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# Valmont Industries, Inc. (VMI)

Q4 2024 Earnings Call

## CORPORATE PARTICIPANTS

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**Thomas Liguori**

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## MANAGEMENT DISCUSSION SECTION

**Operator:** Greetings. Welcome to Valmont Industries, Inc. Fourth Quarter and Full Year 2024 Earnings Conference Call. At this time, all participants are in a listen-only mode. A question-and-answer session will follow the formal presentation. We ask that you please limit yourself to one question and one brief follow-up question and return to the queue. [Operator Instructions]

Please note this conference is being recorded.

I will now turn the conference over to your host, Renee Campbell, Senior Vice President, Investor Relations and Treasurer. Ms. Campbell, you may begin.

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**Renee L. Campbell**

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

Good morning, everyone, and thank you for joining us. With me today are Avner Applbaum, President and Chief Executive Officer; Tom Liguori, Executive Vice President and Chief Financial Officer; and Tim Francis, Chief Accounting Officer. Earlier this morning, we issued a press release announcing our fourth quarter and full year 2024 results, along with a separate announcement on our capital allocation priorities. Both press releases and the presentation for today's webcast are available on the Investors page of our website at valmont.com. A replay of the webcast will be available later this morning.

We'll begin today's call with prepared remarks and then open it up for questions. Please note that this call is subject to our disclosure on forward-looking statements, which is outlined on slide 2 of the presentation and will be read in full after Q&A.

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

## Avner M. Applbaum

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

Thank you, Renee. Good morning, everyone, and thank you for joining us. I'd like to start with a few key highlights of 2024 summarized on slide 4. Our strong performance reflects our focused approach to value creation. We have prioritized returning to our core and embracing what Valmont does best. Overall, our full year results were in line with our expectations. Despite top line headwinds, we leveraged our strength to capture opportunities and deliver strong outcomes.

Earlier this year, I shared the importance of commercial and operational excellence in driving value creation, and our team delivered in meaningful ways. Our commercial teams deepened customer relationships, drove pricing excellence and captured high return opportunities. We also invested in customer driven innovation, providing solutions to their critical challenges.

Our operations and production teams are adapting to changes in demand and product mix. In Infrastructure, we created flexibility in our footprint to increase capacity for distribution and substation structures. In Agriculture, we quickly fulfilled storm replacement orders to support our dealers and growers.

Our focus on profitable growth, along with an improved cost structure, have led to margin expansion, something we did not achieve in past Agriculture downcycles. At the same time, we generated outstanding operating cash flow through disciplined working capital management, further reinforcing our financial position and balance sheet. We strengthened our executive team by bringing on experienced, driven leaders committed to delivering on our strategic objectives.

While organizational change takes time, the entire team's embrace of our core values and focus areas is already translating into stronger financial performance and sustainable improvements. I'm incredibly proud of what we've accomplished, a testament to the dedication and collaboration of our entire global Valmont team.

Turning to slide 5, I'd like to share our critical objectives for 2025, starting with catching the global Infrastructure wave. We're optimizing capacity across our footprint to meet growing demand with our largest opportunities, supporting the utility market. Unlike past investment cycles driven by large, one-time utility projects, today's market drivers are diverse and sustainable, supporting long term growth expectations.

To capture our share of these opportunities, we're investing in new capabilities and capacity across our footprint. A great example is our Brenham, Texas factory expansion to serve utility customers, which is expected to be operational by the end of this year. We're also increasing efficiency and optimizing workflow with significant upgrades just getting started in our Tulsa, Oklahoma plant.

Our second objective is to position Agriculture for growth. We've managed the downcycle well by using this time to reinforce our market leadership. We've strengthened our foundations through process improvements while developing and implementing the tools that will drive us forward in the next growth cycle. For example, to advance our aftermarket parts strategy, we launched a new e-commerce platform in late 2024 to streamline the purchasing experience for our dealers. We also recently introduced AgSense 365, a new app designed to simplify irrigation management for grower and dealers while creating new growth opportunities and efficiencies for Valley Irrigation business. Other initiatives to optimize our supply chain and improve working capital will further enhance profitability when Agriculture markets recover.

