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Valmont Industries, Inc. (VMI)

Q3 2023 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Greetings. Welcome to Valmont Industries' Third Quarter 2023 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.

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

Thank you, and good morning. Welcome to Valmont Industries' third quarter 2023 earnings call. With me today are Avner Applbaum, President and Chief Executive Officer; Tim Francis, Interim Chief Financial Officer; and Gene Padgett, Senior Vice President and Chief Accounting Officer.

This morning, Avner will provide a brief summary of our third quarter results, commenting on our markets and long-term business strategy. Following that, Tim will review our financial performance and provide our current outlook and indications for 2023, 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.

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Please note that this call is subject to our disclosure on forward-looking statements, which applies to today's discussion, is outlined on slide 2 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 want to first say how proud I am of our global Valmont team as they navigate a dynamic demand environment and demonstrate their unwavering support to our mission and core values. It is the team's customer-centric culture driving innovation and delivering results that ultimately gives me confidence of our success now and into the future.

During my first quarter as CEO, I made it a priority to hear directly from our employees, customers, dealers and shareholders. These conversations were valuable and insightful and I am appreciative of all the people I have had the opportunity to meet.

Before moving forward with our quarterly review, I would like to briefly comment on the recent tragic events in Israel. The safety and well-being of our Valmont colleagues in Israel is our primary concern. I'm thankful to report all of our employees and their families there are safe, including my own, as both my wife and I have family in our home country. The loss of innocent lives during this escalating violence has been staggering, and our hearts go out to all those affected by this senseless tragedy.

Now, let me return to our third quarter results and key messages shown on slide 4. Our Valmont team continued to perform extremely well across both segments, delivering solid third quarter results. Adjusted operating margins and adjusted diluted earnings per share improved significantly year-over-year while navigating a dynamic market demand environment that is pressuring top line growth. We also generated strong operating cash flow, as we managed working capital, allowing us to support our balanced capital deployment strategy and return cash to shareholders.

Infrastructure demand remains robust globally, as nearly all of our end markets are experiencing multi-year secular growth drivers and global agriculture market fundamentals remain relatively strong. I will say more about our end markets in a few moments.

The strong performance of our global operations team and pricing strategies in both segments have ensured we are driving margin expansion amid lower sales and ongoing inflation while capturing the value we add to our customers. And finally, we have announced necessary actions to position Valmont for long-term success, including an organizational realignment program and executive leadership changes. These actions improve our ability to support our business, streamline decision making, and improve efficiency.

Turning to slide 5 for an update on our markets, within Infrastructure, utility demand remains robust, as utilities continue to increase CapEx spending to support a safe, secure and reliable grid system. North America's power grid is benefiting from several demand drivers, including the need to increase grid resiliency and reliability, support power load growth and capitalize on favorable government policies designed to accelerate the energy transition.

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The IRA is expected to provide tailwinds to our Solar business, as the industry obtain clarity on manufacturing tax credit details. Meanwhile, global solar demand remains strong due to the extension of the 10-year investment tax credit in the US and favorable international renewable energy policy.

Road construction investment continues to support transportation demand globally. The release of IIJA funding has been slower than anticipated, as inflation, higher interest rates and labor constraints are delaying some projects. Although we're not yet seeing orders from this program, our transportation products are typically purchased 9 to 12 months following funding appropriations.

Commercial lighting markets are experiencing some near-term softness from the impacts of higher interest rates, inflation and declining single-family housing starts. Telecom remains muted, as carrier reduce CapEx spending following record levels of investment. While some of our markets are faced with near-term macroeconomic challenges, broad-based infrastructure demand remains strong, with several long-term drivers. Our flexible manufacturing footprint and strong commercial partnership uniquely positioned us to deliver value to our customers and drive profitable growth well into the future.

Turning to Agriculture, in North American markets, the latest USDA projections reaffirm that 2023 net farm income levels are expected to be at historically high levels. While farmer economics remain healthy, sentiment remains somewhat muted coming off the substantial profit margins that were recognized in 2021 and 2022. We are seeing signs of positive trend this quarter as order levels for irrigation systems are tracking ahead of last year.

International agriculture fundamentals remain robust. Brazil has been strong this year and we achieved another record quarter of sales as the market continues to experience increasing level of production and expansion of irrigated acres. Brazil is expected to be the fastest growing ag market in the world, and it remains a key part of our long-term growth strategy.

In other regions, our leadership position and project pipeline support ongoing demand and shipments of the large Egypt project are expected to continue through 2024. In summary, global agriculture markets are still in a position of relative strength. Our value proposition and the long-term demand trends set us up for continued profitable growth.

