20-Feb-2020

Valmont Industries, Inc. (VMI)

Q4 2019 Earnings Call
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MANAGEMENT DISCUSSION SECTION

Operator: Greetings and welcome to the Valmont Industries Fourth Quarter and Full Year 2019 Earnings Conference Call. At this time, all participants are in a listen-only mode. A question-and-answer session will follow the formal presentation. [Operator Instructions] As a reminder, this conference is being recorded.

It's now my pleasure to introduce your host, Renee Campbell, Vice President, Investor Relations and Corporate Communications. Please go ahead.

Renee L. Campbell  
Vice President-Investor Relations & Corporate Communications, Valmont Industries, Inc.

Thank you, Kevin. Good morning, everyone, and welcome to Valmont Industries fourth quarter and full year 2019 earnings call. With me today are Steve Kaniewski, President and Chief Executive Officer; Mark Jaksich, Executive Vice President and Chief Financial Officer; and Tim Francis, Senior Vice President and Corporate Controller.

This morning, Steve will provide a brief summary of our fourth quarter and full year results, and Mark will provide additional details on financial performance as well as our outlook for 2020, followed by Q&A.

A slide presentation will accompany today’s discussion and is available for download on the Investors page of our website at valmont.com. A replay of today’s call will be available for the next seven days and instructions for accessing it are included in the press release, which was distributed yesterday and also located on the Investors page of our website. Please note that this conference call is subject to our disclosure on forward-looking statements, which applies to today’s discussion and will be read in full at the end of this call.
I would now like to turn the call over to our President and Chief Executive Officer, Steve Kaniewski.

Stephen G. Kaniewski  
President, Chief Executive Officer & Director, Valmont Industries, Inc.

Thank you, Renee. Good morning, everyone, and thank you for joining us. I'd like to begin this morning by thanking our global team of nearly 10,000 associates for their performance this past year. While our full year results did not meet all of our goals, we've made significant progress in many areas in 2019 and achieved sales growth in three of our four segments. We elevated our commitment to drive Lean and Agile throughout the organization and accelerated innovation through new products and services.

We also generated over $200 million in free cash flow through a heightened focus on working capital improvement. And we quickly responded to the impacts of a historic flooding event last spring, minimizing customer and business disruptions during a period of very strong infrastructure market demand. All of these accomplishments are a real testament to the operational excellence of all of our global teams.

With that, let me turn to a brief recap of our fourth quarter, summarized on slide 3 of the presentation. Net sales of $683.6 million declined 2% compared to last year, primarily due to significantly lower sales in two areas of our business; Access Systems and International Irrigation.

Sales in North American markets were higher across all segments despite a challenging agricultural market environment and reduced US industrial production levels. The higher sales were led by strong demand in wireless communication and transportation markets, higher irrigation technology sales, revenue from recent acquisition, and sustained pricing discipline.

During the fourth quarter, we finalized the agreement to purchase the remaining 49% stake in AgSense for $44 million, a significant milestone in our technology strategy. Its profitable, recurring revenue model has provided a growth platform for technology sales over the past five years and has accelerated our technology leadership position in the field. We are excited to welcome the AgSense team fully into the Valmont family.

Turning to the full year summary on slide 4, net sales of $2.8 billion were similar to last year. We achieved sales growth in all segments except Irrigation, which was down nearly 8% compared to 2018, similar to other ag players and representative of continued pressure on net farm income. All segments benefited from disciplined pricing strategy and sales growth from recent acquisitions. And we were very pleased to achieve 25% growth in both wireless communication and irrigation technology sales in 2019. Offsetting sales growth were lower Utility volumes due to a higher mix of smaller structures and less available capacity, as well as lower volumes in Irrigation and Coatings.

In the Engineered Support Structures segment, Access Systems product sales were down 12% compared to last year, with most of the decline occurring in the fourth quarter. Recessionary construction markets in Australia led to significantly lower volumes for the year.

Turning to slide 5, during 2019, we've made meaningful advances in our strategy to accelerate innovation and technology into our products and services. I'd like to take a few minutes to speak to you about some of these key initiatives across our businesses.