Third, we're also seeking ways to improve outcomes, and we'll take a disciplined approach to resource allocation to advance our journey. This means finding better ways to work smarter and more efficiently. This focus also aligns with our capital allocation priorities, which Tom will cover later on the call. Importantly, achieving our business goals starts with taking care of our employees. Our people are at the center of everything we do. Employee safety is a fundamental commitment ensuring every team member returns home just as they arrived.

Finally, our investment in talent development equips employees with the skills and opportunities they need to grow, fostering a high-performance culture that drives innovation and long term business success. Supporting our employees is good for business and is the right thing to do.

I'm excited about the progress we made last year and confident our team will carry this momentum into 2025. While there's still work to be done, we're well positioned to seize the opportunities ahead and create long term, sustainable value for our stakeholders.

Now turning to slide 6 for an Infrastructure market update. Utility markets remained very strong, driven by several megatrends that are elevating CapEx spending to meet increased energy demand. In the past couple of years, we've seen how the energy transition, electrification and advanced technologies like AI are driving demand for our transmission, distribution and substation products. Valmont supports new buildouts while also assisting with replacement efforts to address aging Infrastructure and the impacts of extreme weather.

As a trusted partner to utilities, we are well positioned to capitalize on these drivers and deliver customer focused innovation. For example, we offer substation packaging to streamline construction for our customers. We ensure all components are optimally designed, sourced and delivered, adding significant value by reducing costs and minimizing delays. We also provide substation protection solutions, a durable barrier that enhances safety and security. It protects equipment from vandalism, wildlife and unwanted disability.

Turning to lighting and transportation, we continued to see strength in transportation driven by ongoing DOT investments supported by state and federal programs. At the same time, our North America lighting business is beginning to recover following its typical 12-month lag beyond – behind single-family housing starts.

Turning to telecommunications. After a slow start in 2024, carrier spending has returned to more normalized levels. Growing data consumption and the increasing number of connected devices all drive multi-year investments. Our differentiated products and technologies align well with various carrier spending programs positioning us for growth. We're excited about the global opportunities ahead in this sector.

In solar, we expect a mix of puts and takes as markets adjust to evolving government policies. While regulatory changes can introduce uncertainty, others create new growth prospects. In Europe, land use regulations are driving demand for agrivoltaics, which integrates solar with farming to optimize land use. Our team remains focused on long term growth while navigating near term fluctuations.

Finally, our coatings business serves a variety of markets and typically follows industrial production and regional GDP trends while also supporting our internal demand.

Looking ahead, these multi-year Infrastructure megatrends will continue to drive sustained demand. We enter 2025 with a strong backlog and our broad portfolio and competitive strength position us to adapt as markets evolve. Additionally, our extensive factory footprint enables us to respond quickly to customer needs.

Turning to slide 7 for an Agriculture market update. In North America, market conditions are expected to remain relatively stable in the near term. The USDA recently updated its net farm income estimate, projecting an increase in 2025 compared to last year. However, cash receipts for corn and soybeans, key drivers for our growers, are projected to decline 4.3% and 6.6%, respectively, due to lower expected crop prices. These factors will likely continue to weigh on capital investment decisions this year. Despite these conditions, our Valley dealer network sees brighter days ahead, driven by our strong brand and continuous opportunities from large farm expansions and strategic account growth.

Shifting to international markets. Farm income in Brazil remains pressured due to lower soybean prices. However, order rates have been stabilizing, an encouraging sign as we enter 2025. Much like in North America, our irrigation solutions offer growers a compelling investment opportunity, especially since Brazil multiple growing seasons per year increase the benefits of irrigation. Across many of our international markets, a more supportive policy environment is fostering improved market conditions, creating new growth opportunities for our business.

Our international projects are making strong progress, notably in the Middle East, with a robust pipeline ahead. I'm pleased to share that we recently secured a new \$45 million project for this market, expected to be completed in 2025. By helping nations build more sustainable and resilient food systems, we create long term economic benefits while delivering strong returns.

Our irrigation solutions play a critical role in addressing global agricultural challenges. With our global footprint and advanced technology, we help growers optimize water use, improve yields and reduce waste. We also drive sustainability and productivity, delivering a compelling return on investment to growers. Backed by industry leadership and a trusted brand, we're well positioned to meet demand as the market eventually recovers.

In summary, 2024 was an excellent year for Valmont. We look forward to building on our achievements while staying true to the principles that define us. I'm extremely proud of the Valmont team and confident in the future we are shaping together.