Turning to slide 6, today, we are announcing specific actions to better align our organization to our strategy and improve our cost structure. After evaluating the administrative support within each business segment and Corporate, we have taken actions to create synergies and optimize our structure. We are simplifying reporting lines, improving our visibility across the organization and driving accountability to achieve results. These are net positives that help us scale the organization to efficiently focus on our priorities and drive strategy to improve profitability. We don't take these actions lightly, but they are necessary to set us up for long-term success.

Next, while Tim will provide more detail later in the call, I'd like to briefly address the impairment charges to goodwill and intangible assets in the Agriculture Technology reporting unit. These charges reflect a much lower adoption rate of Prospera's agronomy technology solutions compared to original assumptions. Going forward, our go-to-market approach is to ensure innovation is introduced with the purpose of meeting the immediate needs of our irrigation customers.

As the market leader in advanced irrigation technology solutions, we're excited about the growth and partnership opportunities our investment creates for us to deliver additional crop and water management solutions to our

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growers. We're committed to harnessing the power of evolving AI and machine learning technologies, and we'll continue investing in R&D.

Moving to slide 7, I now would like to share an update on our executive leadership team, our strategic priorities and forward expectations. Aaron Schapper has been named Group President, Agriculture and our Chief Strategy Officer, which is a new role for the organization. Aaron previously held numerous leadership roles within our irrigation business and most recently served as Group President, Infrastructure. As Chief Strategy Officer, Aaron will develop opportunities to leverage commercial and technology strategies and create a strategic roadmap for growth across the company.

Tim Donahue has backfilled Aaron's role as Group President, Infrastructure. In this role, he will lead commercial growth strategies and foster collaboration across all Infrastructure's product lines to deliver value-add solution to our customers that drive profitability and ROIC improvements. Tim was most recently EVP, Corporate Business Development and previously was the President of the former ESS segment.

Diane Larkin remains our EVP of Global Operations, leading strategies to support capacity growth, including meaningful productivity enhancement across our businesses through operational excellence.

Our entire executive team will lead their respective areas with a sharp focus on data-backed decision making and tight processes around investment decisions. I am confident this is the right team to help us achieve our strategic objectives.

A few weeks ago, the leadership team and I met to discuss our strategy in light of my transition into the CEO role. The most important outcome from those meetings that I wanted us to achieve was to affirm that our core strategic priorities remain intact. At the same time, as is common when there are changes in leadership, as CEO, I started prioritizing certain aspects of our strategy differently than my predecessor.

At our Investor Day, we highlighted an initiative that deliver profitable growth based on leveraging our competitive advantages. The last few years, we experienced tremendous growth, which drove the ability to explore several investment opportunities. While we continue prioritizing growth initiatives, looking ahead, we will invest with discipline and proactively make decisions in conjunction with market cycles.

We remain focused on new products and solution that solve our customers' most pressing challenges, while specifically strengthening our core businesses and prioritizing high-value revenue. Through this lens, the pace of some of our initiatives may change. For example, the bottom line impact from our Agriculture growth initiatives will be more measured than our previous commentary may have indicated, and we will be more realistic about anticipated rate of change to our businesses.

We still hold an unshakable belief that we can and should bring advanced solutions to our customers. Our innovation funnel includes a mix of projects with longer payback horizons and others with more immediate impact, such as our robust Solar business and our newly launched ecofriendly concrete utility poles.

In summary, our management team and organization are united around our strategic priorities, with a focus on initiatives that deliver compelling value proposition to our customers. I'm excited about Valmont's journey as a company that maximizes financial performance through the cycles made possible by an unwavering discipline on capital allocation and ROIC.

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

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

Thank you, Avner, and good morning, everyone. Turning to slide 9 and third 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.

Third quarter net sales of $1.1 billion decreased 4.3%, as Infrastructure sales were comparable to last year, offset by lower Agriculture sales. Accounting for the 2022 divestiture of the offshore wind business reported in the Other segment, sales decreased 2.3% year-over-year. Despite lower sales, operating income increased 5.9% to $120.8 million and operating margins increased to 11.5%, reflecting higher pricing that was not linked to steel commodity costs and delivered actions to improve overall cost of goods sold.

Diluted earnings per share grew 18.1% to $4.12, a third quarter record. A favorable tax rate driven by recent legislation regarding usage of foreign tax credits generated in Brazil and benefits from R&D expenses, along with ongoing actions to improve profitability drove the EPS improvement.

As Avner mentioned earlier, we initiated an organizational realignment program to drive cost optimization, simplify our operating structure and strengthen our shared service model. We estimate 2023 cash expense in the range of $33 million to $36 million. Approximately $16 million will be recognized within the Infrastructure segment, with the remainder split evenly between the Agriculture segment and Corporate. These cash charges are expected to be recovered through lower operating costs within 12 months.

