.7 million. On a year-to-date basis, deferred compensation assets resulted in additional other income of \$3.6 million. The change related to deferred compensation assets are offset by an opposite change of the same amount in SG&A expense. The remaining change was due to fluctuations in foreign currency transaction gains/losses.

Income Tax Expense

Our effective income tax rate in the third quarter and first three quarters of 2019 was 24.5% and 24.7%, compared to 56.5% and 30.5% in the third quarter and first three quarters of 2018. The decrease in effective tax rate results from the impairment of goodwill and trade name of the Offshore business that are not tax deductible and restructuring activities recognized in 2018.

Earnings attributable to noncontrolling interests was lower in the third quarter and first three quarters of 2019, as compared to 2018, due to lower earnings of certain less than 100%-owned subsidiaries.

Cash Flows from Operations

Our cash flows provided by operations was \$239.2 million in the first three quarters of fiscal 2019, as compared with \$68.1 million provided by operations in the first three quarters of 2018. The increase in operating cash flow in the first three quarters of 2019, as compared with 2018, was due to improved working capital management. The lower working capital is primarily attributed to a larger liability for customer billings in excess of costs and earnings (accrued expenses). This was partially offset by the 2019 Delta pension plan contribution (the 2018 annual payment was contributed early in December 2017) which is a use of cash flows from operations.

ESS segment

The increase in sales in the third quarter and first three quarters of 2019, as compared with the same periods in 2018, was due to sales volume increase, higher sales prices, and recent acquisitions. The sales increase was partially offset by \$5.8 million and \$24.8 million of unfavorable currency translation effects, respectively.

Global lighting and traffic, and highway safety product sales in the third quarter and first three quarters of 2019 was higher by \$8.1 million and \$7.5 million, as compared to the same periods in fiscal 2018. In the third quarter and first three quarters of 2019, as compared to the same periods in 2018, sales pricing improved in North America across commercial and transportation markets and volume increased. Lower sales volumes mainly due to the ceasing of operations in Morocco and unfavorable currency translation effects contributed to lower sales in Europe. Highway safety product sales volumes decreased in the third quarter and first three quarters of 2019, as compared to 2018, due primarily to a slowdown in government spending in Australia and India.

Communication product line sales were higher by \$12.4 million and \$29.0 million in the third quarter and first three quarters of 2019, as compared with 2018. In North America, component and structure sales volumes increased in the third quarter and first three quarters of 2019 due to higher demand from the network expansion by providers and the sales

contribution from the acquisition of Larson Camouflage and Connect-It. In Asia-Pacific, sales volumes decreased due to lower demand in China and Australia.

Access Systems product line net sales decreased in the third quarter and first three quarters of 2019, as compared to 2018, by \$4.0 million and \$6.6 million, respectively. Sales volume declines and unfavorable foreign currency translation for the Australia business drove the decrease in sales.

Gross profit, as a percentage of sales, and operating income for the segment were higher in the third quarter and first three quarters of 2019, as compared to 2018, due to improved sales pricing, restructuring costs incurred in 2018, and recent acquisitions. These improvements in profitability were partially offset in the third quarter of 2019 by an approximately \$7 million loss recognized on certain access systems projects. SG&A spending was lower in the third quarter and first three quarters of 2019 due to foreign currency translation effects, restructuring costs incurred in 2018 and benefits realized in 2019 related to those activities. The SG&A expenses from acquisitions completed in the previous twelve months partially offset the decrease in SG&A in 2019. In the third quarter and first three quarters of 2018, the segment incurred \$3.4 million and \$8.0 million of restructuring costs within product cost of sales and \$2.3 million and \$6.8 million within SG&A expenses, respectively.

Utility segment

In the Utility segment, sales decreased in the third quarter of 2019, as compared with 2018, due to lower volumes and currency translation effects that were partially offset by an increase in average sales prices. Most of our sales contracts in North America contain provisions that tie the sales price to published steel index pricing at the time our customer issues their purchase order. Specific to North America, the average sales price increase was partially offset by lower sales volumes for steel utility structures; concrete utility structure sales volumes were higher in the third quarter and first three quarters of 2019, as compared to the same periods in 2018 due to good demand. The 2018 acquisitions of Convert and Derit contributed \$43.9 million of sales increases in the first three quarters of 2019, as compared with 2018.

