

27-Jul-2023

Valmont Industries, Inc. (VMI)

Q2 2023 Earnings Call

CORPORATE PARTICIPANTS

Renee L. Campbell

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

Timothy P. Francis

Interim Chief Financial Officer, Valmont Industries, Inc.

Avner M. Applbaum

President & Chief Executive Officer, Valmont Industries, Inc.

OTHER PARTICIPANTS

Brian Drab

Analyst, William Blair & Co. LLC

Adam M. Farley

Analyst, Stifel, Nicolaus & Co., Inc.

Brent Thielman

Analyst, D.A. Davidson Companies

Jon Braatz

Analyst, Kansas City Capital Associates

Brian Wright

Analyst, ROTH Capital Partners LLC

Christopher Moore

Analyst, CJS Securities, Inc.

MANAGEMENT DISCUSSION SECTION

Operator: Greetings, and welcome to Valmont Industries Q2 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 second quarter 2023 earnings call. With me today are Avner Applbaum, President and Chief Executive Officer; Tim Francis, Interim Chief Financial Officer; and Jean Padgett, Senior Vice President and Chief Accounting Officer.

This morning, Avner will provide a brief summary of our second 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.

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 email alerts through our investor 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, Valmont Industries, Inc.

Thank you, Renee. Good morning, everyone, and thank you for joining us. Before discussing the results of the quarter and current market dynamics, I would like to spend a few minutes on my recent CEO appointment.

First, I'm extremely humbled and honored to be addressing it today as the CEO of Valmont. This is a great company that delivers products and solutions our customers need to solve their most pressing challenges. Our global team is dedicated to our purpose and united by our core values to achieve our goals. The people at Valmont are one of the primary reasons I joined the company in 2020, and I could not be more proud to be part of this outstanding team.

Having worked closely with the entire leadership team to develop and implement our strategy over the past three plus years, I understand what is required of this role. The executive team and board of directors are aligned around our long-term strategy to accelerate our journey towards becoming a leading industrial technology company. This strategic framework, which I will discuss in a few minutes, is the right approach to continuing the momentum we have built and provides a clear path to achieving our long-term financial targets.

As CFO, I led the transformation of the finance organization using data, advanced technology, and processes to drive better business decisions and value. This focus has led to a more disciplined approach across the organization and using data and analytics to achieve our financial goals, with an emphasis on ROIC.

As CEO, I look forward to leading Valmont along the strategic path we have been on over the past several years, driving strong financial performance for the company and our shareholders, while remaining committed to our sustainability journey.

Finally, I wanted to thank Tim Francis for stepping into the role as Interim CFO. I'm confident in his ability to lead our finance organization and contribute to the executive leadership team, until we are prepared to name a permanent CFO.

Turning to slide 5 for a review of second quarter financials and key messages. Our results in this quarter were strong, achieving adjusted operating margin of 13.2%. Adjusted diluted earnings per share grew to a record \$4.37, building on the momentum from 2022 in the first quarter of this year. I am very pleased with our growth and profitability and proud of the entire Valmont team for what we have accomplished.

Infrastructure demand globally remains robust, benefiting from several secular long-term growth drivers, including the global energy transition and ongoing investments in grid hardening. We are seeing strong demand across nearly all our markets.

Global agriculture market fundamentals are being influenced by uncertainty in North America, as farmer sentiment is muted pending the outcome of this year's harvest, which I will expand on shortly.

We continue to be excited about the long-term growth potential of agriculture and our ability to transform the industry with disruptive technology that improves land productivity and enables growers to do more with less.

In both segments, our disciplined and strategic pricing has ensured we are capturing the value we add to our customers, which has driven margin expansion, amid lower sales and ongoing inflation.

Wrapping up our key messages, we're executing our Run Grow Transform strategic framework that we outlined at our recent Investor Day. Earlier this month, we announced an agreement to acquire HR products, a strategic program that expands our irrigation aftermarket part capabilities and drives international expansion. This is an excellent example of harnessing our strong balance sheet to further our strategic initiatives.

Moving to slide 6 for an update on current market conditions, starting with infrastructure and utility markets. Utilities have increased their CapEx spending to support grid hardening initiative and an evolving electricity generation portfolio. Transmission demand is outpacing market capacity, as indicated by industry lead times that exceed 40 weeks. We are strategically adding capacity to meet the strong multi-year demand.

In Lighting and Transportation, transportation market demand is being supported by increasing investment in road construction and we continue to see some increased quoting activity related IIJA to funding. Commercial street lighting product demand globally is muted, due to impacts of inflation and higher interest rates, leading to softness in single-family housing and commercial construction markets.

