22-Feb-2024

Valmont Industries, Inc. (VMI)

Q4 2023 Earnings Call

CORPORATE PARTICIPANTS

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

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

Timothy P. Francis
Interim Chief Financial Officer, Valmont Industries, Inc.

OTHER PARTICIPANTS

Brian Drab
Analyst, William Blair & Co. LLC

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

Christopher Moore
Analyst, CJS Securities, Inc.

Brian Wright
Analyst, ROTH Capital Partners LLC

Jean Ramirez
Analyst, D. A. Davidson & Co.

MANAGEMENT DISCUSSION SECTION

Operator: Greetings. Welcome to Valmont Industries, Inc.'s Fourth Quarter and Full Year 2023 Earnings Conference Call. At this time, all participants are on a listen-only mode. A question-and-answer session will follow the formal presentation. [Operator Instructions] Please note this conference is being recorded.

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

Renee L. Campbell

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

Thank you and good morning. Welcome to Valmont Industries' fourth quarter and full year 2023 earnings call. With me today are Avner Applbaum, President and Chief Executive Officer and Tim Francis, Interim Chief Financial Officer.

This morning, Avner will provide a brief summary of our full year results and current market dynamics. Tim will review our fourth quarter financial results and provide our outlook and indications for 2024. Avner will close with an update on our long-term business strategy and new financial targets. 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, if you would like to be notified when Valmont publishes news releases and other information, please sign up for e-mail alerts through our Investors site. We also encourage investors and others interested in our company to follow Valmont and our brands on the social media channels listed on our website.

With that, I would now like to turn the call over to our President and Chief Executive Officer, Avner Applbaum.

Avner M. Applbaum

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

Thank you, Renee. Good morning, everyone, and thank you for joining us. I'd like to begin my comments with the key messages on slide 5 by saying how proud I am of the global Valmont team. We have navigated many challenges over the past year, yet I firmly believe we are a much stronger organization today than we were at the beginning of 2023. Together, we're making progress on achieving our strategic objectives, and this gives me confidence in our enduring success. Over the past year, we made some hard but necessary decisions, ones that have shaped us into a more resilient company capable of delivering long-term sustainable value to our stakeholders.

Turning to full year highlights. The Valmont team executed well and delivered solid results in 2023. The dynamic demand environment we faced created topline headwinds that adversely impacted our sales. Despite this, we expanded gross profit margins 370 basis points, and adjusted operating margins 70 basis points. Our operations and commercial teams did a great job keeping costs under control and winning higher value business.

As a result, adjusted earnings per share grew more than 8%. The team also achieved adjusted return on invested capital of 14%. We generated strong operating cash flows by managing working capital, supporting our disciplined capital deployment strategy of investing in growth and returning cash to our shareholders. In addition to solid operating performance, we continued to follow our pricing strategy in both segments. We are driving margin expansion amid lower sales and ongoing inflation by capturing the value we add to our customers.

Turning to the segments. Infrastructure net sales increased 3% year-over-year due to higher average selling prices across the portfolio. Higher volumes in our Solar business, where sales grew more than 50% year-over-year and TD&S were partially offset by much lower Telecommunications volume. Agriculture net sales were down 12% year-over-year. Higher international sales were more than offset by lower volume in North America. As we wrap up 2023, I'm excited for our future based upon favorable long-term demand drivers and the hard work, resiliency and dedication of the Valmont team.

Turning to slide 6 for an update on our markets, starting with Infrastructure. Our favorable market outlook is relatively unchanged. This segment is supported by multi-year megatrends, such as the energy transition, grid resiliency efforts and replacing aging infrastructure. These demand drivers are leading utilities to sustain their CapEx spending at elevated level. In addition, our Solar business is supported by favorable policy and strong demand globally is expected to continue. Our Lighting and Transportation business is being supported by road construction investments and benefits from the IIJA are expected to be an incremental tailwind in the US later this year.

Wireless carriers have communicated reduced CapEx spending this year, which is leading to lingering softness in our Telecom business. We're well-positioned to quickly increase output when the market recovers and maintain confidence in the long-term opportunity for this business. Across all our Infrastructure businesses, we continue to strategically invest in capacity and remain confident in the segment's growth.