Now, I'll turn it over to Tom to review our financial results, 2025 outlook and capital allocation priorities.

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## Thomas Liguori

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

Thank you, Avner. Good morning, everyone. We are pleased with our financial performance and the progress we've made over the past year. I want to congratulate the Valmont team for their effort. While there is still work ahead, I'm excited to share some key highlights. My comments this morning will focus on our fourth quarter and full year results, comparing results to last year, which are on an adjusted basis excluding non-recurring items.

Turning to slide 9. Fourth quarter net sales of \$1.0 billion increased 2.1%, while operating income increased nearly 20% to \$120 million. Operating margin increased 170 basis points, reaching 11.6% of net sales. Earnings per share of \$3.84 improved nearly 21%, driven by higher operating income and lower interest expense. The \$3.84 includes approximately \$4.5 million in other expense related to the divestiture of two small underperforming operations in the Infrastructure segment.

Turning to the segments on slide 10. Fourth quarter Infrastructure sales increased 2.1% and operating income grew 24% to \$122 million. Growth in utility and telecom was largely offset by lower sales in lighting and transportation as well as solar. Utility sales increased nearly 6%. Higher average selling prices for utility products contributed to improved operating margins. Lighting and transportation revenues declined 2.5%, primarily due to lighting market softness. Coatings sales increased 3.4%, with growth in North America partially offset by lower

sales in the international markets. Our telecommunications business saw strong sales growth of nearly 31% as carriers returned to more normalized capital spending. Solar sales declined by approximately 35%, largely driven by our decision to exit lower margin projects earlier in 2024.

Operating income increased to \$122 million or 16% of net sales, reflecting a 280 basis point improvement. This was driven by volume growth in utility and telecom, improved pricing and lower steel cost.

Moving to slide 11. Fourth quarter Agriculture sales increased 2.3%. In North America, irrigation equipment volumes were slightly lower, as increased sales for store replacement were offset by continued market softness. Average irrigation selling prices were slightly lower compared to prior year. International sales increased nearly 10%, led by strength in the EMEA region and slightly higher sales in Brazil. These sales gains were partially offset by \$6.3 million of unfavorable foreign currency impacts. Operating income increased to \$28.5 million or 10.3% of net sales. Lower SG&A expenses contributed to the improvement.

Turning to 2024 full year results on slide 12. While net sales decreased 2.4% to \$4.1 billion, operating income increased 10.9% to \$525 million. Operating margins increased 160 basis points to 12.9% of net sales. Earnings per share of \$17.19, a record for Valmont, improved nearly 15%, driven by improved operating income and a reduction in the share count due to share repurchases. Delivering record earnings despite a challenging Agriculture market reflects resiliency of our business. With margin expansion, disciplined cost management and a focus on working capital, we're more agile and better positioned to drive long term value.

We delivered strong fourth quarter operating cash flow at \$193 million, bringing our full year total to \$573 million. During 2024, our team deployed \$393 million to fully repay our revolving credit line. We ended the year with approximately \$164 million in cash and our net debt to adjusted EBITDA is 1.0 times.

Moving to our 2025 outlook on slide 13. We expect net sales to be between \$4.0 billion to \$4.2 billion. Diluted earnings per share is projected to be in the range of \$17.20 to \$18.80, representing 5% growth at the midpoint compared to 2024. The EPS range includes our estimate of the recently announced tariffs on China imports, as well as imported steel and aluminum.

Turning to slide 14. These graphs illustrate the major drivers of our 2025 guidance, starting with net sales. We expect growth in Infrastructure volumes, primarily in utility, lower pricing of utility products due to expected lower steel cost and net volume decline in Agriculture with international sales growth offset by market softness and fewer storm orders in North America. A slight revenue headwind from our strategic exit of lower margin projects and the impact of two divestitures completed in late 2024 and unfavorable currency translation rates affecting reported revenue in both segments.

Our anticipated growth in EPS is primarily due to increases in operating profit, lower interest expense as we have fully paid down our revolver and a lower share count due to expected share repurchases during 2025. Regarding tariffs, our outlook includes the recently announced additional 10% tariff on China imports as well as the 25% tariff on steel and aluminum imports. We have not included other potential tariffs, such as those on all imports from Mexico and Canada, nor reciprocal tariffs, as many details are unknown. Always keep in mind, for our US-based customers, the vast majority of our products shipped to them come from one of our 24 manufacturing facilities in the United States.