In Telecom markets, we are seeing CapEx spending by wireless carriers more aligned with historical trends following record level of investment. At the onset of 5G, the industry predicted this rollout to be more rapid than previous generations.

In reality, the buildout timing is proving to be similar to past experiences as pauses in CapEx spending are common during network expansions. Major carriers will continue to invest in wireless networks to meet nationwide coverage and capacity commitments, after having spent over \$120 billion on 5G spectrum.

Our wireless communication structures and components business remains well positioned to meet this demand. Our Coatings business tracks industrial production level and has seen near-term strength from utility and transportation markets.

Turning to Solar, domestic project guidelines related to the Inflation Reduction Act have been released. Even though the industry is awaiting clarity on the manufacturing tax credit details, IRA support is expected to provide strong market tailwinds for the next several years.

Globally, renewable energy investments in markets such as Italy and Brazil are supporting demand in those regions. Valmont has a competitive advantage in the distributed generation solar market, and we've prioritized that niche market due to its attractive growth rates and accretive quality of earnings.

Turning to agriculture, and starting with North America. Demand this quarter was less robust than we and the industry originally anticipated. While US net farm income is projected to decline year-over-year, it will still represent the third highest income level over the past 10 years.

Additionally, recent USDA data suggest improving drought conditions for much needed rain across key growing regions. However, many areas of the country remain at severe or extreme drought levels. We view these market tailwinds as positive, but growers have maintained a wait and see approach in purchasing decisions. This is supported by recent Purdue University reports, which highlight farmer uncertainties around higher interest rates and volatile commodity prices.

We believe these uncertainties may continue [ph] to weigh on sentiment (00:10:27) through this year's growing season and expect the outcome of this year's harvest to provide more clarity on order patterns for the remainder of the year.

Moving to international markets, we continue to see strength in Brazil, supported by the FINAME financing program that was announced in late-June. The Brazilian government demonstrated their strong support of agriculture markets, with an increase in irrigation funding of nearly 25% over last year, with approximately BRL 2.4 billion available to growers. The terms of these loans are extremely favorable, making this program an attractive option to support continued irrigation investment.

In other international markets, our project pipeline remains robust, not only driven by ongoing security concerns, but also the ability to produce goods for export, which can help reduce trade imbalances and currency fluctuations.

In more developed region, the demand for increased resource conservation to further enhance land productivity has been a demand catalyst for our products and technology solutions. Project sales in EMEA region this quarter were lower compared to last year.

We expected shipments of the previously announced \$85 million Egypt project to begin in second quarter. However, there was a slight delay and the project began shipping this month. We anticipate shipments will continue into 2024.

We have intentionally and strategically built exposure to diverse infrastructure end markets and a growing pipeline of international agriculture projects. This helps us to better manage softness in any one end market across the portfolio, delivering more consistent financial results. I am pleased with our second quarter performance and proud of our entire team's achievements.

Moving to slide 7 in May, many of you joined us either virtually or in-person at the New York Stock Exchange for our Investor Day. I would like to take a few minutes to elaborate on our new Run Grow Transform strategic framework I mentioned earlier. This framework will move us forward as we evolve into higher quality and more dynamic organization, delivering shareholder value that is less dependent on cycle of any one end market. It guides our allocation, our resources, capital, time, and effort.

Our framework begins with the Run, which is the idea that we are built for sustainable outperformance. This solid foundation allows us to operate well, confirmed by a proven ability to deliver results and drive profitable growth, even when the economic cycle are volatile and uncertain. Our commitment to operational excellence, development business model and a continuous improvement mindset are critical to maintaining the Run.

With an established Run foundation, we can drive growth across our businesses that exceed expected market growth rates. This can be achieved through geographic expansion, such as our robust pipeline of international irrigation projects, or through optimizing our best-in-class distribution channel by creating additional touch points to serve our global customer base.

When we speak to Transform, it's making sure that we are being great stewards of the company long-term. It is a mindset where we look to be a disruptor in our markets. We operate in capital good markets where high barriers to entry are common, leveraging our industry-leading position, including extensive distribution networks and trusted reputation, we bring innovative technologies to our customers and are focused on creating more stable and high value revenue through recurring revenue streams, while delivering proven ROI to our customers.

Earlier this month, we demonstrated our commitment to making investments that align with our growth strategy with an announcement to acquire HR Products summarized on slide 8. This Australian-based wholesale supplier of irrigation products provides geographic footprint expansion in this key agriculture market, while enabling us to better serve our customers through expanded irrigation parts offering.

With our large installed machine base in the region, we have a path to grow recurring, stable, high value revenue streams, perfectly aligned with our growing Transform objectives. We expect the transaction to close in the third quarter and look forward to this great business joining our portfolio.