Moving to Agriculture, we see market conditions softening. However, we remain positive about underlying ag fundamentals that are supporting long-term market demand. In North American markets, recent projections suggest a significant decline in US farm income in 2024 compared to 2023 levels. Although income is projected to decline, we expect growers' balance sheet to remain strong. However, sentiment remains somewhat muted after coming off 2022 peak income levels. Currently, we are seeing order rate for irrigation systems tracking ahead of last year, which is a positive sign as we begin the year.

Turning to international. Retail markets can be impacted by similar drivers seen in North America. We have performed well in Brazil with three consecutive years of record irrigation sales. However, sentiment and expected farm income levels are softening due to lower grain prices and higher interest rates. Weather conditions are also playing a role in crop stress and influencing planting decisions. Although these factors may impact short-term growth, Brazil remains one of the most attractive markets for Valmont and is a key part of our long-term strategy.

In other regions, our industry expertise and leading market position provide attractive project opportunities. Shipment of the previously announced Egypt project is expected to continue throughout 2024. These projects underscore our dedication to supply products and solutions that help address food security concerns while furthering sustainable development. They are also a testament to how our irrigation products and technology solutions provide compelling economics and return on investment for our customers. Technology is the anchor for our long-term global market leadership. It gives us a competitive advantage that enhances the return on a pivot, ultimately influencing favorable buying decisions.

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

Timothy P. Francis

Interim Chief Financial Officer, Valmont Industries, Inc.

Thank you, Avner, and good morning, everyone. Turning to slide 8 and fourth quarter results, my comments will focus on the adjusted results as outlined in the press release and in the Reg G disclosure in the presentation appendix.

Our results this quarter reflect the strength of our increased global diversification. Solid operating performance in our Infrastructure segment helped mitigate lower Agriculture margins attributed to higher SG&A and continued market weakness in North America, with slowing ag market demand in Brazil.

Fourth quarter net sales of $1 billion decreased 10.3% year-over-year accounting for the 2022 divestiture of the offshore wind business reported in the Other segment, sales decreased 5%. Operating income of $100.2 million decreased 11.9% year-over-year and operating margin was 9.9% of net sales. Diluted earnings per share of $3.18 decreased versus prior year.

Turning to the segments in slide 9, Infrastructure sales of $748.3 million decreased 3% year-over-year. Higher volumes in TD&S and Solar, supported by continued strong utility market demand, along with favorable pricing across the portfolio, were more than offset by lower Telecommunications and Coatings volumes. While operating income decreased slightly to $98.7 million, operating margin improved to 13.2% of net sales. Favorable pricing and deliberate actions to improve overall cost of goods sold were more than offset by lower volumes.

Moving to slide 10, Agriculture sales of $271.6 million decreased 18.9% year-over-year. In North America, Irrigation Equipment volumes were lower as the fourth quarter of 2022 benefited from the ongoing delivery of elevated backlog. Average Irrigation selling prices were comparable to last year.

International sales growth was driven by higher project sales and sales from the HR Products acquisition offset by lower sales in Brazil as lower grain prices are impacting grower sentiment and backlog return to a more normalized level as compared to fourth quarter of 2022. Operating income decreased to $27.8 million, and operating margin was 10.3% of net sales, driven by lower volumes and higher SG&A.

Turning to cash flows on slide 11. Strong cash flows in the fourth quarter contributed to full year operating cash flows of approximately $307 million and free cash flows of $210 million through earnings and diligent working capital management, primarily reductions in inventory.

Turning to slide 12 for a summary of full year capital deployment. Capital expenditures were $97 million. We returned nearly $400 million of capital to shareholders through dividends and share repurchases, inclusive of the $120 million Accelerated Share Repurchase program announced in the fourth quarter. We ended the year with approximately $203 million in cash.

Moving to slide 13. Total debt to adjusted EBITDA of 1.84 times was within our desired range of 1.5 times to 2.5 times. Our cash balances, available credit and flexible balance sheet provide us with the ample liquidity to reduce short-term borrowings and execute our capital allocation strategy.

I would now like to introduce our 2024 outlook as shown on slide 14. We are guiding net sales to be in a range between 3% down and flat compared with 2023. Turning to our segment assumptions, in Infrastructure, we expect to approach mid-single-digit growth this year. Softness in the telecom markets is expected to continue through 2024, and we expect first quarter Telecom sales to be similar to fourth quarter 2023. For the year, this softness will be more than offset by expected strength across our other infrastructure markets.