Finally, in 2025, we expect strong operating cash flows driven by earnings growth and disciplined working capital management. As part of our guidance, it's important to note that our solar business faces a challenging first half

revenue comparison, but is expected to return to growth in the second half. Additionally, a reminder that first quarter Infrastructure sales are typically lower due to normal seasonality.

Turning to slide 15. Earlier this morning, we issued a press release outlining our long term capital allocation priorities. Our commitment to delivering shareholder value remains strong, guided by a balanced capital allocation strategy. As part of this approach, we plan to allocate 50% of operating cash flows toward growth investments and 50% to shareholder returns. I'd like to take a moment to discuss how this strategy will drive long term value creation.

To capitalize on Infrastructure-driven growth opportunities, we're increasing our annual CapEx to approximately \$150 million, of which about two-thirds is for growth initiatives. The growth investments will mainly be CapEx for production equipment to increase manufacturing output, primarily in Infrastructure, while driving innovation to better serve customers. Our M&A strategy will be disciplined and highly selective targeting opportunities that align with our core, expand into adjacent markets and geographies and add new products and services, all to reinforce the value we deliver to our customers. Our M&A focus will be on growth and earning a healthy return on invested capital.

Share repurchases remain a key pillar of our capital return strategy. Our board approved a new \$700 million buyback authorization, representing approximately 10% of our current market cap. We will follow a disciplined approach with regular quarterly repurchases while opportunistically increasing buybacks when we see strong value. Additionally, our board approved a 13% increase to our quarterly dividend. We anticipate annual dividend increases typically announced in the first quarter in line with expected longer term earnings growth.

Finally, we remain committed to maintaining an investment grade credit rating with long term net debt leverage below 2.5 times ensuring flexibility for organic and inorganic growth investments.

In summary, our fourth quarter and full year 2024 results were in line with our expectations. We are proud of our team's efforts to manage market headwinds and deliver solid growth in operating margins and diluted EPS. While market uncertainties are expected in 2025, we believe we will deliver another year of operating profit and EPS growth. The strength of our business and our team's performance enabled us to find a capital allocation path to both grow our business and deliver shareholder returns. We have an exciting future.

I will now turn the call back over to Renee.

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## Renee L. Campbell

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

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

## QUESTION AND ANSWER SECTION

**Operator:** Thank you. We will now be conducting a question-and-answer session. [Operator Instructions] Thank you. Our first question comes from the line of Chris Moore with CJS Securities. Please proceed with your question.

**Christopher Moore**

*Analyst, CJS Securities, Inc.*

Q

Hey, good morning, guys. Congrats on a very nice quarter. Great year. Maybe we'll start on Ag. So maybe just I'll go a little bit deeper there. The decline is 9.5% to 3.5%, meaningful impact from FX. Can you just talk a little bit more about North America versus international or is there less certainty in one of the subsegments, that 9.5%, 3.5% range, is it – are they both in that same range or is one the bigger driver?

**Avner M. Applbaum**

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

A

Hi. Good morning, Chris. I'll start off and then Tom can add some more detail. Overall, the markets, both in North America and Brazil, will be pressured by corn and soy prices, which have the largest impact on their profitability. So based on the current indication, the prices, stock to use ratio and net farm income, we will expect those markets to be challenging for us this year.

Having said that, on the project side, in the North Africa, EMEA region, we're very pleased with our activity in that region. We have a very strong backlog, strong pipeline, all driven by the drivers around food security and that will have a strong impact on our business. And Tom, maybe you want to add some – share a little bit about the North America and Brazil.

**Thomas Liguori**

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

A

Yeah. I would just say, the Agriculture team is really focused on improving their business. So as we do return to growth maybe in end of 2025, 2026, that we're in a really good position for higher operating margins. They're doing a lot of work on their product cost, the cost of a pivot. They're really focused on investing in their aftermarket growth, as Avner said, with spare parts and services like e-commerce and AgSense. And we'll see how it goes this year. I think they're controlling what they can control. We're pleased to see the international growth.

**Christopher Moore**

*Analyst, CJS Securities, Inc.*

Q

Got it. Very helpful. Maybe just my follow-up is on the operating margin side that you started talking about a little bit, the goals to approach mid-teens margin longer term, maybe just the puts and takes for why 2025 operating margin could be meaningfully above 2024?

