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Valmont Industries, Inc. (VMI)

Q2 2024 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Greetings and welcome to the Valmont Industries Second Quarter 2024 Earnings Conference Call. At this time, all participants are in a listen-only mode. A brief question-and-answer session will follow the formal presentation. [Operator Instructions] As a reminder, this conference is being recorded.

It is now my pleasure to introduce your host, Renee Campbell, Senior Vice President, Investor Relations and Treasurer. Thank you. You may begin.

Renee L. Campbell

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

Thank you and good morning. Welcome to Valmont Industries Second Quarter 2024 Earnings Call. With me today are Avner Applbaum, President and Chief Executive Officer; and Tim Francis, Interim Chief Financial Officer. This morning, Avner will provide a summary of our second quarter result, current market dynamics and strategic priorities. Tim will review our second quarter financial performance and provide our updated outlook and indications for the year, with closing remarks from Avner. This will be followed by Q&A. A live webcast of the presentation will accompany today's call and is available for download from the webcast or on the Investors site at valmont.com. A replay will be available on our website later this morning. Please note that this call is subject to our disclosure on forward-looking statements, which applies to today's discussion is outlined on slide 3 of the presentation and will be read in full at the end of today's call. Finally, to stay updated with Valmont's latest news releases and information, please sign up for email alerts on our investor site. We also invite you to follow Valmont and our brands on the social media channels linked on our website.

With that, I would 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. Beginning on slide 5, our second quarter results reflect the commitment of our 11,000 employees worldwide to delivering exceptional value through innovation, quality and service. Their relentless dedication to customer satisfaction, operational excellence and cost management has enhanced profitability and fostered resilience in dynamic market conditions. As a result, we expanded operating margins to 14.2%, up 140 basis points over last year, with diluted earnings per share growing to \$4.91. I'm pleased with the progress we're making in delivering stronger results, even on comparable sales.

Infrastructure segment sales were lower year-over-year, while volumes in Transmission, Distribution, and Substation, which we refer to as Utility, were higher. We produced a greater mix of Distribution and Substation products this quarter to accommodate our customers. This shift, along with lower Telecom and Solar volumes and the effect of a lower steel index on price impacted sales growth. While the mix change can affect top line growth in any given quarter, we always aim to enhance profitability and return on invested capital. By focusing on footprint flexibility and leveraging strong market demand, we are steadily expanding and adjusting our factory output to meet evolving customer needs. Additionally, we continue strategic pricing actions to capture the value we provide.

Agriculture segment sales were slightly higher this quarter. In North America, severe storm events in May and June, primarily in the Midwest and southern US drove strong demand for replacement equipment. During this summer of exceptionally severe weather, our team has shown an outstanding ability to quickly build and deliver equipment during the critical growing season. This responsiveness ensures our dealer and growers receive essential support precisely when they need it most.

In international markets, continued market softness in Brazil pressured growth this quarter. Alternatively, we're seeing good momentum in our Middle East project business with a strong multi-year pipeline in the region. Overall, I'm encouraged by our ability to execute and drive profitability. Our success demonstrates the strong core capabilities shared across our organization and the value creation potential enabled by the Valmont Business Model.

Turning to slide 6 for current market dynamics and long-term megatrends for Infrastructure business, starting with Utility. Industry CapEx spending remains elevated. We're at the beginning of a multi-year energy transition marked by significant changes in both energy consumption and generation. Valmont products play a crucial role in connecting renewable energy sources to the grid and supplying more electricity to address load growth. Additionally, aging infrastructure require upgrades to create greater resiliency increasing the demand for our steel, concrete and hybrid products. The outlook for Transportation remains strong, driven by a national priority to upgrade and expand critical infrastructure. We expect the IIJA funding to provide a solid tailwind to project financing for years to come, despite labor shortages and funding delays slowing project buildouts in the near-term. Commercial Lighting markets remain muted but are expected to recover with single-family housing starts.