In Agriculture, building on Avner's comments, at this time, we expect more challenging global market conditions in 2024 due to lower grain prices and farm income projections. As a result, we expect sales for the segment to be 15% to 20% lower. Additionally, we are paying close attention to purchasing trends in Brazil, which is our largest International market. To help mitigate some of the softening demand, we remain focused on price leadership, strengthening our International project pipeline and increasing adoption of our technology solutions.

As a reminder, the timing of International project shipments can be hard to predict from quarter-to-quarter. We do expect a tougher first quarter sales comparison in this segment compared to the rest of 2024 due to the ongoing shipment of elevated backlog in first quarter of 2023. We expect diluted earnings per share to be in the range of $14.25 to $15.50. Across both segments, we've sharpened our focus on gross profit margins and reducing SG&A expense.

Through this focus, coupled with some of the structural changes we already made to our businesses, we expect modest, consolidated operating margin improvement in 2024 despite lower sales projections. Our commitment to price leadership and ongoing improvement in operational efficiencies will offset deleverage from volume decline. We expect much lower corporate expense and segment SG&A reductions from the benefit of the realignment actions taken in 2023 that will more than offset expected inflationary increases.

A reminder that in October, we announced an organizational realignment program as a proactive initiative to more effectively align our teams with our long-term growth strategy. These actions resulted in pre-tax cash expenses of approximately $35 million in 2023, which we expect to recover through lower SG&A expense this year. These actions are part of our commitment to ensure the sustainability and success of our organization in the years to come. We are focused on profitable growth and reviewing outliers across our businesses, and we pursue cost savings actions with a focus on enhancing productivity and operational efficiencies.

The recent dynamic steel cost environment is expected to continue this year. This cost variability can lead to variations in quarterly gross profit margin, which we expect will benefit us in the first quarter of 2024. 2024 capital expenditures are expected to be in the range of $125 million to $140 million to support strategic growth initiatives such as our expansion underway in Brenham, Texas, to increase Infrastructure segment capacity. We expect free cash flows to improve this year through our ongoing focus on working capital management.

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 15. Before we conclude our prepared remarks this morning, I would like to shift our focus from the near-term to beyond 2024. Today, I'll share our current view of the future with new financial targets. Importantly, this view reflects our dedication to managing expectations and returning to Valmont's foundational principles of consistent growth and achievable financial performance.

Moving to slide 16. I want to start with our Valmont business model. This model was first introduced several years ago. It communicates our priorities and shows that everything we do is centered around value creation. To start, our core values as a company remain the same. We have passion for our customers, the markets we serve, and the products and solutions we provide. We operate with absolute integrity and we strive for continuous improvement always. And we consistently deliver results. These core values are deeply ingrained in how we do business, and they serve as a competitive advantage.

Next, we turn to our fourth focus area. These priorities have been refined to ensure we deliver on our promises to our stakeholders. Our legacy is built on the solid foundation of a high-performance culture. It has enabled us to become leaders in our markets. We have a great team at Valmont and we have set high expectations. Our rigorous focus on ROIC ensures our investments generate attractive returns. Through this lens, we're allocating our resources and capital more effectively.

Sustainability is core to Valmont. It is embodied in our tagline of conserving resources improving life. We integrate sustainability into our own operations and into our products and solutions for our customers. It is essential for long-term success and resilience in a rapidly changing world.

Finally, innovative customers solutions. Our customer-centric approach to innovation improves the adoption rate of new products and helps us retain and gain new customers. Valmont innovate in many ways. By enhancing product offering, refining processes and introducing AI-enabled technology, we can bring exceptional value to our customers. Through these focus areas and with core values driving how we do business, we will achieve sustainable value creation for all our stakeholders.

Turning to slide 17 and our view on markets and expected sales growth. Beginning with Infrastructure, we believe our markets will see stable growth of mid-single digits over the long-term. We are at the beginning stages of a multi-year energy transition. Power sources are transitioning towards renewable and energy needs are increasing due to a rise in energy consumption. Aging infrastructure and severe weather have raised concerns about grid hardening and reliability. Our products and solutions in a wide variety of resilient and sustainable materials will support the needs of our customers and clean energy mandate.