Offshore and other complex structures sales decreased in the third quarter 2019, as compared to 2018, due to lower volumes and unfavorable currency translation effects. Sales were flat on a year-to-date basis due to higher volumes that were offset by less favorable sales pricing and currency translation effects.

Gross profit increased in the third quarter and first three quarters of 2019, as compared to 2018, due to recent acquisitions and improved sales mix and pricing for the North America utility business. The increase in gross profit for the first three quarters of 2019, as compared to 2018, was partially offset by \$3.0 million of second quarter 2019 inspection costs to finalize the requirements from a 2015 commercial settlement. SG&A expense was lower in the third quarter and first three quarters of 2019, as compared with 2018, due to the 2018 goodwill and trade name impairment of the Offshore business of \$15.8 million, expenses of Derit and Convert and higher sales commissions. Excluding the goodwill and trade name impairment and inspection costs, operating income increased in the third quarter and first three quarters of 2019 due to improved sales mix and pricing in North America and restructuring activities undertaken in 2018.

Coatings segment

Coatings segment sales increased in the third quarter and first three quarters of 2019, as compared to the same periods in 2018, due to higher sales prices and recent acquisitions. Sales volume demand decreased in North America in the third quarter and first three quarters of 2019, as compared to 2018, but was more than offset by price actions and revenue contributions from the United acquisition. In the Asia-Pacific region, the acquisition of Derit and CSP Coatings and price increases to recover zinc cost increases drove improved sales in the third quarter and first three quarters of 2019.

SG&A expense was higher in the third quarter and first three quarters of 2019, as compared to 2018, due to SG&A expenses of recent acquisitions and approximately \$3.0 million of one-time expenses associated with a legal settlement in the second quarter of 2019. Operating income was lower in the third quarter and first three quarters of 2019, compared to the same periods in 2018, due to volume decreases globally and non-recurring legal expenses. The decrease was partially offset by contributions from the acquisition of United and CSP Coatings and improved sales pricing.

Irrigation segment

The increase in Irrigation segment net sales in the third quarter of 2019, as compared to 2018, is primarily due to sales volume increases in North America. On a year-to-date basis, the decrease in Irrigation segment net sales is due to lower sales volumes in North America and international markets and unfavorable currency translation effects, partially offset by improved sales pricing. Continued low commodity prices and uncertainty around trade disputes with China caused growers to

delay irrigation purchases. However, sales of technology-related products and services continue to grow, as growers are increasing adoption of technology to reduce costs and enhance profitability. International sales volumes of irrigation and service parts decreased in the third quarter and first three quarters of 2019, as compared to the same periods in 2018, due to reduced volumes and unfavorable currency translation effects.

SG&A was higher in the third quarter and the first three quarters of 2019, as compared to 2018, due to 2018 acquisitions and higher product development expenses. Operating income for the segment decreased in the third quarter and first three quarters of 2019 over the same periods in 2018, due to lower tubing and international irrigation sales volumes and associated operating leverage of fixed factory and SG&A costs.

Other

At the end of April 2018, the Company completed the sale of Donhad, a mining consumable business with operations in Australia. There are no remaining businesses recorded within Other.

LIFO expense

Unit costs of raw materials in the U.S. decreased in the first three quarters of 2019, as compared to the end of 2018, resulting in a LIFO benefit during 2019. In the first three quarters of 2018, unit costs of raw materials in the U.S. increased, as compared to the end of 2017, resulting in LIFO expense in 2018.

Net corporate expense

Corporate SG&A expense in the third quarter of 2019 approximated the amount recognized in the same quarter of 2018. Corporate SG&A expense was higher in the first three quarters of 2019, as compared to the same period in 2018, due to \$3.6 million of increased appreciation of deferred compensation plan assets. The increase in deferred compensation plan assets is offset by the same amount in other income/expenses.