In our Engineered Support Structures segment, we have expanded growth of our innovative smart pole technology solutions and are increasing investments in product development there. Investment in 5G networks is also accelerating, and we are capitalizing on city diversions to unsightly antenna locations, which is leading to
increased demand for small cell structures and integrated concealment. All of these technologies are necessary elements of the smart city evolution and our products have been favorably – we've been favorably received by the market.

In our Utility business, we are piloting beacon technology on power grid structures. This solution helps Utility customers identify and remediate line conditions on a real-time basis at the source, reducing the time and cost of shutting down an entire section of the grid. We also have a dedicated team that utilizes drone technology to quickly assess and identify issues along power lines, reducing environmental impact and operator costs. We recently partnered with a local Nebraska utility to take detailed photos of structures along a large power line. This will allow our customer to quickly and efficiently assess required maintenance work and other issues without needing to use expensive cranes on the right of way.

In our Coatings segment, our proprietary GalvTrac and Valmont Coatings Connector technologies are unmatched in the industry. GalvTrac optimizes zinc applications by integrating standard recipes and repeatable processes across all of our global locations, a strong example of Lean and standard work. The Coatings Connector provides customers with real-time visibility to their order status, with interactive capabilities to communicate specific instructions. Our strategy to quickly grow customer adoption has led to over 2,300 customers using the technology at 31 of our 37 global Coatings locations.

In Irrigation, we continue to drive our technology leadership position forward. Technology sales in 2019 grew 25%, driven by the increased adoption of AgSense, which has led to more than 95,000 connected devices in the field.

Last month, I attended our North American dealer meeting, where we announced Valley 365, our newest cloud-based, single sign-on platform for connected crop management. Valley 365 eliminates the need to switch between multiple applications on a smartphone or other device, and the platform allows growers to collect, control, and analyze data to take action and remediate issues in the field. One of these applications is Valley Insights, which was launched in early 2019 with our partner, Prospera Technologies. Valley Insights uses advanced artificial intelligence to virtually detect and provide recommended remediation for crop health issues.

Grower adoption has exceeded our expectations. We are already monitoring over 1.5 million acres and expect to monitor up to 5 million acres by the end of this year. As you can see, we continue to increase our investments in technology and new product development, two very important and strategic pillars of our future growth strategy.

Before I turn the call over to Mark for our financial results and our 2020 outlook, I want to briefly comment on the coronavirus situation. The health and safety of our team in China is our top priority. We are closely watching the situation and the impacts continue to unfold. As it does, our thoughts are with our Valmont China employees and their families, our customers and suppliers, and many others who have been impacted.

I will now turn the call over to Mark.
Engineered Support Structures segment results. In the Utility Support Structures segment, profitability was comparable of 2018, as improved performance in North America was offset by unfavorable comparisons in our international businesses, primarily driven by lower sales volumes and timing of large projects.

In the Irrigation segment, profitability was down as well due to some weaker demand from external customers and some favorable productivity associated with recent acquisitions.

Lower raw material prices led to favorable LIFO expense in 2019, as a decrease of $8.6 million compared to 2018 was realized. The increase in net corporate expense was mainly due to higher deferred compensation expense, which has offset the income statement by higher investment income.

Fourth quarter diluted earnings per share of $1.66 decreased 11.2% compared to $1.87 in 2018. The fourth quarter tax rate of 21.2% was lower than 2018 due to differences in the geographic mix of earnings.

Moving to full results on slide 7, operating income of $237.7 million decreased 11.8% compared to last year. Operating income was 8.6% of sales, which includes a 20-basis-point headwind due to increased deferred compensation expense. As previously mentioned, this has offset the income statement by investment income. In addition, corporate incentive expense decreased by $2.9 million. The main impacts to operating income this year were $26 million lower earnings in the Irrigation segment, or $0.90 per share, and poor performance in the Access Systems business. Offsetting these factors was an approximate $20 million benefit in LIFO. Currency translation effects were not significant for the year taken as a whole. Our effective tax rate for the year was 24% which was comparable to 2018.

Diluted earnings per share of $7.06 was 7% below last year, as we know there are a number of one-time items we called out during the year. These items are summarized in the appendix of the presentation.

Turning to cash flow highlights on slide 8. As expected, we delivered very strong operating cash flows of $307.6 million in 2019, compared to $153 million in 2018. The improvement was driven by a heightened focus on working capital process improvements, including a meaningful decrease in raw material inventory and we successfully negotiated down payments on certain large sales contracts. As a result of these efforts and the benefit of a more stable raw material cost environment, we’re pleased to have delivered free cash flow conversion that exceeded 1.3 times net earnings for the year.