As we've previously discussed, Telecom carriers have scaled back CapEx plans and are likely to maintain more normalized spending levels following a period of record investment. The increasing demand for data due to advanced technology and connected devices requires a robust and widespread network infrastructure. In Solar, this market remains attractive with strong demand drivers. Solar continues to be the lowest cost energy solution supporting renewable energy objectives. We have made adjustments to our commercial strategies to enhance the profitability of this business, which I will highlight later in the call. Finally, our Coatings business continues to align with GDP trends while supporting our internal production. These multi-year infrastructure megatrends are also driving demand for the superior corrosion protection provided by zinc galvanizing.

Turning to slide 7 for current market dynamics and long-term megatrends for the Agriculture business. The North American order rates trended higher this quarter due to the recent storm events, grower sentiment in the US remains muted due to the expected decline in net farm income this year and the downward trend in grain prices.

International market demand is mixed. In Brazil, we are seeing continued soft demand as farm income remains pressured by lower grain prices. The recent renewal of the FINAME financing program reaffirms the Brazilian government's support for agriculture with favorable irrigation loans to growers. While we anticipate continued market softness in the near-term, Brazil remains a key part of our long-term growth strategy. The pivot provides a compelling return on investment, made even stronger by the region's potential for a third growing season. The international project pipeline remains strong and provides a multi-year line-of-sight. Our current project in Egypt and the \$50 million in Middle East projects we announced last quarter remain on track. There is a rising demand to ensure food security globally, a challenge intensified with growing populations and geopolitical conflicts. With our manufacturing footprint, strong dealer network and advanced technology solutions, we can deliver on these large projects, which are essential to our global growth strategy. Valmont's market leading products and technology solutions improve productivity on the farm by optimizing resources such as water, labor and other input costs. We're well-positioned to build on our proven track record of successfully meeting growers' needs. To summarize, in both segments, our outlook for sustained long-term growth remains strong despite short-term demand headwinds in some of our markets. These multi-year megatrends drive demand and provide a solid foundation for future growth. We are positioning Valmont to capitalize on these trends while delivering long-term shareholder value.

Turning to Slide 8, the Valmont Business Model defines our approach to maximize value creation. Executing these strategic focus areas while upholding our core values strengthens my confidence in our ability to outperform our served markets. Since stepping into the CEO role last year, I've worked with our team to refine our strategy and concentrate growth on areas that align with our core competencies. By focusing on customer needs, we aim to enhance value and returns while providing the best support.

We're beginning to see benefits of this refined strategy and the actions we're taking to align our team accordingly. For example, last fall, we took steps to streamline the organization to create a more efficient and effective structure while reducing cost. We are now more nimble and better able to make decisions while supporting our operations. The next step is refocusing our commercial and operational team on opportunities that deliver the greatest value and drive the highest return. This is captured by the phrases commercial execution and operational excellence. We saw benefits from this refocus in Utility this quarter as the team produced a greater mix of Distribution and Substation structures, enhancing margins while accommodating our customers. By allocating resources more effectively, we expect to achieve further efficiencies as we advance the strategy.

Another great example is the actions we're taking in our Solar business. We are exiting certain low-margin Solar projects as we focus on enhancing profitability and return on invested capital. While this approach will impact revenue growth this year, we believe it further enhances our competitiveness and drive sustained growth towards our profitability targets. We are excited about the future of our Solar business by building on our success in distributed generation, we are driving geographic expansion supported by a strong global organizational structure. We are dedicated to advancing industry standards and we'll continue investing to deliver innovative solutions that meet our customer needs.

Turning to slide 9, sustainability is a core element of who we are and as embodied in our promise of conserving resources and improving lives. Last month, we published our ninth Sustainability Report. We have demonstrated our commitment to our 2025 environmental goals by surpassing three of our four stated targets. ESG remains a

core focus of ours as we view it as fundamental to good business practices. It creates efficiencies and cost savings, improves safety, manages risk and fosters innovation. I'm pleased to report notable improvement in our 2023 safety metrics as the safe and engaged workforce is our highest priority. The report also features several product case studies that demonstrate our innovative solutions addressing resource challenges for our customers. We have been recognized externally for our ESG initiatives, showcasing our global team's dedication to these priorities.

To summarize, I am proud of our strong results. We are managing what we can and have ambitious plans to enhance our competitive position and drive profitable growth. Our balance sheet is stronger as earnings and working capital management have resulted in good cash generation, support our capital allocation strategy. Our outlook is positive as we build a sustainable, high-performance culture that supports our growth objectives.