Liquidity and Capital Resources

Cash Flows

Working Capital and Operating Cash Flows-Net working capital was \$857.5 million at September 28, 2019, as compared to \$931.6 million at December 29, 2018. The decrease in net working capital in 2019 is attributed to higher accrued expenses primarily due to a higher balance in customer billings in excess of costs and earnings. Cash flow provided by operations was \$239.2 million in the first three quarters of 2019, as compared with \$68.1 million in first three quarters of 2018. The increase in operating cash flows in the first three quarters of 2019, as compared to 2018, was primarily the result of improved working capital management this year.

Investing Cash Flows-Capital spending in the first three quarters of fiscal 2019 was \$72.0 million, as compared to \$48.9 million for the same period in 2018. The increase in investing cash outflows in the first three quarters of 2019, as compared to 2018, can be attributed to lower proceeds from the sale of assets due to the sale of our mining consumable business in 2018. Capital spending projects in 2019 and 2018 related to certain facility expansions and investments in machinery and equipment across all businesses. We expect our capital spending for the 2019 fiscal year to be approximately \$90 to \$100 million.

Financing Cash Flows-Our total interest-bearing debt was \$784.6 million at September 28, 2019 and \$753.3 at December 29, 2018. Financing cash flows changed from an outflow of \$136.7 million in the first three quarters of 2018 to an outflow of \$82.7 million for the first three quarters of 2019. The decrease in financing cash outflows in the first three quarters of 2019, as compared to 2018, was due to higher net borrowings and lower purchases of treasury shares under our share repurchase program in 2019.

Financing and Capital

The Board of Directors authorized the purchase of \$250 million of the Company's shares without an expiration date in October 2018. The share purchases will be funded from available working capital and short-term borrowings and will be made subject to market and economic conditions. We are not obligated to make any share repurchases under the share repurchase program and we may discontinue the share repurchase program at any time. We acquired 126,734 treasury shares

for approximately \$16.8 million under our share repurchase program during the third quarter of 2019. As of September 28, 2019, we have approximately \$212.2 million open under this authorization to repurchase shares in the future.

Our capital allocation philosophy announcement included our intention to manage our capital structure to maintain our investment grade debt rating. Our most recent ratings were Baa3 by Moody's Investors Services, Inc., BBB- rating by Fitch Rating Services, and BBB+ rating by Standard and Poor's Rating Services. We expect to maintain a leverage ratio which will support our current investment grade debt rating.

Our debt financing at September 28, 2019 is primarily long-term debt consisting of:

- \$450 million face value (\$436.3 million carrying value) of senior unsecured notes that bear interest at 5.00% per annum and are due in October 2044.
- \$305 million face value (\$297.5 million carrying value) of unsecured notes that bear interest at 5.25% per annum and are due in October 2054.
- We are allowed to repurchase the notes at specified prepayment premiums. Both tranches of these notes are guaranteed by certain of our subsidiaries.

At September 28, 2019 and December 29, 2018, we had \$28.4 million and \$5.7 million outstanding borrowings under our revolving credit agreement, respectively. The revolving credit agreement contains certain financial covenants that may limit our additional borrowing capability under the agreement. At September 28, 2019, we had the ability to borrow \$557.0 million under this facility, after consideration of standby letters of credit of \$14.6 million associated with certain insurance obligations and international sales commitments. We also maintain certain short-term bank lines of credit totaling \$131.3 million, \$112.0 million of which was unused at September 28, 2019.

Our senior unsecured notes and revolving credit agreement each contain cross-default provisions which permit the acceleration of our indebtedness to them if we default on other indebtedness that results in, or permits, the acceleration of such other indebtedness.

The debt agreements contain covenants that require us to maintain certain coverage ratios and may limit us with respect to certain business activities, including capital expenditures. The debt agreements allow us to add estimated EBITDA from acquired businesses for periods we did not own the acquired business. The debt agreements also provide for an adjustment to EBITDA, subject to certain limitations, for non-cash charges or gains that are non-recurring in nature.

Our key debt covenants are as follows:

- *Leverage ratio* - Interest-bearing debt is not to exceed 3.5X Adjusted EBITDA (or 3.75X Adjusted EBITDA after certain material acquisitions) of the prior four quarters; and
- *Interest earned ratio* - Adjusted EBITDA over the prior four quarters must be at least 2.5X our interest expense over the same period.