**Thomas Liguori**

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

A

Well, we have a lot of opportunity in our margins. And I just mentioned Ag really in the gross margin side with aftermarket and product cost. I think when you look at Infrastructure, we are adding capacity, but we're also adding automation. So while you'll see depreciation expense go up, we do expect improved efficiencies and lower cost over time.

In SG&A, we believe we can do more, lowering it as a percent of revenue. I think you'll see this year that our headquarter cost will be flat to down and all of these will help us get to the goal of mid-teens.

I think what's important to know when you look at our margins through the year is that, this first quarter will be relatively clean. We'll have some tariffs, probably Q2, Q3. We'll probably have our mitigation effects in place the second half of the year. And let me give you a little insight into the tariffs and our guidance. At midpoint, it's a 20% – \$0.20 – sorry, \$0.20 headwind. At the low end, it's about \$0.40. And that would be assuming that it takes more time to mitigate, at the high end is virtually no tariffs, meaning that things go well.

So, Chris, I think we have good margin upside through the year, excellent margin upside going through 2026 and tariffs are disruptive and we'll see how that goes. But I think we're on it, and I think we're taking all the steps today to really manage and mitigate.

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**Avner M. Applbaum**

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

A

And Chris, I'll just add, one point is we're really pleased with what we've done over the last several years on expanding our operating margins, growing our diluted EPS and a mix and market dynamics. We've really been focusing on our commercial pricing strategies, operations efficiencies, reducing our SG&A and just focus on the core and what we do very well. So we will continue that journey this year towards our goal of achieving our mid-teens target.

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**Christopher Moore**

*Analyst, CJS Securities, Inc.*

Q

Very helpful, guys. I will leave it there. Thank you.

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

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**Nathan Jones**

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

Q

Good morning, everyone.

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**Avner M. Applbaum**

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

A

Morning.

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**Thomas Liguori**

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

A

Morning.

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**Nathan Jones**

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

Q

I guess I'll start off following up on the tariffs there. Just a question on how you've approached that in the guidance. I mean, if you look at coil steel prices, they're already gone up 25% in the US. So it probably doesn't really matter where you're sourcing it from, still going to end up paying the same pricing, which at the moment

looks like about 25% higher. Is that how you accounted for tariffs in your guidance? And then can you talk about how you pass that on to the market? I know there is some structural mechanisms to pass it on. Some of that will be determined by the market. I mean the Infrastructure business is generally pretty strong and might be a bit easier, but the Ag business is a bit weak and might be a bit harder to pass on pricing. So just any color you can give us there, please.

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**Avner M. Applbaum**

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

A

Nathan, I'll start off. So just broader around how we're addressing the tariff. So, like everyone else, we're keeping a very close eye on the changes to the trade policy. And Tom touched on this in his remarks. We do have a solid handle on the impact of the China tariffs, and that is factored into our guidance, along with our best estimate on the steel and the aluminum import tariffs.

Now, when it comes to the potential tariffs on imports from Canada and Mexico, there's still that a lot that we don't know. Here's what I can tell you, though, is our main focus is on Mexico. We've been very intentional of how we build our global footprint to serve best our customers. So most of our US customers are being supplied from our US plant and we're doubling down on that. Most of our Infrastructure capacity investments that we're doing right now are here in the US.

And just to put it all in perspective, the production out of Mexico, it's less than 10% of our overall Infrastructure revenue. Now, that said, our team is all over it. We're using our well-established playbook, how we manage these potential impacts and, as you know, it's not the first time that we're dealing with tariffs. So we're looking at pricing and commercial strategies. And to your point around, when we see the tariffs and when we see steel going up, we address that. And I'll go into a little bit more details in a bit.

We're working with our suppliers on how do we make operational adjustments. We use financial instruments as well. And of course, we consider other steps to mitigate the total impact. So, the bottom line is our team will go over great lengths to make sure we're covering all our bases. And now specifics, how we look at these markets, it's no different than any other cost increases. We've seen this through COVID, pricing went up, we were already having conversations with our customers and they understand it. There's really not a lot of pushback. They need our products. They see the value proposition we have in these industries. And right now, it's being – they're dealing it with it – with like I said, not a lot of pushback. I don't know, Tom, if you have any specifics you want to add to that.