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

Timothy P. Francis

Interim Chief Financial Officer & Acting Chief Accounting Officer, Valmont Industries, Inc.

Thank you, Avner, and good morning, everyone. Turning to slide 11 and second quarter results, net sales of \$1 billion were similar to last year. Operating income increased 10.2% to \$147.3 million and operating margins improved to 14.2% of net sales. Diluted earnings per share of \$4.91 increased 16.6% year-over-year. This includes a tax benefit of approximately \$3 million, or \$0.15 per share due to the reduction of a valuation allowance on a tax loss carryforward in a foreign subsidiary. The steps we implemented to control expenses and reduce our cost structure continue to have a favorable impact on our profitability.

Turning to the segments on slide 12, Infrastructure sales of \$762.7 million decreased 1% year-over-year. We were pleased with higher volumes in Utility, even as the mix this quarter shifted to more Distribution and Substation structures. Also, average selling prices for Utility products were slightly higher year-over-year. Through pricing excellence, our commercial team secured projects at pricing levels that offset the contractual price impact from steel index deflation. Telecommunications volumes were lower this quarter, but we do not expect any further year-over-year decline in Telecom sales for the rest of the year. Solar volumes were also lower due to project timing. Operating income increased to \$133.6 million, or 17.6% of net sales. Operating margin improvement was driven by improved commercial execution, including pricing strategies, lower cost of goods sold due to declining steel costs and reduced SG&A expenses. We have begun to realize the benefits from strategic investments in our manufacturing facilities, enabling us to increase production of higher margin products.

Moving to slide 13, Agriculture sales of \$281.7 million, grew slightly year-over-year. In North America, Irrigation equipment volumes were significantly higher driven by a large increase in replacement sales due to severe weather impacts. Average Irrigation selling prices were lower compared to last year, primarily due to targeted regional pricing actions. International sales decreased, primarily driven by significantly lower sales in Brazil due to normalizing backlog levels and lower grain prices impacting growers' buying behavior. The lower sales were partially offset by higher Middle East projects and the contribution from HR Products acquisition. Operating income decreased to \$40 million, or 14.3% of net sales. The benefit of reduced SG&A expenses was more than offset by the impact of lower volumes and pricing in Brazil.

Turning to cash flows and liquidity on slide 14, second quarter operating cash flows were \$130.8 million, nearly 50% higher than the second quarter of 2023, and we ended the quarter with approximately \$163 million in cash. We expect strong cash flows throughout 2024 through earnings growth and diligent working capital management. During the quarter, we reduced borrowings on our revolving line of credit by \$90 million and total debt-to-adjusted

EBITDA of 1.7 times is within our desired range of 1.5 to 2.5 times. Our cash balances, available credit and flexible balance sheet provide us ample liquidity to execute our capital allocation strategy.

Turning to slide 15 for a summary of capital deployment. Year-to-date capital spending was \$33.3 million (sic) [\$33 million] (00:18:04). Our Infrastructure operations team is steadily making progress on approved capital projects to expand our production capacity. Our acquisition strategy is sharply focused on natural adjacencies to our core capabilities that would enhance our portfolio or expand our addressable markets. Our capital deployment approach balances growth investments with returning cash to shareholders. Year-to-date, we returned approximately \$40 million of capital to shareholders through dividends and share repurchases. Over the past year, including our \$120 million accelerated share repurchase program, we have returned approximately \$275 million to shareholders through dividends and repurchases.

I will now share our updated 2024 outlook as shown on slide 16. We are revising our net sales outlook to a sales decline between 1.5% to 3.5% from prior year. This reflects a strategic commercial adjustment we are making in our Solar product line that will impact full-year sales but has minimal effect on the profitability of the total segment. Additionally, the contractual price impact from steel index deflation is leading us to adjust our expected increase in Utility sales downward from previous outlook assumptions. As a result of these two factors, full-year Infrastructure sales are now expected to be between flat to up 1.5%, compared to prior year. In Agriculture, our outlook remains unchanged, with segment sales expected to be down between 10% and 15% compared to prior year.