At September 28, 2019, we were in compliance with all covenants related to the debt agreements. The key covenant calculations at September 28, 2019 were as follows (in 000's):

Interest-bearing debt	\$ 784,593
Adjusted EBITDA-last four quarters	327,014
Leverage ratio	2.40
Adjusted EBITDA-last four quarters	\$ 327,014
Interest expense-last four quarters	40,389
Interest earned ratio	8.10

The calculation of Adjusted EBITDA-last four quarters (September 30, 2018 through September 28, 2019) is as follows. The last four quarters information ended September 28, 2019 is calculated by taking the full fiscal year ended December 29, 2018, subtracting the first three quarters ended September 29, 2018, and adding the first three quarters ended September 28, 2019.

Net cash flows from operations	\$ 324,185
Interest expense	40,389
Income tax expense	47,258
Impairment of property, plant and equipment	(803)
Gain on investment	48
Deferred income tax benefit	(4,625)
Noncontrolling interest	(4,534)
Stock-based compensation	(11,205)
Pension plan expense	920
Contribution to pension plan	17,408
Changes in assets and liabilities	(104,815)
Other	338
EBITDA	304,564
Cash restructuring expenses	15,566
EBITDA from acquisitions (months not owned)	2,411
Impairment of property, plant and equipment	4,473
Adjusted EBITDA	\$ 327,014

Net earnings attributable to Valmont Industries, Inc.	\$ 135,684
Interest expense	40,389
Income tax expense	47,258
Depreciation and amortization expense	81,233
EBITDA	304,564
Cash restructuring expenses	15,566
EBITDA from acquisitions (months not owned)	2,411
Impairment of property, plant, and equipment	4,473
Adjusted EBITDA	\$ 327,014

Our businesses are cyclical, but we have diversity in our markets from a product, customer and a geographical standpoint. We have demonstrated the ability to effectively manage through business cycles and maintain liquidity. We have consistently generated operating cash flows in excess of our capital expenditures. Based on our available credit facilities, recent issuance of senior unsecured notes and our history of positive operational cash flows, we believe that we have adequate liquidity to meet our needs.

At the end of the third quarter of 2019, the unremitted foreign earnings were approximately \$312.3 million as a result of dividends that were paid. While the tax on these foreign earnings resulted in the reduction of the excess of the amount for financial reporting over the tax basis in our foreign subsidiaries, an actual repatriation from our non-U.S. subsidiaries may still be subject to foreign withholding taxes and U.S. state income taxes. Our earnings in our non-U.S. subsidiaries are not indefinitely reinvested. Of our cash balances of \$327.2 million at September 28, 2019, approximately \$139.0 million is held in our non-U.S. subsidiaries. We recorded deferred income taxes for foreign withholding taxes and U.S. state income taxes of \$3.3 million and \$0.6 million, respectively.

Financial Obligations and Financial Commitments

There have been no material changes to our financial obligations and financial commitments as described on page 34-35 in our Form 10-K for the fiscal year ended December 29, 2018.

Off Balance Sheet Arrangements

There have been no changes in our off balance sheet arrangements as described on page 35 in our Form 10-K for the fiscal year ended December 29, 2018.

Critical Accounting Policies

There were no changes in our critical accounting policies as described on pages 37-40 in our Form 10-K for the fiscal year ended December 29, 2018 during the nine months ended September 28, 2019.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

There were no material changes in the company's market risk during the quarter ended September 28, 2019. For additional information, refer to the section "Risk Management" in our Form 10-K for the fiscal year ended December 29, 2018.

Item 4. Controls and Procedures

The Company carried out an evaluation under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures pursuant to Securities Exchange Act Rule 13a-15. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that, as of the end of the period covered by this report, the Company's disclosure controls and procedures are effective to provide reasonable assurance that information required to be disclosed by the Company in the reports the Company files or submits under the Securities Exchange Act of 1934 is (1) accumulated and communicated to management, including the Company's Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosures and (2) recorded, processed, summarized and reported, within the time periods specified in the Commission's rules and forms.