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**Thomas Liguori**

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

A

Regarding the guidance Nathan, yeah, we're a diversified industrial company and we use a lot of steel. So we thought it was very important to shareholders and potential shareholders to make sure you understand the impact. So in the guidance, and it's in our assumptions, we're assuming the steel cost as of what's in the future markets as of Friday. So everything you just talked about that is reflected in our guidance. And then we also felt it was important to quantify the best we could, the impact from the China imports and the steel and aluminum imports. So we feel good that we're – I think we got a handle on this. And everything you just said, Nathan, is addressed in the guidance.

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**Nathan Jones**

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

Q

Appreciate that. I think you're about the first company we've had so far that's put it into the guidance. I guess my second question, I'd like to ask a question on the capital allocation priorities and specifically the 50% of operating cash flow allocated to growth opportunities. Pretty big step up in the expectation for CapEx from just under \$100 million to like \$150 million. Can you talk about what you're adding in terms of capacity? How much capacity that will add just in terms of revenue dollars over the next few years? And then what the financial and strategic criteria are for M&A? And I'll pass it on. Thanks very much.

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**Avner M. Applbaum**

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

**A**

Thank you. As it relates to the CapEx, we're fortunate to have the opportunity with very strong market demands across our portfolio. And we are elevating our CapEx spend to around \$150 million this year. Will continue to be elevated next year as a lot of these projects do take time. Some of them are multi-year projects. So we're – right now, we're focused on our North America plans. We have around 13 core plants that we're increasing our capacity and then – we're increasing our capacity. We're increasing our flexibility to address different type of structures.

And on top of the supporting our growth, we're going to enhance our efficiency, increase our flexibility to make sure we could support the demand. But the highest level I'd look at it is our long term targets are the mid-single-digit-plus growth in – specifically now in infrastructures where we're investing and we're going to invest to make sure we have enough capacity to support that demand.

Now, we're talking about capital, but of course, we're also investing in people, process improvements and lean. We're actually investing in an R&D center to make sure we could support all these increases. And we're also looking at our – investing in our engineering, in our IT systems. We're using data science to make sure we have better throughput throughout our plants, investing on our supply chain. So it's a multifaceted approach to investing in our capacity. And the way I see it is we're going to invest to make sure we could support our customer needs over the next three to five years to achieve our long term targets. So that's on the capital side.

When you look at the M&A, we're going to very much be focused on the core and what we do at Valmont very well, linked directly to our strategic priorities, it's going to be areas where we or the target, can bring synergies around our products, our markets, our capability. So it's going to be areas that we are very familiar with that Valmont is a clear natural owner like we like to say is one plus one is three.

And then there are other areas that we look at. We want to make sure these companies that we look at have long term enduring growth drivers. We look at the management team, make sure they're aligned well with our culture. So we take a broad approach to acquisitions. And as I look to the financials, ideally won't get a company that will have a meaningful impact to Valmont, each one of these acquisitions do take significant resources, but they need to have meaningful synergies, and they will have since they're aligned with our core. You look at ROIC, we need to beat cost of capital by year three, and typically, they will be accretive year one since they are very synergistic.

So at a very high level, it's part of our strategy, organic and inorganic growth. And we will make sure that these acquisitions are tied very closely to our core and synergistic to us.

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**Nathan Jones**

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

**Q**

Thanks for taking my questions.

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**Avner M. Applbaum**

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

A

Thank you.

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

**Brian Drab**

*Analyst, William Blair & Co. LLC*

Q

Hi. Thanks for taking my questions. I just wanted to first start on gross margin, and you did mention on the call that despite tariffs and whatever happens with tariffs, your expectation is, I believe, that you'll have overall lower steel prices in 2025. And can you just make sure that – you just let me know that I heard that correctly and then also, talk about how that will impact gross margin? You're coming off a very strong gross margin year. And my basic question is, should gross margin be higher in 2025 than it was in 2024?

**Thomas Liguori**

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

A

Brian, gross margin, we expect to be flat to slightly up in 2025. SG&A, we expect to be down from 2025. And I think the way to view it is through the quarters, you'll see revenues increasing as we bring out capacity. You'll probably see EPS relatively constant through the year, as later in the year, we'll get more revenues from capacity, potentially have more tariffs. I'll take this opportunity now to also say, Brian, our Q1 – this is a lot of moving parts here. For Q1, we expect revenues to be very similar to Q1 of 2024, but we expect higher – slightly higher EPS because of lower SG&A cost.