In North America, despite the additional storm-related sales this quarter, we do not expect an improvement in our sales outlook this year due to current US farm income projections and recent downward trends in grain prices. We also expect continued market softness in Brazil. We remain focused on pricing excellence and increasing adoption of our technology solutions. Even with the downward revisions to our sales projection, we are increasing our outlook for diluted earnings per share to a range of \$16.50 to \$17.30. We also expect earnings per share for the second-half of 2024 to be below first-half results.

I'd like to take a moment and expand on that. In Infrastructure, we anticipate full-year gross profit margins to improve compared to 2023. Although they may not reach the levels seen in the first-half of this year because steel costs will be more aligned with the contractual steel index pricing to our customers. In Agriculture, we expect that a higher mix of international projects during the second-half of the year will pressure segment margins. However, this impact will be partially offset by reduced SG&A expenses compared to last year.

As we noted last quarter, we expect second-half segment operating margins to be similar to the fourth quarter of 2023, which were 10.3% on an adjusted basis. We expect full-year consolidated SG&A to be a smaller percentage of net sales compared to last year, reflecting the meaningful process improvements we've implemented.

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

Avner M. Applbaum

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

Thank you, Tim. Turning to slide 17, I would like to close by thanking our global team for actively managing what we can by driving commercial and operational excellence, leveraging key strengths and enhancing productivity across the organization. Streamlining our administrative functions as we improve operating margins and is creating sustainable shareholder value. Today, our company is more resilient and making steady progress on our strategic initiatives, positioning us to achieve our long-term financial targets. Our team is delivering innovative

solutions to our customers and growing markets that address vital megatrends. I'm confident in our ability to continue delivering value for our stakeholders.

I'll now turn the call back over to Renee.

Renee L. Campbell

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

Thank you, Avner. At this time, the operator we 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 line of Chris Moore with CJS Securities. Please proceed with your question.

Christopher Moore

Analyst, CJS Securities, Inc.

Hey. Good morning, guys. Thanks for taking a couple of questions. Yeah. I was hoping maybe we just go a little bit deeper on Solar kind of on the strategic adjustments. Just trying to understand a little bit better in terms of some of the projects that you are going to be exiting and just how the overall strategy kind of impacts beyond 2024?

Avner M. Applbaum

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

Thank you for the question, Chris, and good morning. When we look at our Solar business, we made a strategic decision to exit products that are really more commoditized where we cannot add our engineering expertise. We initially started along this road when we – we supported one of our customers. But as we looked into it, it's just not a business that we can add value. We can hit our financial targets. So, what we're doing is we're focusing on the areas where we are – where we can drive that value and drive financial results. And mostly it's in the DG space. So, on the DG space, where our margins are – we are improving them year-over-year. We are a large, stable player and a pretty much underserved market. So, what we bring to the table there is our deep and knowledge expertise in the local countries that we play. We have a good track record, going 15 years or so, of providing a solution that provides low operational cost or maintenance cost. Actually our tracker itself, it suits very well into the smaller fields. Some of these DG fields have odd shapes and our product fits very well in that area that's easy to install and allows for labor flexibility.

So, when we look at the DG space, we're doing very well in that area. We've actually increased our revenue in that space around 30% year-over-year. We're very pleased with that result. We're able to support our customers in the Utility space, providing them with additional products. So, we're going to be highly focused on that area where we can drive strong growth. That market is growing 8% to 10% every year, so we're going to keep on serving that market and continue along that road.

Christopher Moore

Analyst, CJS Securities, Inc.

Got it. It's helpful. I appreciate it. And maybe just for my follow-up. In North America, Ag was strong this quarter. It had replacement sales. The guide for the year didn't change. Just trying to understand if the mix between the

decline of North America versus international, is that changing at all, even though the overall 10% to 15% decline stays the same?

Avner M. Applbaum

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

A

Yeah, Chris. Let me start off just to give some background and then Tim can jump in. But, overall, we did have a strong quarter with storms. I would like to point out it is the unfortunate reality and a way of life for a grower where they get hit with these storms. I just want to point out it's not a given that we get that business. We utilize our strong dealer network. We're already there with emergency stock, with our supply chain and we're able to get the farmers up quickly in a very critical time for them. So, we did have a very strong quarter.