With that, I will now turn the call over to Tim, for our second quarter financial review and updated outlook.

Timothy P. Francis

Interim Chief Financial Officer, Valmont Industries, Inc.

Thank you, Avner, and good morning everyone. Before I begin, I would like to express my appreciation and excitement to be working with Avner and the rest of the Valmont team. By way of background, I have been with Valmont for over nine years, first as the Senior Vice President, Corporate Controller, and most recently, as the Finance Business Partner, Global Operations.

During that time, I worked closely with all of our lines of business, segment leadership and our audit committee. We have an excellent global finance team, and I'm honored to serve in this role during this transition period.

Turning to slide 10 and the second 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.

Second quarter net sales of \$1 billion, decreased 7.9%, as sales growth in infrastructure was more than offset by lower agriculture sales. Accounting for the 2022 divestiture of the offshore wind business, reported in the other segments, sales decreased 5.7% year-over-year.

Despite lower sales, operating income grew 12% to \$137.6 million, with operating margin increasing to 13.2%, surpassing our previous long-term goal of 12%, and on the path to our new long-term target of 14%.

Operating margin improvement reflects continued benefits from value-based pricing, cost optimization and operational efficiencies in both segments. Diluted earnings per share grew 18.1% to a record \$4.37.

Turning to the segments on slide 11, infrastructure sales of \$770.6 million, grew 4.2% year-over-year due to favorable pricing globally, higher volumes in the Solar and TD&S product lines and sales from the ConcealFab acquisition, partially offset by lower volumes in telecommunications.

Operating income increased to \$116 million, resulting in strong operating margin of 15.1% of net sales. Delivered actions to improve cost of goods sold and a favorable sales mix drove the margin improvement.

Moving to slide 12, agriculture sales of \$279.9 million, decreased 25.9% year-over-year. The benefit of higher average selling prices of irrigation equipment globally was more than offset by lower volumes.

In North America, sales were lower as the second quarter of 2022 benefited from the ongoing delivery of record year-end backlog and growers delayed capital investment decisions in the spring of 2023.

International sales were lower as sales growth in Brazil was more than offset by project delays in the EMEA region. The lower volume of irrigation equipment affected sales of agriculture technology products and services, leading to a decline year-over-year.

Operating income decreased to \$53.2 million or 19.1% of net sales. Higher average selling prices and focused activities to improve cost of goods sold drove operating margin expansion despite lower sales.

Turning to cash flows on slide 13. Second quarter operating cash flows of \$88.3 million were driven by strong earnings and diligent working capital management. Turning to slide 14 for a summary of second quarter capital deployment. CapEx was \$23 million, as we continue to invest in strategic capacity expansions. Through our balanced capital deployment framework, we are focused on enhancing shareholder value.

In the second quarter, we returned approximately \$37 million to shareholders through dividends and share repurchases, ending the quarter with \$167 million in cash.

Moving to slide 15, total debt to adjusted EBITDA of 1.6 times was within our desired range of 1.5 to 2.5 times. Our cash balance, 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 16. Given our second quarter results and continued near-term softness in North America, agriculture and telecommunication markets, we now expect sales growth of 0% to 2%. We expect improved year-over-year operating margin in 2023, given our pricing strategies, strength in certain markets and our ongoing continuous improvement initiatives.

Strong second quarter results, combined with an improved operating margin, supports maintaining the full year earnings per share range, while updating the sales outlook.

Turning to the segments. Continued strength across infrastructure markets supports our expectation for higher sales this year. We expect telecommunication sales to be lower, more than offset by higher sales across the rest of the segment portfolio.

The spike in steel costs during the first four months of the year is expected to slightly reduce our infrastructure operating income margin for the second half of the year compared to the strong second quarter results.

Turning to agriculture, we expect North America sales to be modestly lower in the second half of the year, as compared to the first half. Our assumption is that growers continue to delay capital investment decisions until they have more clarity on their crop yields and overall commodity prices. A reminder that the third quarter is typically a lower North America sales quarter compared to the rest of the year.

However, we expect much stronger international sales, led by higher project sales and sales growth in Brazil to more than offset the North America seasonality impact. A higher mix of international projects will reduce agricultural segment profitability in third quarter as compared to last year.

To summarize, our expectation for diluted earnings per share growth has not changed. We are confident in our outlook and believe that it demonstrates the strength of our portfolio, favorable trends across most of our end markets and our strong competitive position in the marketplace.

We're leveraging our global scale to improve margins and drive strong cash generation, enabling us to support our growth strategies and achieve our long-term financial targets, driving sustainable shareholder value.

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

Avner M. Applbaum

President & Chief Executive Officer, Valmont Industries, Inc.