**Brian Drab**

*Analyst, William Blair & Co. LLC*

Q

Okay. That's helpful. And as you're bringing on the capacity, is there anything that we should keep in mind with respect to gross margin and incremental costs or start-up costs and the timing of that?

**Thomas Liguori**

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

A

The capacity will be coming on through the year, but more in the second half, you should expect higher depreciation expense. And as that comes online, we anticipate improved efficiencies and hopefully the net effect of that is lower cost over time.

**Brian Drab**

*Analyst, William Blair & Co. LLC*

Q

Okay. I'll get back in line for now. Thank you very much.

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

**Jonathan P. Braatz**

*Analyst, Kansas City Capital Associates*

Q

Good morning, everyone.

**Avner M. Applbaum**

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

A

Morning.

**Renee L. Campbell**

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

A

Morning.

**Jonathan P. Braatz**

*Analyst, Kansas City Capital Associates*

Q

Avner, in your commentary, you mentioned – in terms of the utility segment, you mentioned new capabilities. Are you – what else are you bringing online in the utility sector that maybe is new and different from what you have done previously, new services, new products, can you give us an idea?

**Avner M. Applbaum**

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

A

Yeah. Happy to. So, overall, we're seeing very strong demand in utility across the board from all of our products and solutions. We talked a lot about our transmission, distribution, substation. We're seeing a lot more strength in the substation and distribution area. Some of the specifics that I addressed that we're looking at, is using some of our composite solutions as well to help with – specific example I gave is around a product called [ph] Safe Fence (00:52:54) where it really helps to support the substations and to protect them. And we're seeing nice and strong growth in that area.

The other example was around substation packaging where instead of building it onsite and it could create delays and additional costs, we can build it all in a closed environment, test it and bring it right to the field. And part of what we do on a day-to-day basis is we keep on innovating, right? Not every steel – not every pole, while it may seem the same, it is not. There's a lot of engineering that goes into every one of our product. So we keep on innovating to make sure they're more sustainable, they provide more value, etcetera. So yeah, we're excited. We have very strong engineering organization and they keep on looking at opportunities to support our customers.

**Jonathan P. Braatz**

*Analyst, Kansas City Capital Associates*

Q

Okay. Thank you. Avner in the telecommunications area, that has ramped up nicely, are you expecting that ramp up to continue at sort of an accelerated pace?

**Avner M. Applbaum**

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

A

Overall – we mentioned this last quarter, we've seen the increase by the carriers and that continued into Q1. When we look at the large US carriers in the US, they are expected to show some growth throughout the year, low-single digits, their CapEx from flat to high 5% and that supports our business. I wouldn't say it's a rapid growth, it's more back to normalized business. Our technology solutions product supports all aspects of these builds from 5G to C-Band and even fiber buildout. So we're well positioned to continue the growth. I wouldn't expect rapid growth. We're back to normalized, and we will see growth in telecom this year.

**Jonathan P. Braatz**

*Analyst, Kansas City Capital Associates*

Q

Avner, thank you.

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

**Brent Thielman**

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

Q

Hey, thanks. Good morning. Avner, just in regard to the capital allocation mix, I guess specifically on M&A, can you talk about the potential size of pursuits you're looking at? Is there even an interest in something more transformational at Valmont after all the kind of the work you've done internally the last couple of years? I'd just be curious around that.

**Avner M. Applbaum**

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

A

Yeah. So at this point, we're not looking at anything transformational. We're looking at businesses that tie directly to our core. We have strong drivers in our business driven by multi-year secular megatrends. And this is really going to be something that is going to supplement our growth. Like I said, we don't have a specific size we'll look at. If it's small, that means it has a real significant capability that it's adding to the organization. But ideally, once you're going to do acquisition, you want to make sure it's going to have meaningful EPS, meaningful contribution to our overall performance, provide us with more growth opportunities. So no specific targets, but overall part of our strategy to keep on helping to drive value to our stakeholders.

**Brent Thielman**

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

Q

Okay. And I apologize if you've answered this already. I got on a bit late, but on the Ag side, appreciate kind of the forward-looking outlook here. But could you talk about maybe just the pricing environment, either domestically and internationally, what you're seeing today, what you're seeing on sort of incoming orders, is it stabilized or is there some pressure still given some of the volume pressures seen on the North American business?