When we look more globally and look at some of the macros, what we are seeing, at least even in this quarter, since last quarter, is that the grains themselves, the crops pricing is lower. I mean, going into last quarter, corn was closer to \$5, \$4.6 or so, and now it's closer to \$4. You look at soy, it was over \$12, now it's a little bit below \$11, so it is putting additional pressure on the farmer. And right now, there's really no indication that the yields won't be good and the stocks-to-use ratio is still pretty high. So, when you kind of factor those in, we're expecting to have a challenging year globally, both in North America and in Brazil.

And, Tim, I don't know if you want to add some color around that?

Timothy P. Francis

Interim Chief Financial Officer & Acting Chief Accounting Officer, Valmont Industries, Inc.

A

Yeah. Good morning, Chris. It's Tim. To give a little bit more on the specifics, our current outlook would be that North America sales for the full-year will decrease approaching mid single-digits, and then the decrease for international sales would be slightly more than the 15%. And really Avner did a nice job. But just to summarize the reason for the changes. We did have the additional replacement volumes here in Q2, but we are moderating our outlook, both for North America and Brazil for the second-half of the year.

Christopher Moore

Analyst, CJS Securities, Inc.

Q

Very helpful. I will leave it there. Thanks, guys.

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

Nathan Jones

Analyst, Stifel, Nicolaus & Co., Inc.

Q

Good morning, everyone.

Avner M. Applbaum

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

A

Good morning.

Nathan Jones

Analyst, Stifel, Nicolaus & Co., Inc.

Q

I want to start off with a few questions on pricing and on I guess price versus cost as well. You guys have talked about some specific areas for price declines in Agriculture and the contractual price postures in Utility. You haven't talked about softening prices in any other part of the business and steel prices have come down a lot. So, I'm interested to hear your views on whether you can hold on to that lower input costs, whether you have to give back some pricing in some other areas and then what your views on that net of the input costs would be? So, do you expect that to be accretive to margins and accretive to income even if you're seeing some lower pricing?

Avner M. Applbaum

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

A

Perfect. Nathan, I'll start off just to talk about the environment and our pricing strategies. Tim can go then into details. So, yeah, we're going to continue to maintain our pricing leadership. We provide some valuable solutions to our customers. The demand is strong in a lot of our end-markets. We talked about the Utility space, the Transportation area. There is strong market demand. And we provide our customers with these solutions and we're going to price accordingly. So, there is no expectations that we will take broad-based pricing reductions. We're going to maintain our pricing. And I don't see any reason for that. And even in the areas that we are adjusting pricing, it's very specific to every specific area. We mentioned in Agriculture. It's a surgical approach, also making sure we're maintaining our market share. But, overall, right now, I don't see any reason why we would take any actions to reduce our pricing.

Timothy P. Francis

Interim Chief Financial Officer & Acting Chief Accounting Officer, Valmont Industries, Inc.

A

Nathan, it's Tim. Let me expand a little bit. I'm going to talk about TD&S and I'll talk about Agriculture. For TD&S, about 50% of the sale of a Utility structure is the cost of steel and we have the contractual steel index in our alliance customer contracts and we do expect a return to the cost of steel aligning to the contractual deflation we're seeing in that steel index as the year progresses.

And then when you turn to Agriculture, there are lots of components to pivot. There are center drives, there are tires, there are the electronics, there are pieces that go into a control panel. So, because of all the different components that we see in a pivot, we don't see a dislocation of what's going on with price versus cost. And as we said in our opening remarks, we are being very targeted on the regional pricing actions we're taking.

Nathan Jones

Analyst, Stifel, Nicolaus & Co., Inc.

Q

Thanks for that. I guess my follow-up question is on the Infrastructure business and the total margins there. For most of the last 10 to 20 years, the combined margins of all of those infrastructure businesses has been 10-ish percent, low double-digit kind of area and where you're pushing above mid-teens at the moment. What's your view on the sustainability of that versus the market competing in those back down to where long-term averages have been? Just any thoughts you can give us on that?