Thank you, Tim. Continuing my comments on slide 17, we have built on the competitive advantages that uniquely position us to win in infrastructure and agriculture. We have a flexible and broad global footprint that allows us to efficiently manufacture products that our customers need, while optimizing our supply chain to avoid unnecessary disruptions. And our breadth of product offering, which is always expanding, enables us to solve the various challenges our customers face. Together, these factors contribute to making Valmont the trusted partner of choice.

Not only do we have strong competitive advantages, we're also in great markets with multi-year demand drivers. Infrastructure and agriculture both have megatrends that will extend well into the future. We are in great position to proactively capitalize on these trends and exceed market growth expectations.

Turning to slide 18, as announced during our Investor Day, we established new five year financial targets based on a positive end market outlook and our ability to execute on the Run, Grow, Transform framework. Today, we remain committed to achieving these financial goals.

In summary, I'm extremely proud of our team's ability to execute our strategy and drive strong results, while navigating near-term softness in some markets. While recognizing broad macroeconomic challenges, we are encouraged by ongoing demand strength across our end markets and remain focused on the things we can control.

I'm confident that we are positioned for success and we continue to accelerate growth through investments in innovation and technology with a focus on disciplined capital allocation. We have acted decisively to position our business for growth, building momentum to drive long-term stakeholder value through the second half of 2023 and beyond.

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] Please limit yourself to one question and one follow-up. One moment, please. While we poll for questions.

Thank you. Our first question comes from Brian Drab with William Blair. Please proceed with your question.

Brian Drab

Analyst, William Blair & Co. LLC

Q

Hey, good morning. Thanks for taking my questions. So first question, just a minor one, I think. But on slide 16, is this a cut and paste error with the EPS guidance that says \$15.90, is that the high end? I think there's no change to the guidance, right, for EPS?

[Multiple Speaker] (00:26:36)

Renee L. Campbell

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

A

No change to the guidance.

Brian Drab

Analyst, William Blair & Co. LLC

Q

Okay. So that's just an error on the slide, right?

Timothy P. Francis

Interim Chief Financial Officer, Valmont Industries, Inc.

A

Yes, it must be.

Renee L. Campbell

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

A

Yeah.

Brian Drab

Analyst, William Blair & Co. LLC

Q

Yeah, okay. So the gross margin, I feel like should be discussed a little more, given it was about like 400 basis points above what the Street was expecting. And a lot of that is pricing coming through and other actions that you're taking. But can you talk about why we were above 31% in gross margin and how sustainable is that going into the back half of the year? Thanks.

Timothy P. Francis

Interim Chief Financial Officer, Valmont Industries, Inc.

A

Hey, good morning, Brian. This is Tim, and I'll take that question. First off, we are very pleased with the third quarter margins. It was a result of the actions taken by our teams for value-based pricing and operational excellent activities.

Over the long-term, these activities will drive an improvement to our average historical gross profit margins, some of these activities were professionalizing our sourcing group, which has been really focused on leveraging the size and spend of consolidated Valmont, as well as operational efficiencies, starting with the activities [ph] on our plant floors (00:27:57) such as getting those cost benefits we expect from our automation investments, as well as better labor and overhead management.

With that said, we do not expect to sustain a 30% gross profit margin in the second half of the year and it's really for two primary reasons. One, as we talked about in our prepared remarks, we're going to see a sales mix more towards international projects in the agriculture segment that is typically at a lower profitability profile to the overall segment.

And then secondarily, in the first four months of the year, we saw a meaningful increase in the cost of steel, specifically hot rolled coil. With the timing lag, meaning how that cost of steel goes through our income statement, our average cost of steel will be higher during the second half of the year than what we saw in the second quarter.

Avner M. Applbaum

President & Chief Executive Officer, Valmont Industries, Inc.

A

And Brian, this is Avner, I'll just add to that. We're really pleased with what's happening with our gross profit, the improvement in Q1, improvement in Q2. It's never going to be a linear line up, but we are on the track to 12%, really happy about that. And from that, we get to our stated goal right now of 14%. So overall it's never going to be linear, but really excited about that improvement we're seeing in our margin.

Brian Drab

Analyst, William Blair & Co. LLC

Q

Yeah, I mean, obviously, you guys – we've talked a lot about this and you've done an incredible job of managing through the volatility in steel prices over the last few years and gross margins have been really stable and moving up. And so can you comment Avner at all like this – like the second half, should we expect gross margin more like the first quarter or was the first quarter unusually high also? 29%, 29% possible?

Timothy P. Francis

Interim Chief Financial Officer, Valmont Industries, Inc.

A

Yes, approaching 29%, Brian. That's how I'd answer it.

Brian Drab

Analyst, William Blair & Co. LLC

Q

For the second half?