Turning to the segments on slide 10, Infrastructure sales of $755.1 million were comparable to last year driven by higher volumes, notably in the Solar, L&T and TD&S product lines. Lower Telecommunication (sic) [Telecommunications] (00:17:27) volumes and lower pricing associated with the reduced cost of steel in the TD&S product line more than offset higher pricing across the rest of the portfolio. Operating income increased to $108 million or 14.3% of net sales. Delivered actions to improve cost of goods sold drove the margin improvement.

Moving to slide 11, Agriculture sales of $298.5 million decreased 8.8% year-over-year. Higher international volumes were more than offset by lower North America volumes and a slightly less favorable product mix. In North America, sales were lower, as farmer sentiment remained somewhat muted, and the third quarter of 2022 benefited from the ongoing delivery of elevated backlog.

International sales were higher due to higher project sales in the EMEA region and growth in Brazil. Additionally, sales of agriculture technology products and services were similar to last year. Operating income decreased to $38.5 million or 13% of net sales. Improvement in gross profit margins, partially attributed to deflation in the cost of steel, was more than offset by higher SG&A.

As Avner mentioned earlier, during the third quarter, we performed our annual impairment testing of goodwill and other intangible assets and concluded that the carrying value of the Agriculture Technology reporting unit exceeded its market value, leading to an impairment of approximately $137 million. The impairment test considers several factors, the most important of which are projected operational cash flows and the after-tax discount rate. Significantly slower growth and grower adoption rates in Prospera's agronomy technology solutions resulted in much lower financial projections than originally modeled. Other contributing factors to the impairment charge were the recent decline in the North American agriculture market and a higher discount rate attributed to higher interest rates.

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Turning to cash flows on slide 12, third quarter operating cash flows of $81.3 million were driven by diligent working capital management, primarily reductions in inventory.

Turning to slide 13 for a summary of year-to-date capital deployment. In the third quarter, capital expenditures were $26 million, as we continued to invest in strategic capacity expansions.

Through our balanced capital allocation framework, we are focused on enhancing shareholder value. In the third quarter, we returned approximately $44 million to shareholders through dividends and share repurchases, ending the quarter with approximately $173 million in cash.

Moving to slide 14, total debt-to-adjusted EBITDA of 1.5 times was within our desired range of 1.5 to 2.5 times. Our cash balances, available credit and flexible balance sheet provide us with ample liquidity to execute our capital allocation strategy.

I would now like to review our updated 2023 outlook as shown on slide 15. Given the timing of international agriculture project shipments and continued near-term softness in telecommunications markets, we now expect full year sales to decrease between 3% to 4% compared to last year. Despite lower volumes, we expect operating margin improvement year-over-year and our strong third quarter results carry forward into our full year EPS growth expectations.

I'd also like to note that the previous adjusted EPS outlook has been updated to remove adjustments associated with the Prospera technology intangible asset amortization and stock-based compensation totaling approximately $0.65 per share. We believe these revisions provide better transparency to investors going forward and they became less meaningful to separately disclose as operating income has grown.

Turning to the segments, continued strength across infrastructure markets support our expectations for higher sales this year. In Agriculture, we expect fourth quarter international sales to be higher compared to prior year. This will be more than offset by lower North America sales as 2022 benefited from shipment of elevated backlog. A higher sales mix of international projects will slightly reduce Agriculture segment profitability in the fourth quarter as compared to last year. As a reminder, the timing of international project shipments can be hard to predict from quarter to quarter.

We assume a full year adjusted effective tax rate of 26% to 26.5% when considering the favorable tax legislation in the third quarter that I previously mentioned.

To summarize, we are leveraging our global scale to improve margins, drive strong cash generation and generate sustainable shareholder value.

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. Continuing my comments on slide 16, I am proud of our team's ability to execute our strategy, driving solid results while navigating current market dynamics. We remain focused on controlling the things we can control to hit our financial targets and improve our quality of earnings. We're taking actions to enable a more efficient and effective organizational structure to fully realize the benefits of ongoing strategic initiatives with a continued focus on delivering high-value solutions through investments and innovation. We are confident our

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diversified portfolio with compelling long-term drivers and our focused strategy positions Valmont for success now and into the future.

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'll be conducting a question-and-answer session. [Operator Instructions] Our first question is from Nathan Jones with Stifel. Please proceed. Nathan, [ph] are you live (00:24:57)?

Nathan Jones

Analyst, Stifel, Nicolaus & Co., Inc.

Q

Good morning, everyone.

Timothy P. Francis

Interim Chief Financial Officer, Valmont Industries, Inc.

A

Good morning.

Avner M. Applbaum

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

A

Morning.