Turning to capital deployment, a summary of our accomplishments are shown on slide 9. The capital spending for the year with $97 million compared to $72 million in 2018, driven by investments in the new steel structures facility in Poland, an expansion of our irrigation facility in the United Arab Emirates, and a new utility concrete structures facility in Fort Meade, Florida, all supporting strategic growth across the businesses. We deployed $82 million for three strategic acquisitions in 2018, and the final purchase payment for Convert Italia, and returned $96 million to shareholders through the share repurchases and dividends, ending the year with just over $353 million of cash.

Let me now turn to slide 10 for outlook on 2020. We expect full year diluted earnings per share to be in the range of $7.30 to $8. The range of earnings per share reflects timing uncertainty related to our higher project business in our Utility and ESS segments, as well as in the International Irrigation. We are revising our organic revenue growth projection from a range of 5% to 7% to a range of 4% to 7%, which excludes any future acquisitions. The revision to the range downward is due to lower expected sales in Irrigation segment and the coronavirus situation, which I will speak to further in a few minutes. Foreign currency translation FX based on current rates is expected
to be immaterial and we expect a net 10-basis-point to 40-basis-point improvement in operating margins and average raw material costs, including freight, are expected to be stable with 2019 levels.

Full year free cash flows expected to be not quite as strong as 2019 due to a couple of factors. First, capital expenditures are projected to be between $100 million and $125 million and includes strategic capacity additions to existing facilities in support of strong market demand in our North America structures businesses and finishing up some spending from 2019 projects.

Second, we expect fewer large sales contract down payments in 2020, but otherwise should benefit from continued efforts to improve working capital performance throughout the year. We expect our after-tax return on invested capital to be around 10%. Our tax rate for the year is expected to be approximately 25% based on the current tax laws and our estimate of geographic mix of pre-tax income.

Turning to LIFO, beginning in fiscal 2020, we are discontinuing the use of the LIFO inventory method in the US, which is the only country where it is allowed. This change will provide a better matching of cost to revenues for our product lines and this change will also provide uniformity across our operations with respect to the method of inventory accounting and enhances comparability to prior year's results. Beginning next quarter, our financial reporting will also exclude the previous impact of LIFO from 2019 comparisons.

With respect to the first quarter of 2020, there are a couple of items I'd like to highlight. Last year's impact of $0.18 per diluted share from the Midwest flooding event is not expected to repeat this year. And then the Utility Support Structures segment, while we expect full year growth in both our offshore wind and solar tracker businesses, sales in the first quarter are expected to be lower by a combined $30 million compared to 2019, along with associated lower operating income, mainly due to project timing. For modeling purposes, we expect first quarter revenue for the company to be flat to slightly down compared to 2019 from the lower expected sales in the international utility.

Finally, there is some uncertainty around the impact from the coronavirus on our business. We are pleased to report that all of our facilities have resumed production and are operational, although at slightly lower capacity levels due to the mandatory quarantine restrictions. We continue to closely monitor and assess this situation. As of today, we estimate first quarter revenue impact to be $2 million to $4 million mostly due to mandatory extended factory closures and resulting effects on operational efficiency. These impacts have been included in our full year outlook.

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

Stephen G. Kaniewski
President, Chief Executive Officer & Director, Valmont Industries, Inc.

Thank you, Mark. Last quarter, we celebrated the grand opening of our new steel structures manufacturing facility in Poland. I was excited to personally attend the celebration with our management teams and local employees. And we were honored to host several local officials and dignitaries, as well as the Poland Minister of Energy. Building this facility as a true center of excellence positions us well to best serve our customers in global infrastructure markets.

Moving to slide 11 and looking ahead to 2020, we are off to a solid start to the year. Engineered Support Structures has entered the year with a solid global backlog. Growth in transportation markets is being driven by continued government investments and infrastructure development. We expect continued growth of wireless communication products and components, and anticipate carriers investments in 5G to accelerate in the second
half of the year. We expect 2020 sales growth to approach 10% this year, considering our record growth in 2019 and expected market delays due to the T-Mobile/Sprint merger.