Timothy P. Francis

Interim Chief Financial Officer, Valmont Industries, Inc.

A

For the second half, correct.

Brian Drab

Analyst, William Blair & Co. LLC

Q

Okay, okay. I'll pass it on for now. Thank you.

Operator: Thank you. Our next question comes from Brent Thielman with D.A. Davidson. Please proceed with your question.

Brent Thielman

Analyst, D.A. Davidson Companies



Good morning. Hey, I guess, Avner, maybe just a question for you, as you move into the new role. Just your perspectives on M&A, any different view from you on what Valmont should be focused on relative to some of the things the company's pursued and completed over the last few years?

And I think just sort of similarly with that, do you take a different focus in terms of investing internally in the business, maybe relative to what the company's done over the last few years? Just love to get maybe any broader view on capital allocation philosophy from you?

Avner M. Applbaum

President & Chief Executive Officer, Valmont Industries, Inc.



Sure. Well, thank you for that. Well, over the last [ph] two (00:31:03) years, I've been an integral part of the leadership team and working really closely with the board of directors on establishing the capital allocation philosophy in our strategy. That really has not changed. That will remain the same. It's really how could we drive the highest ROIC and value to our shareholders. Still, the number one is to invest in the business and with these strong markets that we're seeing across our portfolio, we have significant opportunities to invest in the business, as we shared during Investor Day, some of our large pole operations where we shared was one example.

So we will continue to invest in the business. As it relates to M&A, we will continue with the same approach. Actually, we have a very strong pipeline. I do bring a lot of experience to that area from my background, in prior areas that I've worked with in public companies and private equity.

So there will be – continue to be a strong emphasis on acquisitions, which can help propel our growth. There will be cost of capital within three years and we'll support our overall strategic goal. So short answer is no, not expecting any changes, but continued focus on driving value through acquisitions, as well.

Brent Thielman

Analyst, D.A. Davidson Companies



Okay. Thanks for that, Avner. Maybe just, I guess my second question. Understand the implications of kind of steel costs flowing through in the second half of the year. It seems like within the infrastructure segment, it sort of feels like you're experiencing kind of some mixed demand trends in some respects, at least on a short-term basis. Telecommunications, Lighting and Transportation, a little bit softer relative to utility, Solar, et cetera. What are the implications to margins for that business segment? Just as you're seeing a little bit of a, maybe a shift in kind of contributions from these sub-verticals?

Timothy P. Francis

Interim Chief Financial Officer, Valmont Industries, Inc.



Yeah, I'll take that one. This is Tim. You are correct, our sales forecast expects a reduction in Telecommunications. And as Avner said in his prepared remarks, commercial lighting is a bit muted. But with that said, still good margins for the infrastructure segment. We expect them to be closer to what we saw in the first quarter versus the near record results we saw in the second quarter.

Avner M. Applbaum

President & Chief Executive Officer, Valmont Industries, Inc.

A

And I'll add to that is, overall the strength of our portfolio. So while you might see some softness in one area, like we mentioned, the commercial lighting, we have very strong demand in the TD&S business. So we're able to use our plants and our capacity to support that business, which helps us continue keeping our plants busy, driving business that has very strong margins.

As we mentioned, [ph] lot of our (00:34:19) businesses has backlog of over 40 weeks. So we're able to proactively manage our portfolio to make sure we both support our customers, but drive high margin business, as well. So overall, we will continue to see strength in those businesses and keep on driving margin improvement.

Brent Thielman

Analyst, D.A. Davidson Companies

Q

Okay. Thank you.

Operator: Thank you. Our next question comes from Brian Wright with ROTH MKM. Please proceed with your question.

Brian Wright

Analyst, ROTH Capital Partners LLC

Q

Thanks. Good morning. First of all, congratulations, Avner. Secondly, just wanted to think about are there – coming from the CFO position, right, not having the final say in things, but being a valued member. But are there any areas of like cost improvement opportunities that coming from your vantage point that might be on the table that have kind of been held off up until now?

Avner M. Applbaum

President & Chief Executive Officer, Valmont Industries, Inc.

A

Thanks for your question. Over the last several years, we've been at lockstep here as a leadership team with the board really moving towards our strategy, which we presented during Investor Day with those financial goals.

So we put together the strategy together, the framework. And coming from the CFO role, I'm very – I use a lot of data, analytics, technology to really drive value, focused a lot of the finance and the finance area. I'll bring that larger to the organization, so we can both drive improvements internally and drive additional revenue to our customers.

So overall, we continue working on quality of earnings. And as we've seen the improvement in this a couple of quarters continuing in this year and driving to our goal of 14%. So quality of earnings is something that is highly important for us and for our shareholders and we'll continue looking at every opportunity to streamline processes, improve the profitability of the company and, ultimately, drive shareholder value. So the answer is yes. They'll continue to be focused on driving profitability for the company.