Nathan Jones

Analyst, Stifel, Nicolaus & Co., Inc.

Q

I guess I'll start off – Avner, you made some comments about some – at least minor changes, if not major changes in the strategy here going forward. So, I guess the question first is, can you expand on those kinds of things? What are – some more details on what the changes to the strategy are? And then the financial targets that Valmont laid out in May, do those still hold? I mean, it sounds like maybe a bit more measured pace on investments, so maybe the growth numbers are towards the lower end, but the realignment adds to margins and maybe to margin at the higher end, just any more color you can give us on kind of what's changing strategically within the business.

Avner M. Applbaum

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

A

Okay. Thank you, Nathan, for the questions. Okay, let me start off with the strategy. And as I mentioned, we really evaluated our strategy and conclusion was – is we have a robust and very targeted strategy around our core competencies. We have very strong markets going forward in both Infrastructure and Agriculture. And we will really continue to focus on the areas where we could focus on our customers' most challenging and pressing needs, and we will continue to support those areas and growing in both of those segments.

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If I need to give you some specific examples, maybe I could touch to, for instance, the drone services. We actually just put a press release a few days ago. One area that we found that it's really compelling to us, for instance, is telecom, right? The climbers have – these companies need climbers. They need to climb towers. There's a shortage of people. We could, with our drones services, really supplement them to be more safe and solve their problem. Now there are a lot of [indiscernible] (00:26:55) areas we're focusing on drones, for instance, and some of them was really cool technology around the utility area, we could really help them clean their poles, but it's not really their pressing needs today, and usually it could fall to the back of the line when they look at their O&M spend. So, we're going to really focus on how can we help them solve their pressing needs, either in the utility space or in the telecom space, and really go after those areas where we could help solve our customers' most pressing needs. But overall, right, the strategy is solid. We're confident in our ability to continue to drive significant growth in both of our segments.

Now, specifically to the five-year targets that we provided during investment – our Investor Day – and your points are valid there. As you go into any long-term strategy and financial projections, right, you look at the market, you look at the initiatives. And as I look at them today, as we start off, we – our first year into the five years is weaker than we anticipated. And then of course, our starting point is going to be a little bit lower. Of course, we would assume a cycle and we have, but with – the timing of some of our growth could be a little different and that could impact our long-term growth.

Now, specifically, as it relates to some of these initiatives, yes, specifically, we talked about Prospera. We have some forecast and therefore for our growth and it's not going to be as high as we expected. And we try to balance in every outlook anywhere between – you always have the optimism versus the realism as you go into a strategic plan, and some of these initiatives have [ph] – more – on (00:29:00) more on the optimistic side, and we're going to take a more measured approach to a lot of these initiatives, again, to make sure we're really focusing on the core, supporting our customers, and really how do we drive the strongest value both to our customers and to our shareholders. So, that's kind of on the [ph] sales (00:29:23) side.

Very – feel really good about the remainder of the financial targets. We're making good progress on our operating margin quality of improvement. We continue to show progress quarter after quarter including in Q3, so making great progress on the operating margin, making great progress on the ROIC as we have the focus on driving our capital efficiencies, improve profitability and so on. So, overall at a very high level, very excited about our outlook over – for the next five years. We got good tailwinds in our market. The secular drivers are very strong and we're planning to execute on our plan to drive shareholder value.

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

Q

Thanks for that color. I guess my follow-up question is going to be on pricing. You're obviously seeing some headwinds in pricing on the utility pole businesses where you contractually have to pass the steel pricing back through. And we obviously saw it lag on the way up and so, we'll see a catch-up on the way down here. Can you just talk about the aggregate pricing impact we're looking at maybe in the fourth quarter, and as you look into next year [ph] we see (00:30:42) obviously some headwinds in the utility business, do you still see pricing opportunities in other parts of the business, and then if you're seeing any pricing pressure in the Ag business as demand is a bit weaker there in the US along with the lower steel prices?

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

A

Good morning, Nathan. It's Tim. I'll take that one. So, we are – let me start out. We're very pleased across the Infrastructure business in terms of what we've been able to do with pricing when it's – it's in our businesses that

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don't have that contractual mechanism tied to steel cost indices. As you alluded to, there has been tremendous volatility in the cost of steel. It's been as low as $670, all the way up to $1,200 kind of in the middle of second quarter. That dynamic is probably going to continue, right? We got the United Auto Workers' strike that might get resolved with Ford today, might not, but we expect to see that continued volatility in the cost of steel, but we expect to be able to maintain good margins in those contracts where we have that mechanism tied to the steel indices. But then there's the other part, of course, of our utility business, which is the bid market. And there, I'd also like to comment that we continue to see strong pricing as we try to get more orders there.