In Agriculture, despite swings in the ag cycle, we expect an average market growth rate of mid-single digits through the cycle. Farmers are consistently challenged to increase land productivity with fewer inputs. Our

Irrigation and Technology Solutions are designed to help growers do more with less. Factors such as climate change, water scarcity and sustainability considerations are driving improved farming practices. Ongoing food security concerns and population growth will support global irrigation market demand for years to come.

In each segment, we expect to grow above the market, leading to a consolidated net-sales growth target above mid-single digits. With our manufacturing capabilities and engineering expertise, we can do things no one else can. We can move these capabilities to new geographies. We have deep customer relationships and they look to us for innovation through new products and solutions. Our broad and flexible footprint makes us more competitive and profitable.

In terms of growth initiatives, we are prioritizing profitable growth over just expansion. I will continue to take a measured approach when discussing these opportunities. I look forward to sharing more with you as these initiatives become meaningful to our business.

Turning to slide 18 and our long-term financial goals, beginning with operating margins. We will capitalize on our growth and sustain strategic pricing actions across the portfolio, reflecting the value we deliver to our customers. Our recently streamlined organization allows for quicker decision making and greater adaptability. These factors, combined with continued operational efficiencies, guide us to an operating margin approaching mid-teens. We are reinforcing a disciplined capital allocation strategy. We will persist in making strategic investments to drive sustainable, profitable growth. Internal projects and acquisitions will be filtered through strategic and financial criteria to ensure our resources are deployed effectively. We are confident these actions will result in ROIC in the high teens.

Our net earnings to free cash flow conversion goal remains at 100%. We have a proven track record of generating strong cash flow. With a focus on working capital management, we will improve our capital efficiency to fund future growth. Additionally, we are committed to maintaining our investment grade credit rating.

In summary, our takeaways from today are straightforward. We're managing what is within our control to maximize financial results. The actions we took in 2023 set us up for improved performance in 2024 and beyond. We serve attractive end markets supported by many long-term secular drivers. Our job is to manage the elements within our control to seize future opportunities and reach our long-term objectives. Our ability to execute rests on our competitive advantages, which gives us confidence we can grow above our markets.

Finally, we are united around the business model that will keep us focused on the critical objective of creating value. I'm very excited about our future. I believe we are well on our way to building on our successful legacy of conserving resources and improving lives.

I will now turn the call back over to Renee.

Renee L. Campbell

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

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

QUESTION AND ANSWER SECTION

Operator: Thank you. At this time, we will be conducting a question-and-answer session. [Operator Instructions] Our first 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. Good morning. Thanks for taking my questions. I wanted to first ask on the Irrigation segment. Just trying to reconcile the forecast for the decline in the year, 15% to 20%, if you're seeing order rates early in the year that are up year-over-year and you're seeing that order trend, I think, in the fourth quarter as well?

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

A

Yeah. Hi, Brian. Yeah, I'll take the question. So overall, our projections of reduction between 15% to 20% are based on what we're seeing based on the USDA projections showing a 24% reduction in the net farm income. We're seeing softness in Brazil based on the grain prices around soybeans and cotton higher interest rates. So, they're impacting overall our farmers and farmer sentiments, and that's why we provided that guidance of reduction.

However, starting the year in North America, we're actually seeing orders stronger than they were a year ago. So that is encouraging for us. But overall, our expectations are that the year is going to be down. And going into this year versus last year, we're actually going in without any backlog, so it doesn't give us a lot of visibility into the year.

Brian Drab
Analyst, William Blair & Co. LLC

Q

Can you say if you expect the International business or the domestic business to be, which one's going to be down more than the other in 2024 in your forecast?

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

A

They're going to be pretty much similar about down the same percentage.

Brian Drab
Analyst, William Blair & Co. LLC

Q

Okay. And then, Avner, you mentioned that Egypt project is expected to ship throughout 2024, how far into that $85 million incremental order are you and what do you expect to ship in 2024? And also, can you talk about any challenges that you've had there? It's been a little choppy and Egyptian government is not too healthy at the moment. So, just curious how much visibility you have to that and where you are in that project.

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

A

Yeah. So, of course, we're very much aware of the situation in Egypt and we do continue to monitor that one very closely. As it relates to the project, we started shipping it last year. We do make sure that before every shipment, we make sure we minimize or reduce our risk to make sure we have our confirmation LC in place before we ship a product. So right now, I'd say the majority of the project is still expected to ship in 2024. And of course, the timing of these projects is always difficult to predict based on all the variability in that region.