Brian Wright

Analyst, ROTH Capital Partners LLC

Q

Great. Thanks. And then I just wanted to get a little more color on the EMEA. Is that the rebound that you're kind of expecting there, is that pretty much the reference to the Egypt project coming on in [ph] maybe in (00:37:04) July or was there anything else beyond that?

Avner M. Applbaum

President & Chief Executive Officer, Valmont Industries, Inc.

A

That is the vast majority of – not different than any other projects. It's typical projects have movements. And so it wasn't surprising necessarily. It just moved out from June to July. We have started shipping already and our pipeline is very strong in that region. So we're going to expect to see continued strength in that region based on all the long-term market drivers that support that region, specifically.

Brian Wright

Analyst, ROTH Capital Partners LLC

Q

Great. Thanks. And just one last one, if I could. One of your peers has kind of postulated, kind of similar to on the irrigation side in North America, that if the harvest comes out, it's expected here that the fourth quarter could be a strong quarter. And I know, given what we've seen, it doesn't make sense to forecast that. But just, conceptually, with the tax advantages of ordering in the fourth quarter, just how would you kind of view that?

Avner M. Applbaum

President & Chief Executive Officer, Valmont Industries, Inc.

A

Yeah. So that is actually our expectation and a lot of it will depend on the actual harvest, which is always the case and we will have a lot more visibility as we get closer to September to see the yields, et cetera.

The market drivers are strong. If you kind of look at the net farm income, as we mentioned, it would be the third highest we've seen in the last 10 years. Corn prices at [ph] 6, 5.5 (00:38:47) do support high ROI. And at the end of the years the growers are trying to go look at their financials. And as they do their tax planning, they will look at opportunities to invest in capital.

[ph] And our pivots (00:39:00) have one of the higher ROI. So the expectation is that in the Q4, there will be a typical ordering patterns, as we've seen in prior cycles. But again, we'll just have to wait in the – for the yields and see how that plays out and as you know, that's very difficult or impossible to predict. So we're just going to see how that all plays out.

Brian Wright

Analyst, ROTH Capital Partners LLC

Q

Great. Thanks again. Thank you.

Operator: Thank you. Our next question comes from Nathan Jones with Stifel. Please proceed with your question.

Adam M. Farley

Analyst, Stifel, Nicolaus & Co., Inc.

Q

Good morning. This is Adam Farley on for Nathan Jones. I wanted to start on the agricultural margins. It showed really strong margin expansion despite the revenue headwind. So how were these margins possible given the volume declines? Is it mainly just lower steel prices running through the P&L?

Timothy P. Francis

Interim Chief Financial Officer, Valmont Industries, Inc.

A

Hi, this is Tim. Good morning. I'll take that question. I would tell you it's multi-faceted, right. As we continue to talk about we're doing a good job on pricing, I talked about how we are really focused on operational efficiency. That

is contributing to the stronger margins in second quarter. And then thirdly, you see in our deck that the change in international sales, and in our prepared remarks, we talked about less projects in the second quarter, less projects helped us see an overall better operating income margin.

Avner M. Applbaum

President & Chief Executive Officer, Valmont Industries, Inc.

A

I'll just add all the initiatives that we've been taking over the last several years were masked by COVID. But as we come out, we're just getting much better productivity through our plants, better labor utilization, a lot of the operational excellence that we've done. So, as you mentioned, it's multifaceted. But the pricing, the operational excellence will continue drive stronger margin.

Adam M. Farley

Analyst, Stifel, Nicolaus & Co., Inc.

Q

Okay. And then following up on pricing within agriculture, mainly within the North America market. Is there any risk to pricing given the lower demand? Have you seen any evidence of aggressive pricing in the industry? And if there is, how would Valmont you react to that?

Timothy P. Francis

Interim Chief Financial Officer, Valmont Industries, Inc.

A

Well, I think by now you kind of know our philosophy around pricing. And we continue to take pricing leadership and it's all based on the value we provide to the growers. And it has a very strong value proposition and there's really no intention on reducing pricing, there's no reason to reduce pricing when we provide a very strong value and ROI and the industry is kind of following the same path. So there should not be an expectation on reducing pricing.

Adam M. Farley

Analyst, Stifel, Nicolaus & Co., Inc.

Q

Okay. Thank you for taking my questions.

Operator: Thank you. Our next question comes from Jon Braatz with Kansas City Capital. Please proceed with your question.