Turning to Agriculture, we see no change in our philosophy of being a leader on price.

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

Yeah. And let me add to that, Nathan. Just several weeks ago, I went out to our dealer conference out in Boise, Idaho, and spent time with some of our dealers out there. And really, there was no discussion about pricing. They're very happy with the value they get from our pivot. They're very happy with our – with the value proposition, with our technology offering. And we continue to maintain that strong partnership with our dealers and help drive value to our growers. So, we keep on maintaining our leadership position in that market and evaluate the situation as we move forward.

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

Great. Thanks for taking my questions.

Operator: Our next question is from Chris Moore with CJS Securities. Please proceed.

Christopher Moore
Analyst, CJS Securities, Inc. Q

Hey, good morning. Thanks for taking a few questions. Yeah, maybe we could start with Prospera. So, obviously, Investor Day, we discussed in very positive terms. I think you had already seen some signs of softness in North America ag. Just trying to understand kind of what has changed between now and then and perhaps – as part of that question is, the timeframe on the Prospera analysis, is it – was it more heavily weighted when you're doing the calculations to figure out the goodwill impairment?

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

Yeah. Thanks for the question. Let me start off with the – just some background and overview on Prospera. Tim can then address kind of the timing of the impairment. But I'd like to go back to just several years where we actually started a partnership with Prospera in 2019. And really the vision was to transform the center pivot to from an irrigation machine to an autonomous crop management, so we could really enhance crop precision, we could save the growers' time, reduce cost, optimize land usage, and of course, increase yield. Fast forward 2021, there was a decision to expand the strategy. They were venturing beyond traditional pivot acres and really pursuing recurring revenue from subscription-based agronomy tech solutions. And as we mentioned, that strategy really didn't pan out as planned.

We're going back to the original view of how can we provide autonomous crop management, how could we use all the technology suite that we offer to our growers anywhere from remote monitoring control, irrigation optimization and of course, the agronomic insight. Now, we're very pleased with the technology around the agronomy, the AI

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and the machine learning. And as I mentioned, I was just meeting some dealers and some of our agronomy partners are extremely excited about this technology kind of really help them solve some of their biggest problems. Our dealers are excited, our growers are excited, but really we're going to focus on the core. The core of our business is how do we help solve the growers' most immediate needs and do more with less and improve their yields, et cetera. So, we continue to manage our entire tech suite, and we are leaders in that space, we have revenue of overall tech of greater than $100 million and we will continue to build on that and expand while we keep on focusing on the growers solving their solutions.

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

A

And I'll jump in and answer your question. I think it was specific on the timing. So, I draw one attention to you. If you go back and look at corn futures in the United States in mid-May, they were still strong compared to the pricing that you can see today of, let's say, $4 or $4.90. So, at the time of Investor Day, there really wasn't this indication yet of a downward – more downward North America ag market and what we have seen this happen today. As you look at goodwill and certain intangible assets, you're required to test them annually. Our annual testing date is the end of August. So, qualitatively, we really didn't have a reason to do a test between our annual impairment tests. So, of course, we would have done the test third quarter of last year. We'd had to do a test third quarter of this year. There was nothing qualitatively that told us we needed to do a test in that interim period between our two annual testing dates.

Christopher Moore
Analyst, CJS Securities, Inc.

Q

Got it. And maybe just one follow-up for me. So, it sounds like, from what Avner said, the recurring kind of strategy had not been working to the extent that you were hoping it was. Is the decision here – is that at all kind of part and parcel of the new strategy or this would have happened regardless, this is not just a – kind of a management decision to have a little less focus on the Prospera side?

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

A

Absolutely not. We're very much focused. We do believe it has a value proposition. And I'll just point out, of course, we – like every other company, we like recurring revenue, it's recurring, it has strong margins and we'll keep on benefiting from that. We're not necessarily going to go after recurring revenue. If that is – if we're solving a problem for our customer and the outcome of that is that we can provide recurring revenue, that is a great outcome, but we're not going to go, like I said, specifically outside our core to try and drive recurring revenue.

Christopher Moore
Analyst, CJS Securities, Inc.

Q

Got it. I will leave it there. Appreciate it.

Operator: Our next question is from Brent Thielman with D. A. Davidson. Please proceed.

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

Q

Hey, great. Thanks. Hey, Avner, the realignment and sort of new initiatives that you're putting in place, do you expect these to be largely complete prior to year-end such that the business and the cost structure is sort of positioned how you want it to be as we go into 2024? Is this going to be an effort that spills well into next year?