Brian Drab
Analyst, William Blair & Co. LLC

Q

Were you shipping for that project in the fourth quarter, can I ask?

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

A

Sure. Yes, we have.

Brian Drab
Analyst, William Blair & Co. LLC

Q

Okay. Okay. I'll pass it along for now. Thank you very much.

Operator: Thank you. 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.

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

A

Hey, good morning.

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

Q

I guess, I'll follow up on some of the ag questions. As we saw revenue increasing pretty significantly during COVID and towards the end of COVID, we didn't see a lot of operating leverage and 2023 with revenue coming down, we didn't see a lot of operating deleverage. Maybe you could set expectations for what margins are going to be, what kind of deleverage you're expecting to see, how some of the cost actions that you've taken offset some of that. Just anything you can do to help us with where we should expect margins in Ag in 2024?

Timothy P. Francis
Interim Chief Financial Officer, Valmont Industries, Inc.

A

Yeah. Nathan, it's Tim. I'll take that question. We were pleased with the gross profit margin for the Agriculture segment of 30% here in Q4. We have a long history of knowing how to adjust our production levels to react to a reduction in customer demand. We have multiple teams focused on operational efficiency at the plant level, including our strategic sourcing team, trying to figure out how we best buy the most important things for not only the pivot but also on the infrastructure side of the House.

So, in terms of our financial forecast for 2024, we expect just slightly down gross profit margins versus that 30% we printed in Q4. But that would be better than the gross profit margins we recognized in fiscal 2022.

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

Q

And then I guess the SG&A doesn't move as quickly, so the operating margins should compress?

Timothy P. Francis
Interim Chief Financial Officer, Valmont Industries, Inc.

A

I would say that our expectation is that SG&A as a percentage of sales stays similar to the level we have seen here in 2023. As we discussed and as we put in the earnings release, we have $35 million realignment program, $18 million or $17 million of that was Infrastructure, $9 million of that was ag, $9 million of it was corporate. That cost is modeled out in our projections for 2024. And in addition, we have found additional SG&A savings to offset expected inflation.

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

A

And Nate, let me just add...

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

Q

Okay.

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

A

... some context. We're very pleased with the fact that we're able to maintain our operating margin percentages despite a very challenging Ag environment in the past when you have these similar type of reductions, it would have a much larger impact, but all these actions that we took and improved profitability we have in the other businesses really allowed us to kind of maintain these profitability levels in 2024 and beyond.

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

Q

Great. That's helpful. Thanks. I wanted to ask on the org redesign, org realignment. You've given us what the financial savings are out of that, I was hoping you could talk a bit more about the strategic rationale for that and what kind of strategic value you're hoping to derive from the redesign and realignment of the organization. Thanks.

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

A

Yeah, thanks. Nathan, it's very critical for us. What we've done with this org design really helps our organization to be more agile. We can make quicker decisions, we can move quickly, we have better access to data. We're quicker to the market. We have better visibility into the market. And we're able to work in this organization with better transparency and better collaboration will help us drive innovation. So overall, we have an organization now that it's structured so we can capitalize on these market trends and keep driving innovation and drive strong returns. So, we were already seeing some of that impacts on our business and excited about our ability to move forward and capitalize on these strong markets.

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

Q

Okay. Thanks for taking my questions. I'll pass it on.

Operator: Thank you. [Operator Instructions] Our next 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. Thanks for taking a couple. Maybe we'll start with the long-term financial targets. Obviously, they don't include 2024. Do they begin in 2025 or is that a function of some recovery in markets like Ag and Telecom?

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

A

Yeah. So, when we look at our overall long-term targets, what we've done here we've taken a more flexible long-term approach to our whole commitment of driving sustainable, profitable growth and value creation. So, we're really not looking specifically at a beginning or an endpoint. It's to account for cyclicality of these businesses, aligns more with the industry practices. So, we're looking at through the cycle as how we're looking at it, it allows us, gives us the ability to keep on investing, innovating, not even for the short-term but beyond five years. So overall, I wouldn't look it at specific time horizon, it's through the cycle. And our overall goal is to continue to drive sustainable, profitable growth, create shareholder value, and we will provide periodic updates on how we're doing on our strategy and how we're responding to the market dynamics.

Christopher Moore
Analyst, CJS Securities, Inc.