Avner M. Applbaum

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

A

Yeah. Nathan, so, we did mention that specifically. You look at the quarter, there are puts-and-takes and also I'd just look at it more broadly. We are – it's a different environment, first of all, than it's been over the last decade. I mean, we are seeing a lot of strong market demand and some of these megatrends, once-in-a-lifetime energy transition. We're seeing load growth for the first time in decades, driven by electrification of the grid, bringing more and more plants internally to the US, et cetera. So, it is – it is – I'll start off with it is a very strong market environment and expecting that to continue.

Now, we've taken actions internally as well. We have streamlined our organization, so we took out SG&A pause, which we get the benefit from the cost but we're also more effective and efficient. We've – well, we manage our capacity very closely to make sure we can maximize our capacity and we're driving continuous improvement. And we do that year-in and year-out to make sure we keep on driving our profitability. We're adding products and over the years we have now a much bigger portion of our business goes through concrete. That is helpful. We do now more Distribution and Substation specifically on the Utility. So, those are just some specific examples of what we're working on to overall continue to drive market expansion and overall achieve our long-term goals of increasing our margins over time. So, overall, I would say we should keep on seeing margins improving.

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

Excellent. Thanks very much for taking my questions.

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

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

Hey, thanks, and good morning. I guess just a question within the Infrastructure segment. Tim, I caught your comments just in regards to the Telecom business, it's obviously been a difficult area for you. It sounds like maybe you are suggesting some stabilization here in the second-half of the year. Any insights into what you're seeing from those customers and kind of what gives you the confidence maybe that business is starting to inflect?

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

Yeah. Absolutely. Good morning. I'll take that question. Overall, if we just take a step back and look at the Telecom business. So, over the last several years, the Telecom providers, they spent significant amount of CapEx and/or cash on both the CapEx and spectrum. And then as they're trying to monetize their investments, they got hit with higher interest rates, which put some pressure on the carrier. So, we've seen, over the last several, years slowdown, spending less and less in that area. But we are starting to see some stabilization and we're cautiously optimistic. We're seeing better and better order intake at this point. But what we are seeing from the carriers, they're not spending now a lot of their resource and CapEx on specifically densification, which we initially thought would be the case. We're seeing them more focused on increasing capacity, operating more on the mid-band space, on the suburban and urban areas so they can actually add additional customers.

So, they're still working on strengthening their balance sheet. You just heard AT&T yesterday talking about that and they're heavily investing in the 5G space as well. So, we're seeing more business-as-usual, I'd call it that way. Our second-half should absolutely be. We should see some growth in Telecom, which is positive for us. And when we look at our product offering, that fits well with what we can offer in that space, specifically around our [ph] mid-cell (00:37:03), our component business, some of our PIM product and so on. So, overall, I would say we're seeing positive signs and we're expecting to see more stabilization in the Telecom area.

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

Okay. Very good, Avner. Appreciate that. And then on Agriculture, it seems like the project-based business is giving you some offset, notwithstanding that a tough kind of overall spending climate in that segment. Could you –

maybe you could talk about the pipeline for those sorts of projects and visibility you have into those? And what sort of visibility does that potentially lend you for 2025? I guess, especially if it's, in fact, this weaker Ag market persists?

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

A

Yeah. So, when you think about that area, it has different drivers than our – specifically, we talked before about North America and Brazil. When you look at that areas, which is driven by food security, water scarcity and seeing very good activity in North Africa, Middle East, et cetera, we are doing well on the projects that we currently have in hand and we continue to be very active with our dealers in the space, working directly with customers as well and we have a pretty strong pipeline at this point. It's always hard to determine exactly the timing of each one of these projects. And when you look back, we had some very large projects over the last several years but we kind of looked to pre-COVID, and today it's a lot more active, a lot more activity and it looks very favorable on that end. And it is offsetting some of the weakness in the other areas. So, I would say that is definitely a bright spot for us until the other markets, North America and Brazil, which we know the long-term it's going to be very strong for us based on water scarcity, labor availability, sustainability and all these drivers that [indiscernible] (00:39:14). So, overall, I would say we're pretty positive on our pipeline in that area.

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

Q

Okay. Thank you. Appreciate it.

Operator: Our next question comes from the line of Tom Hayes with CL King. Please proceed with your question.

Thomas L. Hayes*Analyst, C.L. King & Associates, Inc.*

Q

Good morning, gentlemen. Thanks for taking my questions.