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

A

Thanks for the question. So, overall, we took this realignment and I will mention that we never take it lightly when this is involved employees, but it's really what we need to do for this organization in order to drive us forward. And it really helps us as we continue to drive our strategy, really helps us to be more focused, it help us to streamline processes, make stronger, quicker decision by kind of reducing some of the management layers, we get better visibility into the business. And these actions, I believe, will really drive significant value going forward. And to answer specifically your question, yes, we should be pretty much done with the alignment by the end of the year, a lot of the actions we've already – already taken place, we've put the management team in place and we're ready to move forward with this realigned organization.

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

Q

Okay. Appreciate that. And then can you just remind us the project-based business visibility that you have to execute, I guess, in the fourth quarter and maybe into 2024? I guess I'm speaking specifically Egypt. Any help in terms of what the contribution could be over the next several quarters? And has the conversion of that pipeline of business changed at all in terms of converting sort of opportunities out there into actual orders, are there still some good prospects to add to that backlog near term?

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

A

Yeah. Okay. So, overall, this large Egypt project that we won, which really provides Egypt with a lot of their food security, which today we kind of – they refer to that as their national security – is part of our approach to that region where we could really help this country drive food security. Specifically, this project is going into 2024, and will continue and projects can always move. Right now, anticipation is – would go into the rest of 2024. And of course, we are watching very closely the conflict in the Middle East and evaluating if that has any impact on us going forward, but we continue to be excited about the region. We believe we have a very strong value proposition there with our – have the strong presence we have in that area, in Dubai, we have good relationships with these – with the customers and these countries. And we continue to manage our pipeline, being very disciplined around our projects that we pursue and looking forward to continue driving strong sales in that region.

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

Q

Okay. Thank you.

Operator: Our next question is from Brian Drab with William Blair. Please proceed.

Brian Drab
Analyst, William Blair & Co. LLC

Q

Good morning. Thanks for taking my questions. Just wonder if you could make any comment as you look into next year around what you expect for sales volume in the various businesses from utility to highway, poles to international and domestic irrigation, just even a rough range. Where do you think these businesses are going to be in terms of sales volume next year?

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

A

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Hey, Brian, it's Tim. I'll take that question. At a high level, it could be a very dynamic market environment as we have seen this year. So, I'll start with Infrastructure. We expect to see the strength in the two utility product lines like we've seen this year, but we do see continued muted demand in the telecommunication market, and then the commercial piece of L&T.

In Agriculture, we expect to end this year with a more historical normal backlog, so lower than the global backlog we saw in 2022, although our recent order rates in North America have improved year-over-year. We will provide, of course, a comprehensive outlook in February on 2024 when we release our fourth quarter earnings. Another key aspect I would say is the USDA will release their net farm income projection in December. That will be a key component of that outlook that we do provide in February. As Avner just alluded to, we do see a solid pipeline of international projects.

Brian Drab
Analyst, William Blair & Co. LLC

Q

Okay. On the Infrastructure side, I mean, in the utility poles business next year, my understanding is the lead times are still very high in that business, there's basically more demand than supply. Are you doing some things to free up some capacity? Shouldn't that be a growth business in terms of volume in 2024?

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

A

Sure. Let me add a little more color on that. Absolutely. That is a very strong growth business for us and not only for the next year, but for the next decade. We've taken specific steps to actually improve our lead times and actually we're able, during this quarter, to get them below 30 weeks, which is a really great [ph] spot for us to you (00:44:52) and of course, we have different product lines and different – within that business. So, some of the lead times are greater than others. But in our main kind of steel area, we've been able to drop it below 30 weeks, which really keeps us supporting our customers, being very competitive in that area and keep on trying – finding opportunity to capitalize on this very strong market if it's anywhere in the transmission area to the distribution, to substations where we're seeing tremendous growth, where we really have great products in that area that can support a lot of the energy transition. So, absolutely, we're very excited about the utility space with our flexible footprint, with the amount of products that we have, the innovation we have going on there, really to help support these utilities as they look forward to hardening the grid, address the load growth, the electrification, the connectivity to other renewable sources. So, overall, yes, we're very excited about the utility space.

Brian Drab
Analyst, William Blair & Co. LLC

Q

Okay. I guess I'm just trying to get – thank you. I'm trying to get a sense for what you have in your mind right now about next year in terms of volume growth for the business. Because I get that telecom will be muted, probably down again next year. Commercial is tough. And these aren't huge parts of the business. I mean, highway infrastructure, utility, international ag, I mean, I think those are up. Domestic ag is more of a question mark. I mean, overall for the business – I mean, nominal sales growth be volatile steel price to some extent, but [indiscernible] (00:46:38) is this a portfolio that you think, going into next year, grows in terms of volume or not?

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

A

Yeah. This is Tim. I would say for the – on the Infrastructure side, there will be the growth in TD&S and the Transportation piece of L&T. So, I would tell you, I would expect, based on what I know today, that we would see low-single digit volume growth in 2024 in the Infrastructure segment.