Q

Got it. I appreciate it. The only metric I don't see from last May is the 12% to 15% EPS growth. Is that correct?

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

A

Yes. We've not provided an EPS guidance. I mean, we're of course expecting earnings to increase, however, since there are so many elements of EPS that are tied to overall to capital allocation or our capital allocation strategy such as share buyback, dividends, acquisitions were not included, we felt that it would not provide any – that provide any benefit to providing that EPS guidance at this time.

Christopher Moore
Analyst, CJS Securities, Inc.

Q

Got it. And maybe just the last one for me with – on the Ag side. You had talked about I think, Parts as a percentage of revenue last year was I think 18%. The goal was 27% roughly in 2027. Is that still a goal moving forward?

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

A

Yeah. So overall, what we're looking at is, we are growing our overall Agriculture business and focusing on growing our Part sales, right? The way we're looking at it is overall in the Agriculture segment. We're going to grow above the market, above mid-single digit. We the overall focus on how do we help our growers, provide them with solutions as it relates to our products offerings and solutions, including all the aspects. And it is an important part of our business, both have better than average margin. But overall, we're looking at the whole – Irrigation and Agriculture as a whole.

Christopher Moore
Analyst, CJS Securities, Inc.

Q

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

Operator: Thank you. Our next question comes from the line of Brian Wright with ROTH Capital Partners. Please proceed with your question.

Brian Wright
Analyst, ROTH Capital Partners LLC

Q

Thanks. Good morning. I just wanted to follow-up on the slide 18 in your prior comments about not including capital allocation in the long-term financial targets. I understand that gives you a lot of flexibility, but just wanted to kind of think just big picture how you think about kind of rank ordering, share buybacks, dividends, acquisitions and how you – what your relative hurdle rates for each of those capital allocation decisions?

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

A

Yeah. So overall, when we provided our long-term goals where we expected to continue to generate strong cash flows which we'll use for our capital allocations, and we specifically look at our long-term targets as organic and areas like acquisitions and share buyback are not included. But when I look at our capital allocations priorities, number one is we invest in ourselves. It is CapEx. We know our business the best. Those organic opportunities we have today are significant. When you kind of look at those market drivers, the energy transition, the aging infrastructure technology deal and consumption around the infrastructure and agriculture, around food security, population growth, sustainability, there's a lot of opportunity for us to invest in our own, in ourselves, in our own footprint, in our own innovation. So that is the number one, those have the strongest returns for us.

The second part of our capital allocation strategy is acquisition. And when we look at acquisitions, we're going to take a disciplined approach. We're going to make sure that these acquisitions are close, tied to our core. They're synergistic. They're markets we know, the products we know and can keep on driving strong values. We – at a very high level, our objective is always to beat cost of capital by year three. We like these acquisitions to be accretive very quickly with year one based on the synergies that we have. And then, we will look at share buybacks based on other uses and needs of capital and then dividend. So that's overall how we look at it.

And one last point is when you look at 2024 and our elevated capital is just a testament that we see a lot of opportunities to keep on investing in our business to drive sustainable, profitable growth.

Brian Wright
Analyst, ROTH Capital Partners LLC

Q

Great. Thanks so much. That was very helpful. For my follow-up, just wanted to dig a little bit into the Brazilian Irrigation side. I think I recall from the Investor Day, talking about the part replacement cycle being a faster churn. And just, you've had a lot of growth in Brazil in recent years, I know last nine months is [ph] maybe exception (00:41:09), but up until that point there's been a lot of growth. And so just like – how to think about like maybe seeing some of that replacement part activity kind of coming through and into the numbers. Is that more like a 2025 dynamic or how to think about that?

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

A

Yeah. So overall, Brazil, when I look at it, we are coming off three record years. So very strong years in Brazil. And as we keep on increasing our business in Brazil, all the new machines, that will generate additional parts business. We're seeing that with a lot of the activity we also have in Middle East and North Africa. So, as we keep on putting pivots in the field, we will have additional parts sales.

The other element in Brazil is, so as we work on more than two crops, three crops, we get a lot of usage when we triple crop in Brazil, which again, machines will run more, they'll need more hours. Same dynamics in Africa. So that will provide us a good runway for the future in those markets.

Brian Wright
Analyst, ROTH Capital Partners LLC

Q

Great. Thank you so much.