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

A

Good morning.

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

A

Good morning.

Thomas L. Hayes*Analyst, C.L. King & Associates, Inc.*

Q

I was just wondering maybe as a follow-up to Nathan's question on the pricing, specifically on the Irrigation business, you indicated in the quarter you took some targeted pricing actions. So, just wondering if maybe you could kind of quantify the magnitude of those actions and were those more kind of a one-time? Or is that a kind of an ongoing review that you have as far as your pricing in that market?

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

A

Yeah. So, hey, thanks for the question. Hey, pricing and – it's very specific for us. It is, every grower, every region is different, every pivot offering is different. And really, at this case, we had to do some small adjustments in specific areas. But, overall, our strategy is we are protecting our market share and every region could have some different dynamics.

Overall, I'd go back and the pivot has a very strong value proposition for the grower. It could ensure he gets the yield he's looking for. We can help him optimize his cost. Without a pivot, you're basically not going to be able to probably get the yields that you're looking for. So, we will utilize our dealer network, our strong offering to make sure that we can address these needs. So, again, like I said, it's very specific in specific areas. We shouldn't expect us to see broad-based pricing reductions in Irrigation.

Thomas L. Hayes

Analyst, C.L. King & Associates, Inc.

I appreciate that. Maybe as sort of follow-up on the capital allocation plans. Maybe your thoughts on the M&A environment and where maybe you could be targeting that going forward? Thank you.

Avner M. Applbaum

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

So, the – M&A is part of our capital allocation strategy. Our number one is CapEx and then we go right into acquisitions. I took a hard look at our pipeline and actually streamlined and reduced the size of the pipeline by taking out acquisitions that are not very strategic to us, that either don't hit our financial criterias or our strategic criterias. So, we could really add value, they tied to our core competencies, to the markets that we're strong, to our customers, the geographies that are appealing to us. So, we took a hard look and streamlined the acquisitions. And right now we're continuing to build our pipeline. And there is no segment or area that we're focusing more than others. We're looking at the areas that we can drive growth and strong synergies. There are a lot of opportunities on the TD&S space, which we are looking very closely as well as others.

So, look, you'll be hearing more from us over the next several quarters as we keep on building the pipeline. It's very difficult to time when these acquisitions will happen but overall that's going to be part of our strategy. We're generating strong earnings, strong cash flows and we're going to put that to work.

Thomas L. Hayes

Analyst, C.L. King & Associates, Inc.

Thank you very much.

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

Hey, good morning. This is [ph] Tyler (00:43:13) on for Brian. Appreciate you guys taking some questions. First of all, can you just elaborate on how a greater mix of Distribution and Substation sales negatively impact sales? Pricing was higher year-over-year for the segment. So, I'm just trying to understand the ebbs-and-flows of a different mix?

Timothy P. Francis

Interim Chief Financial Officer & Acting Chief Accounting Officer, Valmont Industries, Inc.

Sure. This is Tim. I'll take that one. So, I'll go back a little bit to my comment about that. If you think about sales of TD&S, 50% of the sale is the cost of steel. So, as we make less large Transmission structures, we are going to have less revenue. Now, we are excited about the ability of our commercial and our operations team to have increased the capacity to make the more Distribution and Substation structures to accommodate our customer demand. But again, all else being equal, the smaller the structure, with 50% of its cost being the cost of steel, the less revenue we're going to have.

Got it. Yeah. That's pretty straightforward. I just wanted to confirm that pricing was still up and I thought the negative impact was mostly just Transmissions being down. And my follow-up question is can you just give examples of the higher margin products you are producing due to the strategic investments in your manufacturing facilities? You mentioned that in the call, I just want to get some examples of those.

Timothy P. Francis

Interim Chief Financial Officer & Acting Chief Accounting Officer, Valmont Industries, Inc.

Sure. It would be back to the Distribution and Substation product lines. So, every year we try to find that balance of taking orders from our alliance customers versus taking orders out in the bid market. As we looked at what was available in the bid market, we saw an opportunity to take more orders for the Distribution and Substation and we were pleased at the margin profile of those orders.