Jon Braatz

Analyst, Kansas City Capital Associates

Q

Good morning, everyone. Avner, could you characterize the Brazilian market in the second quarter? You said there was sales growth in Brazil, but there was a period of slowness as the farmers awaited financing. Was it sort of weak in the first half of the quarter? And the volume is picked up in the second quarter – I mean, second half of the quarter?

Avner M. Applbaum

President & Chief Executive Officer, Valmont Industries, Inc.

A

Yeah. So thanks for that question. Going into the quarter, going into the year, we also – additional factor that we had is we have backlog going into the year which supported a lot of our sales throughout the first half.

But as the financing comes through, that provides significant tailwinds for the business, as we mentioned, the interest rate is very favorable compared to what other options are. And there are some other benefits of some of

these – this program, for instance, a couple of years before we actually repay back the loan. So it will provide strong tailwinds.

And again, I would really focus on the long-term, right. The Brazilian market is very strong. It is a very important part of the overall GDP and economy of Brazil and all those strong market demands with growth, population and land productivity, et cetera. So we're really excited our Brazil market and we do expect to see continued strength to support our long-term goals.

Jon Braatz

Analyst, Kansas City Capital Associates



Do the sales in Brazil typically come with all the technology bells and whistles or are they more plain vanilla?

Avner M. Applbaum

President & Chief Executive Officer, Valmont Industries, Inc.



When I look at – overall like we were in the journey of adding technology to our overall irrigation sales. Actually, if you look at the big growers in Brazil, they're actually – for the most part, they're actually their age profile, they're younger, they're really more open to adopting technology, and the adoption rate is actually pretty high.

So as we continue our journey of really adding productivity to the grower with remote monitoring control, irrigation optimization, agronomic insights, when you kind of look at the suite that we're providing, there is a pretty good level of adoption. And the Brazil market, I'm pretty excited about the level of adoption we're expecting to see there.

So we're at the beginning of our journey and I do expect that we'll continue to add the technology suite to our other irrigation products.

Jon Braatz

Analyst, Kansas City Capital Associates



Okay. One last question, the acquisition, HR in Australia, is that type of business that they're in, is that something that you can – that you're looking for elsewhere, globally, whether it be domestically or other countries that similar type of business?

Avner M. Applbaum

President & Chief Executive Officer, Valmont Industries, Inc.



Overall, aftermarket is a big part of our overall strategy for Valmont, and we shared some information on that during the Investor Day. What we like about the aftermarket parts is, it's complementary to our other irrigation business where we can provide more to our dealers and the growers overall. It has more of a recurring nature which we like as well to offset some cyclicity, and it actually also has a high margin profile.

So we're really excited about aftermarket opportunities across actually both of our segments. We have a very strong [ph] parts (00:46:26) business and telecom as well. So overall, I would say, we're really excited about this acquisition and we'll continue kind of focusing on aftermarket, as part of our overall strategy.

Jon Braatz

Analyst, Kansas City Capital Associates



Right. Thank you.

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

Christopher Moore

Analyst, CJS Securities, Inc.

Q

Good morning. Thanks for taking [ph] a question or two (00:46:56). I know you don't always give backlog on a quarterly basis, you did after Q1, maybe just directionally, can you talk a talk about where it was at the end of the second quarter?

Avner M. Applbaum

President & Chief Executive Officer, Valmont Industries, Inc.

A

Yeah. So our backlog was at \$1.5 billion. Actually, we did put it on the...

Christopher Moore

Analyst, CJS Securities, Inc.

Q

You said it, I missed it. Got it.

Avner M. Applbaum

President & Chief Executive Officer, Valmont Industries, Inc.

A

Yeah. No problem. So strong backlog overall, right, really supporting kind of what we're seeing in our business. Majority of that is in the infrastructure part of the business and [ph] it's see what we're seeing (00:47:29) kind of mostly in the TD&S part of our portfolio, which has very strong market drivers and strong market demand.

Christopher Moore

Analyst, CJS Securities, Inc.

Q

Got it, helpful. And maybe my second just on the telecom, obviously, the growth that you're looking for now, previously talked in that 20% range. Now the carriers are slowing down. Just a little bit longer term thoughts there, expected to be flat, slightly down perhaps, over the next 12 to 18 months. Just kind of get a feel for what you're thinking there?

Avner M. Applbaum

President & Chief Executive Officer, Valmont Industries, Inc.

A

Yeah. The long term drivers really didn't change, right. If you kind of look at the real macro level, we see – continue to see increased data consumption. And when you look at specifically the 5G network and you look at it on a global basis, we're expecting 85% of the world population to be covered by 5G, over the next five, six years or so.