**Avner M. Applbaum**

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

A

Yeah. Overall in the markets in North America and Brazil, which are pressured, but we're not seeing any pressure around pricing specifically. I mean, it's always more challenging, of course, but being the leaders in this industry, we make sure we take pricing leadership and really focus on the value proposition. And Tom touched briefly about it, but I just came back from the National Sales Meeting in the US, had opportunity to talk to a lot of our dealers here. While it can be challenging environment, they're pretty optimistic. They – what they're seeing is they're seeing more focus on large farms, which is good for business, so focus on strategic accounts.

But, as we've been over the last couple of years, very much focused on our core, strengthening our position on our technology. There was a lot of excitement during this meeting around our new technology offering. If you think about our AgSense 365, taking four platforms, putting them on one, ease of use, better user experience, providing them with our other new product. We're coming out with our [ph] ICON+ (00:58:09), which is basically the irrigation controller for the pivot at a very competitive price, allowing them to drive more connectivity to support areas like Middle East, Africa and emerging markets. That's another one that they were – that there's a lot of excitement and even around the machine diagnostics, which we're bringing to this industry where it is so important to have the pivot running when you need it and if it's sale, then that is a very costly proposition. So to help around machine diagnostics.

So overall, the value proposition we are offering to our growers is significant and we don't feel and we're not seeing any need to reduce pricing. So overall, there's strong value proposition, challenging year in North America, Brazil. But as we look into the future, all these secular demands around population growth, productivity, sustainability and of course, our strength in Middle East, Africa, we're excited about the future.

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**Brent Thielman**

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

Q

Okay. Thank you.

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**Operator:** Our next question is a follow-up from Brian Drab with William Blair. Please proceed with your question.

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**Brian Drab**

*Analyst, William Blair & Co. LLC*

Q

Hi, thanks. I just wanted to ask about the substations within the utility segment and that product line. We're talking much more about that lately, I feel, than we have in the past. And can you just spend another minute talking about the dynamics that's driving that? Is that related to data center expansion in part and how do your margins in that business compare with margins for the utility business overall? Thanks.

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**Avner M. Applbaum**

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

A

Yeah. So thank you. We are spending a lot of time on the substations. We're very excited about what that brings to the business and the drivers there are very strong. We're seeing very strong demand. So substations, right? You'll need a substation every time you need to increase or reduce the load. So we [indiscernible] (01:00:08) a lot to the data centers, of course, with renewable energies as well, which are also a key driver as you need to connect it to the grid.

So in many aspects, but a lot of it is related to data centers, and we're seeing very strong demand around data centers for substations. And in fact, when you look at data centers, it's not only our substations, right? It provides business for also our transmission and distribution poles. It also helps us – you look at these data centers, they need lighting solutions. There are a lot of galvanizing that goes into data centers and telecom. It really supports all aspects of our business. It's still a smaller part of utility, but it is growing. It has very strong margins due to the complexity, and not many companies can do the sizes that we can do and the complexity that we do. And then we'll price it based on the value that we provide, which is significant. So it's growing and we're excited about where this thing can go.

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**Brian Drab**

*Analyst, William Blair & Co. LLC*

Q

Okay. And then Avner, can I ask your EMEA project for the \$45 million. Is – can you say anything about whether that is in a region or country that you're already doing a lot of work or have done a lot of work or is this a new area of opportunity?

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**Avner M. Applbaum**

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

A

It is a country that we have been doing work for quite a while.

**Brian Drab**

*Analyst, William Blair & Co. LLC*



Got it. Okay. Thank you very much.

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**Operator:** We have reached the end of the question-and-answer session. I will now turn the floor back over to Renee Campbell for closing remarks.

**Renee L. Campbell**

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

Thank you for joining us today. A replay of this call will be available for playback on our website and by phone for the next seven days. We look forward to speaking with you again next quarter.

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**Operator:** This release contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements are based on assumptions made by management, considering its experience in the industry where Valmont operates, perceptions of historical trends, current conditions, expected future developments and other relevant factors. It is important to note that these statements are not guarantees of future performance or results. They involve risks, uncertainties, some of which are beyond Valmont's control and assumptions.

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Ladies and gentlemen, this does conclude today's teleconference. You may disconnect your lines at this time. Thank you for your participation and have a wonderful day.

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