Avner M. Applbaum

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

Yeah. And let me just jump in and just take a step back and take a look at we're very pleased with what we're seeing in these markets, in all areas of Transmission, Distribution and Substation. We're seeing strong growth, strong demand and I wouldn't focus specifically on quarters. We will also have – there'll always be movements, different mixes. And this quarter we were able to support some of our customers with exactly what they needed and we have a broad product offering and we're able to address that. So, we're very pleased that we're able to support our customers while driving a high-quality of earnings.

But looking at all areas, I mean all areas are up around Transmission, Distribution, Substations. Strong growth in some of the Distribution, which has been a focus for us. We're a very small part of that market. It's dominated by wood. But as you go into hardening, we could offer solutions anywhere from steel to concrete, et cetera. So, overall, I mean, looking at our backlog, looking at the demand, it's very strong, very pleased with our performance and we're going to continue to drive growth in that area.

Okay. I really appreciate the color and I'll pass it along.

Operator: Our next question comes from the line of Jon Braatz with Oppenheimer. Please proceed with your question.

Jon Braatz*Analyst, Kansas City Capital Associates*

Good morning, everyone.

Q

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

Good morning.

A

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

Good morning.

A

Jon Braatz*Analyst, Kansas City Capital Associates*

Avner, last year, you took – you made some major organizational changes at Prospera and I'm wondering where Prospera now sits in terms of your longer-term goals? And Prospera's ability to add new technology, to the Agriculture – to the Irrigation business and what are the plans for Prospera from this point forward?

Q

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

Yeah. Thanks for the question. Prospera now has been more integrated into our business and into our tech organization. I'd start off with what we're focused on, how do we provide the highest value to our growers through our offering? And we're going to be a – we're focusing a lot more on the core and where we were very strong under irrigated acres, the pivot offering and how can we provide that value. So, Prospera is helping in those areas. And as we keep on developing the tech, which makes the farmer a lot more effective, he doesn't have to go out to the pivot. He can do things remotely. We're going to embed more data science. So, we're embedding more, I should say more data science, machine learning into the pivot into many aspects of the pivot. So, we will see the pivot getting smarter, more effective, helping them address their cost. Anything from their power, input costs, all the way to just being more effective. So, we're making great progress in that area where we're just seeing a lot more focus.

A

Now on top of that, Prospera has very strong talent that they've brought in on the AI and ML side and we're exploring opportunities how they can help us in other aspects of the business, including on the Infrastructure, how could they help us on the commercial end, on the engineering end, on the manufacturing side. So, there's a lot of great talent that we got and value that they will continue to add to the organization, specifically on the pivot as well as other areas. So, overall, I'm pretty excited about the opportunities for us to helping the growers solve some of their most pressing problems, helping the growers being more productive. And Prospera is going to be a key part of that value proposition.

Jon Braatz*Analyst, Kansas City Capital Associates*

Okay. Thank you, Avner.

Q

Operator: Thank you. We have no further questions at this time. Ms. Campbell, I would like to turn the floor back over to you for closing comments.

Renee L. Campbell

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

Thank you for joining us today. As mentioned, today's call will be available for playback on our website or by phone for the next seven days. We look forward to speaking with you again next quarter.

Operator: These slides contain and the accompanying oral discussion will contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements involve known and unknown risks, uncertainties, and other factors that could cause the actual results of the company to differ materially from the results expressed or implied by such statements, including general economic and business conditions, conditions affecting the industry served by the company and its subsidiaries. The overall market acceptance of such products and services, the integration of acquisitions and other factors disclosed in the company's periodic reports filed with the Securities and Exchange Commission as well as future economic and market circumstances, industry conditions, company performance and financial results, operating efficiencies, availability and price of raw materials, availability and market acceptance of new products, product pricing, domestic and international competitive environments, geopolitical risks and actions and policy changes of domestic and foreign governments. Consequently, such forward-looking statements should be regarded as the company's current plans, estimates and beliefs. The company does not undertake and specifically declines any obligation to publicly release the results of any revisions to these forward-looking statements that may be made to reflect any future events or circumstances after the date of such statements, or to reflect the occurrence of anticipated or unanticipated events.

This concludes today's teleconference. We thank you for your participation and you may disconnect your lines at this time.

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