So yeah, there is [indiscernible] (00:48:36) initially, we thought this network rollout would be a little different. It turns out to be the same and [ph] always after the (00:48:44) spectrum they're going to take a pause, they're going to look at the consumer, how much they adopt the network, they'll look at their ROI. And now it was impacted as well by inflation and interest rate which had a pretty large impact on some of the carriers.

And when you actually look at the AT&T and Verizon earnings, which they just reported earlier this week, it kind of supports exactly that that we will continue to build out. They spend money on the spectrum. Now they need to get their ROI. So they will continue invest on densification.

So, little slower than we thought. Expecting it will all kind of go back to a more of a normal cadence and we'll start seeing more of that double-digit growth over the next several years. So overall, very positive, just a little bit of a hiccup there on kind of how they slow down a little bit, but really excited about telecom and the fact that it will continue growing.

Christopher Moore

Analyst, CJS Securities, Inc.



Got it. I'll leave it there. Appreciate it.

Operator: Thank you. We have reached the end of 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 all 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 next quarter.

Operator: Included in this discussion are forward-looking statements within the meaning of the private Litigation Reform Act of 1995. These forward-looking statements are based on assumptions that management has made in light of experience in industries 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.

As you listen to and consider these comments, you should understand that these statements are not guarantees of performance or results. They involve risks, uncertainties, some of which are beyond Valmont's control and assumptions. Although management believes that these forward-looking statements are based on reasonable assumptions, you should be aware that many factors could affect Valmont's actual financial results and cause them to differ materially from those anticipated in the forward-looking statements.

These factors include, among other things, risk factors described from time to time in Valmont's reports to the Securities and Exchange Commission, as well as future economic and market circumstances, industry conditions, company performance and financial results, operating availability and price of raw material, availability and market acceptance of new products, product pricing, domestic and international competitive environments and actions and policy changes of domestic and foreign governments.

The company cautions that any forward-looking statement included in this discussion is made as of the date of this discussion, and the company does not undertake to update any forward-looking statement.

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

Disclaimer

The information herein is based on sources we believe to be reliable but is not guaranteed by us and does not purport to be a complete or error-free statement or summary of the available data. As such, we do not warrant, endorse or guarantee the completeness, accuracy, integrity, or timeliness of the information. You must evaluate, and bear all risks associated with, the use of any information provided hereunder, including any reliance on the accuracy, completeness, safety or usefulness of such information. This information is not intended to be used as the primary basis of investment decisions. It should not be construed as advice designed to meet the particular investment needs of any investor. This report is published solely for information purposes, and is not to be construed as financial or other advice or as an offer to sell or the solicitation of an offer to buy any security in any state where such an offer or solicitation would be illegal. Any information expressed herein on this date is subject to change without notice. Any opinions or assertions contained in this information do not represent the opinions or beliefs of FactSet CallStreet, LLC. FactSet CallStreet, LLC, or one or more of its employees, including the writer of this report, may have a position in any of the securities discussed herein.

THE INFORMATION PROVIDED TO YOU HEREUNDER IS PROVIDED "AS IS," AND TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, FactSet CallStreet, LLC AND ITS LICENSORS, BUSINESS ASSOCIATES AND SUPPLIERS DISCLAIM ALL WARRANTIES WITH RESPECT TO THE SAME, EXPRESS, IMPLIED AND STATUTORY, INCLUDING WITHOUT LIMITATION ANY IMPLIED WARRANTIES OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE, ACCURACY, COMPLETENESS, AND NON-INFRINGEMENT. TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, NEITHER FACTSET CALLSTREET, LLC NOR ITS OFFICERS, MEMBERS, DIRECTORS, PARTNERS, AFFILIATES, BUSINESS ASSOCIATES, LICENSORS OR SUPPLIERS WILL BE LIABLE FOR ANY INDIRECT, INCIDENTAL, SPECIAL, CONSEQUENTIAL OR PUNITIVE DAMAGES, INCLUDING WITHOUT LIMITATION DAMAGES FOR LOST PROFITS OR REVENUES, GOODWILL, WORK STOPPAGE, SECURITY BREACHES, VIRUSES, COMPUTER FAILURE OR MALFUNCTION, USE, DATA OR OTHER INTANGIBLE LOSSES OR COMMERCIAL DAMAGES, EVEN IF ANY OF SUCH PARTIES IS ADVISED OF THE POSSIBILITY OF SUCH LOSSES, ARISING UNDER OR IN CONNECTION WITH THE INFORMATION PROVIDED HEREIN OR ANY OTHER SUBJECT MATTER HEREOF.

The contents and appearance of this report are Copyrighted FactSet CallStreet, LLC 2023 CallStreet and FactSet CallStreet, LLC are trademarks and service marks of FactSet CallStreet, LLC. All other trademarks mentioned are trademarks of their respective companies. All rights reserved.