As we have previously said, carriers spending can be lumpy from quarter-to-quarter, which can have a meaningful impact on sales and profitability. The significant underperformance of our Access Systems business in Australia and uncertainty of market recovery associated with a 10-year low in construction levels has led us to re-evaluate our market strategy there. As a result, we are accelerating the strategic analysis of this product line. This may require forgoing revenue opportunities to identify a path to profitability and an attractive return on invested capital profile that aligns with our stated financial goals. We are also currently reviewing other opportunities to improve ROIC across our businesses and we'll be sharing more details with you next quarter.

In the Utility segment, we are starting 2020 with a record year-end global backlog of nearly $500 million, supported by increased demand across all substrates from investments in grid hardening and renewables. As we have previously mentioned, we are adding capacity to existing North American plants and expect the associated revenue to ramp throughout the year for the segment.

Turning to the Coatings segment, we expect sales to be similar to 2019, assuming current global industrial production levels remain fairly unchanged.

In the Irrigation segment, while we were pleased with higher North American sales in the fourth quarter, we are not yet noticing a significant turnaround in demand. We're seeing grower sentiment stabilizing in 2020, but US net farm income projections are not expected to substantially improve. Without a meaningful change to these fundamentals, we expect Irrigation segment sales to be flat to down 3% for the year.

In international markets, we expect growth in more developed markets, including Brazil, where we have been strategically expanding our dealer network to meet increased demand. We have a good line of sight to project business, although as we've said, the timing of shipments can be uncertain.

Turning to slide 12, and in summary, revenue growth 4% to 7% this year is being driven by higher volumes in our infrastructure businesses, supported by solid backlogs and pricing discipline across all segments. We expect our Coatings businesses to be flat with 2019 levels, following US industrial production trends. We remain cautiously optimistic on Irrigation sales growth similar to others in the ag industry. We are encouraged that raw materials and freight are expected to remain relatively steady, which helps stabilize pricing in our markets. And we will continue to perform against our stated capital allocation goals, while generating good cash flows.

I will now turn the call back over to Renee.

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Renee L. Campbell
Vice President-Investor Relations & Corporate Communications, Valmont Industries, Inc.

Thank you, Steve. Kevin, at this time you may open up the call for questions.
QUESTION AND ANSWER SECTION

Operator: Thank you. We will now be conducting a question-and-answer session. [Operator Instructions] Our first question today is coming from Chris Moore from CJS Securities. Your line is now live.

Christopher Moore
Analyst, CJS Securities, Inc.

Hey, good morning, guys. Just to....

Stephen G. Kaniewski
President, Chief Executive Officer & Director, Valmont Industries, Inc.

Good morning, Chris.

Christopher Moore
Analyst, CJS Securities, Inc.

Good morning. Couple of questions on the operating margins. So, given the uncertainty in Access Systems, can you talk a little bit about what your 2020 ESS overall operating margin looks like in relation to the kind of the Valmont operating margin guidance?

Mark C. Jaksich
Executive Vice President, Chief Financial Officer & Secretary, Valmont Industries, Inc.

Yeah, Chris, this is Mark. I would say, first of all, if you remember in the third quarter, we had the charge we took on those detention system orders which will not reoccur since we're out of that business now, so that would certainly help and we called that out. But I would say that overall the margins should be pretty solid in North America. And although I think we're going to have some headwind – continued headwind in Access Systems probably through the first half of the year, it depends; as we start to develop our restructuring plans, we expect that to certainly stabilize as the year goes along.

Stephen G. Kaniewski
President, Chief Executive Officer & Director, Valmont Industries, Inc.

And at present, the current rate of where Access Systems is, is taken into account in our guidance range. And so, restructuring should help improve from that point forward.

Christopher Moore
Analyst, CJS Securities, Inc.

Got it. And the other question on the margins, in terms of the USS ramp, is – we're talking about 5% for the year, still it's probably going to take you another quarter or so to get full capacity there. Is there much margin impact in the first half on USS, just trying to understand that ramp there?

Stephen G. Kaniewski
President, Chief Executive Officer & Director, Valmont Industries, Inc.