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

A

And maybe I'll just broaden a little bit the conversation around the Agriculture, and we will provide a lot more information during our next earnings call as we provide the outlook for the year. But we're really now – looking at the trends in Agriculture, I mean, if we just take a step back, we had record years for the farmers. Net farm income was at record levels going into 2021, 2022. The farmers made a lot of money. The commodities were elevated. You've seen corn was around [ph] $7 (00:47:48), which is the main crop for the US. Soy was around [ph] $17 or $18 (00:47:53), which is the main crop for Brazil. They had tremendous years.

Now, as we moved into this year and as we move into next year, overall, globally, I'd say that the farmers are getting a little bit squeezed because interest rates are higher, there's higher inflation, commodities are a little bit at lower levels. So – is being squeezed. You always [ph] looks at -(00:48:17) compares it to prior years, but overall, they made really good profit, they made good money, they have very strong balance sheets. And now the question is, are they going to continue invest now for the future, are they going to be a little more muted. We have seen – we're very encouraged by the increased order rates in Q4, but we're really – as we're – as it's been a very dynamic environment, we're just going to wait a few more months, we're going to see how they end up the year, we'll have the new USDA report coming out in December, we'll see how the FINAME impacts Brazil. So, there's just a lot of moving pieces. And over the next few months, we'll have a lot more visibility and we'll be able to give our analyst and our investors a really good feel for how does 2024 [ph] – how it's shaping out (00:49:03).

Brian Drab
Analyst, William Blair & Co. LLC

Q

Okay. Thanks very much.

Operator: Our next question is from Ryan Connors with Northcoast Research. Please proceed.

Ryan Michael Connors
Analyst, Northcoast Research Partners LLC

Q

Great. Thanks for taking my question and glad to hear your employees and family are safe and sound there. Wanted to go back to Prospera and talk about that from a bit of a different angle in terms of process. What was learned in the process? What went wrong in the process? I know you mentioned that was a partnership. So, I assume it was a negotiated deal and not an auction. I mean, what was – talk about the price discovery part of the process that got you to the $300 million valuation. And just anything you can tell us about the process, due diligence, valuation and what was learned and what can change, what can be improved going forward on capital deployment.

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

A

Thank you, Ryan, for your question and thanks for your comment as well. Overall, when we went and acquired Prospera, like you mentioned, we had a partnership that went back to 2019. It was a transformative acquisition. It was a company with minimal revenue, a very exciting technology, a very exciting value proposition with really tremendous amount of potential. And we still believe there is tremendous amount of potential, although some of the assumptions regarding some of the growth and the adoption rate of growers in general didn't pan out. And it's a new space for us. But in general, I would say that tech in agriculture is an evolving space for us and for the whole industry. And we made some assumptions at the time that really didn't pan out. And of course, there's

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tremendous amount of due diligence that goes into every company that we buy, including the projections as well as the – as the purchase price.

I think what is more important is really looking forward. And as I look at acquisitions looking forward is we're really going to be focused on companies that have full alignment with our strategic plan that really tie to our core businesses, our core competencies, how can we expand the offering to our customers, how could we expand the region, expand our capacity, our capabilities, but are really tied to our core businesses. And in fact, I've already started to go through our portfolio – to our funnel of companies and really looking at the ones that are not core to us or one that we just – we're not going to pursue. So, that's on the strategic side.

On the financial filter side, we have specific criterias that – which apply to our overall criterias for beating cost of capital was three years and we will stick to those financial criterias and making sure that every acquisition both fits the strategy as well as the financial filters to make sure we will drive value to our shareholders and to our customers while we acquire companies. So, you will see that going forward. We will – you will not see transformative companies at this magnitude going forward, they're going to be a lot more closed and tied to the core.

Ryan Michael Connors
Analyst, Northcoast Research Partners LLC

Q

Got it. Okay. Fair enough. And then my second one, I wanted to go back to the electric transmission discussion there a minute ago. And, obviously, these are very long lead time projects, sometimes years or even a decade or more in planning. So, a spike in interest rates is not going to impact your near-term project funnel or 2024, but obviously, some of the renewable generation utilities have gotten absolutely demolished since this interest rate spike took place. And the concern is a slowdown in rate base growth as some of those renewable projects don't happen. So, logically, at some point, that would impact Transmission investment I would assume. So, what are your thoughts on that and what kind of timeline that lag effect might be on the Transmission business?