No changes in the Company's internal control over financial reporting occurred during the quarter covered by this report that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II. OTHER INFORMATION

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Issuer Purchases of Equity Securities

Period	Total Number of Shares Purchased	Average Price paid per share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Maximum Number of Shares that may yet be Purchased under the Program (1)
June 30, 2019 to July 27, 2019	30,430	\$ 127.78	37,375	\$ 225,128,000
July 28, 2019 to August 31, 2019	56,178	132.28	153,791	217,697,000
September 1, 2019 to September 28, 2019	40,126	137.14	45,157	212,194,000
Total	<u>126,734</u>	<u>\$ 132.74</u>	<u>236,323</u>	<u>\$ 212,194,000</u>

(1) On May 13, 2014, we announced a new capital allocation philosophy which included a share repurchase program. Specifically, the Board of Directors authorized the purchase of up to \$500 million of the Company's outstanding common stock from time to time over twelve months at prevailing market prices, through open market or privately-negotiated transactions. On February 24, 2015 and again on October 31, 2018, the Board of Directors authorized an additional purchase of up to \$250 million of the Company's outstanding common stock with no stated expiration date. As of September 28, 2019, we have acquired 5,864,872 shares for approximately \$787.8 million under this share repurchase program.

Item 6. Exhibits

(a) Exhibits

Exhibit No.	Description
31.1	Section 302 Certificate of Chief Executive Officer
31.2	Section 302 Certificate of Chief Financial Officer
32.1	Section 906 Certifications of Chief Executive Officer and Chief Financial Officer
101	The following financial information from Valmont's Quarterly Report on Form 10-Q for the quarter ended September 28, 2019, formatted in Inline XBRL (eXtensible Business Reporting Language): (i) the Condensed Consolidated Statements of Earnings, (ii) the Condensed Consolidated Statements of Comprehensive Income, (iii) the Condensed Consolidated Balance Sheets, (iv) the Condensed Consolidated Statements of Cash Flows, (v) the Condensed Consolidated Statements of Shareholders' Equity, (vi) Notes to Condensed Consolidated Financial Statements and (vii) document and entity information.
104	Cover Page Interactive File (formatted as Inline XBRL and contained in Exhibit 101)

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf and by the undersigned hereunto duly authorized.

VALMONT INDUSTRIES, INC.
(Registrant)

/s/ MARK C. JAKSICH

Mark C. Jaksich
Executive Vice President and Chief Financial Officer

Dated this 31st day of October, 2019.

CERTIFICATION OF THE CHIEF EXECUTIVE OFFICER

I, Stephen G. Kaniewski, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the quarter ended September 28, 2019 of Valmont Industries, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ STEPHEN G. KANIEWSKI

Stephen G. Kaniewski
President and Chief Executive Officer

Date: October 31, 2019

CERTIFICATION OF THE CHIEF FINANCIAL OFFICER

I, Mark C. Jaksich, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the quarter ended September 28, 2019 of Valmont Industries, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ MARK C. JAKSICH

Mark C. Jaksich
Executive Vice President and Chief Financial Officer

Date: October 31, 2019

CERTIFICATION OF CHIEF EXECUTIVE OFFICER**Pursuant to 18 U.S.C. Section 1350, as adopted**

pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

The undersigned, Stephen G. Kaniewski, President and Chief Executive Officer of Valmont Industries, Inc. (the "Company"), has executed this certification in connection with the filing with the Securities and Exchange Commission of the Company's Quarterly Report on Form 10-Q for the quarter ended September 28, 2019 (the "Report").

The undersigned hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, to his knowledge that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

IN WITNESS WHEREOF, the undersigned has executed this certification as of the 31st day of October, 2019.

/s/ Stephen G. Kaniewski

Stephen G. Kaniewski
President and Chief Executive Officer

CERTIFICATION OF CHIEF FINANCIAL OFFICER**Pursuant to 18 U.S.C. Section 1350, as adopted**

pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

The undersigned, Mark C. Jaksich, Executive Vice President and Chief Financial Officer of Valmont Industries, Inc. (the "Company"), has executed this certification in connection with the filing with the Securities and Exchange Commission of the Company's Quarterly Report on Form 10-Q for the quarter ended September 28, 2019 (the "Report").

The undersigned hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, to his knowledge that:

3. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
4. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

IN WITNESS WHEREOF, the undersigned has executed this certification as of the 31st day of October, 2019.

/s/ MARK C. JAKSICH

Mark C. Jaksich
Executive Vice President and Chief Financial Officer