Yeah. There's obviously some volume that we called out, that we said it will take us in the second half of the year based on both the solar projects and some of the improved pricing in our SM business. You know then it's really the North American capacity-adds which will add the 5% volume as we go through the year. So, North America
will still see a very strong or a very nice gross margin, operating margin as we kind of ramp through the year there. So, really you’re going to see the first half of the year maybe a little bit more depressed than the second half of the year as a combination of both the capacity as well as just the timing of the volume.

Christopher Moore
Analyst, CJS Securities, Inc.

Got it. I appreciate, guys.

Operator: Thank you. Our next question is coming from Brian Drab from William Blair. Your line is now live.

Brian Drab
Analyst, William Blair & Co. LLC

Hey, good morning. Thanks for taking my questions. First of all, I just wanted to be clear on the capacity additions that you made for the Utility segment that you're making. Are those in place to the point where you are able to handle the large order and large orders that are coming through now and what's the lead time at this point?

Stephen G. Kaniewski
President, Chief Executive Officer & Director, Valmont Industries, Inc.

Yeah. So, we had done some things in the fourth quarter, particularly related to this personnel that you saw is one of the reasons that we could deliver around $27 million more sequentially from the third quarter. That will obviously continue as we go through the year. There was some additional capacity additions that we put in that are starting to come online now slowly and ramping through the first quarter and then into the second quarter. We would expect really things to be in place at the end of the second quarter. So, really third and fourth quarter will be at run rates.

Brian Drab
Analyst, William Blair & Co. LLC

Okay. And are you shipping that large order at this point or what's the timing on the beginning of those shipments?

Stephen G. Kaniewski
President, Chief Executive Officer & Director, Valmont Industries, Inc.

Yeah, we've been shipping that actually since the third quarter and it was one of the reasons that the third quarter productivity was hit so hard. But we have been shipping and have ramped shipment of that product and that project all along. So that has been going and we've delivering that project, as we speak.

Brian Drab
Analyst, William Blair & Co. LLC

Okay got it. And then you mentioned the solar business. I'm just wondering can you give a little more detail on that business now? What's the – are you still expecting strong double-digit growth going forward in that business and what are the margins there relative to the corporate average margin, and just how big is that business at this point?

Stephen G. Kaniewski
President, Chief Executive Officer & Director, Valmont Industries, Inc.
Sure. So, what we had said is the business was approximately $80 million when we picked it up. And this year, let's say in 2019, we saw a decline based on the project timing to the tune of about maybe $25 million based on that. We do expect it to be over $100 million as we look into this year. And from a margin's perspective, we said that would ramp over the course of three years as we've built some supply chain synergies, some common specifications as opposed to very specific. And so, from – as it relates to segment margins, it's a little decreitive in the sense of segment margins, but we would expect really by, say, mid-2021 that it would be at segment margins.

Brian Drab  
Analyst, William Blair & Co. LLC

Okay. And then, I know this is always a little sensitive because, of course, competition is glistening, but I'm just wondering as you continue to highlight the connected solutions and the technology that you're injecting continually into the irrigation system and that segment, are you seeing any changes in share or do you feel like that's improving your share position in the US or internationally?

Stephen G. Kaniewski  
President, Chief Executive Officer & Director, Valmont Industries, Inc.

It – I think, long-term, we always say that the US market, the share doesn't really change significantly from a pivot systems perspective. What we are seeing is our installed base, more revenue opportunities. And so, with the connection and the AgSense unit really bringing real productivity for the grower, as well as lower input costs, that adoption rate has been strong; it has the retention rate, it has been exceptionally strong. And so, it's really – yeah, obviously, it shares a total of everything you go after. So, from that sense, because we have more revenue opportunity, we believe we're picking it up that way.

Internationally, it's definitely providing a door in markets like Brazil and Europe, where labor is a big component that we're seeing real good opportunities there as far as our selling opportunities to increase – to continue to increase the connected market across those markets. So, there's 250,000 of our machines, 250,000 of our competitive machines, all of them can take an AgSense unit on them. And so, we do believe there's still quite a bit of runway in that market.

Brian Drab  
Analyst, William Blair & Co. LLC

Great. Thanks. And then, can I just ask one last quick clarifying question. That's my first question, that large order that began to ramp – began to ramp, began to ship late last year, but the size of those shipments, I guess, is kind of what I was wondering, does that start to ramp materially or is this kind of run rate per quarter related to that project, so we've already seen that in the numbers now in the fourth quarter?