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

A

It's actually an interesting question and an interesting dynamic. Actually what we – we are seeing that the higher interest rate, the higher inflation, higher cost in general are – they're actually impacting [indiscernible] (00:53:43) players in the space because if you look at their source of income, actually now it was impacted by two things. One, we actually had a mild summer. So, their income [indiscernible] (00:53:57) was lower. And in fact, some of the rates are fixed over the next several years. So, their top line is squeezed or remains the same and their profit actually get squeezed in some areas. So, we are seeing project movements where they're actually applying their discretion and deciding what project they want to work on now versus delay into the future. Now, thankfully, the demand is so strong and one of our really strong capabilities is our dynamic and flexible footprint where we have the ability to pull projects and push projects out and really support our customers as they go through their process of planning their orders. So, we are seeing a lot of movement. For the outside, you won't see that because we really have great processes and great footprint to address that. So, it might be seamless, but there's a lot of work that goes behind the scenes. We're actually able to continue to drive the growth. So, we're really – the demand is going to outpace the supply and therefore, we will continue driving the growth.

Now, specifically on Solar, yeah, you are seeing a lot of the players in the space that are definitely impacted by higher interest rates, higher financing. We are seeing that. But it's a very high growth business and we're able to continue to grow and we really play in the [ph] BG (00:55:41) space, we're able to get a lot of good momentum. We are globally, so we're getting benefits from all the regions that we're currently operating in. So, there's a lot of moving pieces. [ph] I'd say (00:55:54) in general, the whole economy, you are seeing impacts from interest rates

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and inflation and labor constraints. But with our competencies, with the strong markets where we're able to navigate through these times and really drive growth – high growth in both TD&S and Solar.

Ryan Michael Connors
Analyst, Northcoast Research Partners LLC

Q

Understood. Thanks for your time.

Operator: Our final question is from Brian Wright with ROTH MKM. Please proceed.

Brian Wright
Analyst, ROTH MKM

Q

Thanks. Good morning. Just wanted to dig a little deeper on Ag. The comments on the improved order rates in North America year-over-year, I mean, are you kind of indicating that North American revenues in the fourth quarter should be – should stabilize year-over-year or even be up slightly based on what you're seeing at least as of right now? You can start with that. And then, I've got a couple of follow-up from that.

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

A

This is Tim. I'll take that question. So, North America, frankly, globally for Agriculture, it's a little bit more dynamic than that, right? The backlog – we had such a record backlog for the past few years and we've been meaningfully reducing that backlog back down to what has been more like historical norms through 2023. So, although we are excited to see the order rates improving, you got to also think about it from the backlog perspective as well.

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

A

And Brian, I just want to add one more point, right? We've already seen throughout this last 12 months that a month is not a trend, and – right? And so, we are really being very measured. We're going to really take a [ph] close look (00:57:48). We're excited. It was very nice to see the order rate increase year-over-year. That is a very good sign. But again, let's wait a few more months and see how that all pans out as we kind of continue [ph] looking forward (00:57:59). We're excited. It's always good to see the order rate going up, but again, it's been very dynamic. So, we're going to be very cautious about kind of how we look at that business in the short term.

Brian Wright
Analyst, ROTH MKM

Q

Okay. And then my follow-up is, is the indication on the profit level being lower year-over-year, and that's just a function of – typically there's more of an international – just there's more of an international mix on the third quarter than there is in the fourth quarter. So, the operating profit will be down third quarter to fourth quarter. Was that meant to be a sequential comment or was that a year-over-year comment as far as the operating profit? I just want to make sure I got that right.

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

A

I believe it was more of a year-over-year comment. I mean, going back to my talker, but yes, it'll be down year – let me be more definitive. It'll be down year-over-year and it's due to the higher mix of international project sales this year versus last year.

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Brian Wright
Analyst, ROTH MKM

Q

Okay. And then one last one, if I could, just on the international for the fourth quarter and the orders, I know the rainfall has been pretty sparse in Mato Grosso for September and October. So, just kind of any kind of order level commentary that we're seeing early fourth quarter in international?

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

A

Yeah. So, again, we're monitoring kind of our order intake, a little bit different dynamic comparison year-over-year just because of how the FINAME played out last year was – was for full year and now they're doing it quarterly. So, that is impacting some of the order patterns. We're actually digging into that as we speak to try to get a better understanding how much is driven just by the order intake, how much is based on just kind of the pricing of the soybeans. So, we're looking at it right now. We'll be able to provide a lot more color as we go into the next several months.

Brian Wright
Analyst, ROTH MKM

Q

Okay. Thank you so much.

Operator: Thank you. This will conclude the question-and-answer session. I will 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. We look forward to speaking with you again next quarter.

Operator: Included in this discussion are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements are based on assumptions that management has made in light of experience in industries in which Valmont operates, as well as management's perceptions of historical trends, current conditions, expected future developments, and other factors believed to be appropriate under the circumstances.

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

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