Operator: Thank you. Our next question comes from the line of Jean Ramirez with D.A. Davidson. Please proceed with your question.

Jean Ramirez
Analyst, D. A. Davidson & Co.

Q

Hi. Thank you. Can you share your views around the Telecom business? Are there any signs of life for that group again in 2024?

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

A

So, it's been challenging environment in the Telecom business. As we noted in previous calls, we've seen softness there based on the carrier spending. We're expecting to have a difficult comp in the first quarter of this year as well, looking forward. So, right now, we're expecting 2024 to be a difficult year for us and a lot of that is in North America. We have significant opportunities for us globally and we are investing in that area and we should be seeing growth going forward in some of those geographies as we expand our business. But as you look at some of those megatrends around data consumption, around 5G densification, I mean it bodes very well for us in the long-term, the need to keep on the cycle of the 5G. So excited about the long-term, 2024 it's going to be a bit challenging for us, is how I see it.

Jean Ramirez
Analyst, D. A. Davidson & Co.

Q

Thank you. And shifting gears towards T&D (sic) [TD&S] (00:44:04), it still appears utilities are concentrated significant amount of capital towards T&D (sic) [TD&S] (00:44:11) in the coming years. Are you guys taking any different stance to structuring contracts with these customers? And is the company finding opportunities to drive pricing or improving margins here?

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

A

Yeah. So, we are extremely bullish about the TD&S market. We are seeing very strong demand in those areas based on the energy transition. We're seeing load growth. The renewable energy need to connect up to the grid. We talked just a minute ago about data consumption. Data consumption, you need more data centers, energy growth based on electrification. Those also very, very positive areas for us and we're doing well in all those areas and our ability with our product offering to really help solve for our customer needs. It could be concrete, steel or other.

We have strong alliances with our partners and we keep on strengthening and working with our alliance so we could help them be successful in the years to come. And then there's a lot of projects that we bid on as well, and we make sure that we price those based on the value that we provide and the services that we provide. So overall, yes, we continue to maintain our strong relationships and capitalize on the strength of these markets.

Jean Ramirez
Analyst, D. A. Davidson & Co.

Q

So just to confirm, when you say, with the projects, you said the price based on the services you guys provide, is that a – can we imply that year-over-year, you're taking into account inflation and other factors, therefore increasing pricing? And will we see any margin improvements or growth into 2024? Am I reading that right?

Timothy P. Francis
Interim Chief Financial Officer, Valmont Industries, Inc.

A

It's Tim. Let me take that question. So, remember, the majority of our contracts in utility have pricing mechanisms in them where a steel index is what – it ends up being – the price ends up being tied to. So, I would tell you, as I had in my prepared remarks, the cost of steel dynamic has been a very dynamic market. As of right now, we would not expect there to be much increase or decrease in average pricing for TD&S based on today's cost of steel that we're projecting. But as we get the improvement in volumes, we will leverage well at our factories as we were able to put more volume into our factories.

Jean Ramirez
Analyst, D. A. Davidson & Co.

Q

Got it. Understood. Thank you. I'll hop back into the line.

Operator: Thank you. We have reached the end of the question-and-answer session, and I'll now turn the call 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. As mentioned, today's call will be available for playback on our website or by phone for the next seven days. And we look forward to speaking with you again next quarter.

Operator: These slides contain and the accompanying oral discussion will contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements involve known and unknown risks, uncertainties and other factors that could cause the actual results of the company to differ materially from the results expressed or implied by such statements, including general economic and business conditions, conditions affecting the industries served by the company and its subsidiaries, the overall market acceptance of such products and services, the integration of acquisitions and other factors disclosed on the company's periodic reports filed with the Securities and Exchange Commission, as well as future economic and market circumstances, industry conditions, company performance and financial results, operating efficiencies, availability and price of raw materials, availability and market acceptance of new products, product pricing, domestic and international competitive environments, geopolitical risks and actions and policy changes of domestic and foreign governments.

Consequently, such forward-looking statements should be regarded as the company's current plans, estimates and beliefs. The company does not undertake and specifically declines any obligation to publicly release the results of any revisions to these forward-looking statements that may be made to reflect any future events or circumstances after the date of such statements, or to reflect the occurrence of anticipated or unanticipated events.

This concludes today's conference. You may now disconnect your lines at this time. Thank you for your participation.