Stephen G. Kaniewski  
President, Chief Executive Officer & Director, Valmont Industries, Inc.

Yeah. The way the orders were taken and to be delivered, it was roughly about $100 million per year. So, that's the way that...

Brian Drab  
Analyst, William Blair & Co. LLC

Okay.
Stephen G. Kaniewski  
President, Chief Executive Officer & Director, Valmont Industries, Inc.

...you have to think about those big orders.

Brian Drab  
Analyst, William Blair & Co. LLC

Okay. All right. Thanks very much.

Operator: Thank you. Our next question is coming from Jon Braatz from Kansas City Capital. Your line is now live.

Jon Braatz  
Analyst, Kansas City Capital Associates

Good morning, Steve, and good morning, Mark.

Stephen G. Kaniewski  
President, Chief Executive Officer & Director, Valmont Industries, Inc.

Hey, good morning, Jon.

Jon Braatz  
Analyst, Kansas City Capital Associates

In the Coatings segment, recently we’ve seen zinc prices come down sharply, and I guess, my question, Mark, might be are we going to see some improvement in the Coatings margin as a result of the fall in zinc prices, or are you having to pass it on?

Mark C. Jaksich  
Executive Vice President, Chief Financial Officer & Secretary, Valmont Industries, Inc.

Well, I think for sure on the internal business that we do, there's a pricing mechanism that passes that along, but in the external markets, no, I think we're making every attempt to hang on to pricing as best we can and that kind of drives from the Valmont Coatings Connector, where as we continue to drive value for the customer. Hopefully, that's what we are hoping to get out of that, there's a little bit of stickiness in pricing as long as we have good performance and so forth. So, no, we're not – in some cases you do get back a little bit here and there, but in generally speaking, we've generally been able to hang on to pricing with fluctuations.

Jon Braatz  
Analyst, Kansas City Capital Associates

Okay. Okay. And maybe I misunderstood, I didn't hear, what – in terms of sort of the expectations for 2020 in terms of volume and revenues, did you give any guidelines there for the Coatings segment?

Mark C. Jaksich  
Executive Vice President, Chief Financial Officer & Secretary, Valmont Industries, Inc.

Yeah, Jon, this is Mark too. We're expecting it to be relatively flat.
Okay.

Mark C. Jaksich  
*Executive Vice President, Chief Financial Officer & Secretary, Valmont Industries, Inc.*

I don't think the growth rate in industrial production is particularly robust right now and that's probably the best indicator...

Jon Braatz  
*Analyst, Kansas City Capital Associates*

Yeah.

Mark C. Jaksich  
*Executive Vice President, Chief Financial Officer & Secretary, Valmont Industries, Inc.*

...across our Coatings business that we watch.

Jon Braatz  
*Analyst, Kansas City Capital Associates*

Okay. Okay. Steve, a question on the coronavirus, we're hearing some that maybe there's some logistical challenges emerging in China. In addition to that, let's say the direct impact that companies are feeling, are you seeing any difficulties in moving product to the ports or any delays, or anything in terms of logistical issues as a result of the coronavirus?

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

Yeah, in terms of moving to the ports, no, because we're in provinces that are on the coast.

Jon Braatz  
*Analyst, Kansas City Capital Associates*

Okay.

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

It's where we have to get steel if it comes from a different province. As it stands right now, it's the inter-province shipments that are most affected, because the truckers then have to go into quarantine. So, that's the only place where we really see the logistics issues occurring. Now in our case with steel, there's enough steel within provinces that we can secure. It just interrupts the supply a little bit from who we're getting it from and when. But we can still get it at least at this point.

We've also heard that the government is well aware of the issues as it pertains to getting supplies moved around and is contemplating loosening some of those restrictions that would be helpful. But to date, we really have not seen the dramatic impact, it's – our South plant was the latest to get going. And we do have still maybe a handful of people that are not able to come back into the plant until their quarantine is finished, as they were coming from the Hubei province. But, generally as Mark called out, right now we see it maybe as a top of maybe $4 million of revenue impact in the quarter. And again, all this is subject to how this thing develops, but....
Jon Braatz  
*Analyst, Kansas City Capital Associates*

Yeah...

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

...that's where we're at right now.

Jon Braatz  
*Analyst, Kansas City Capital Associates*

All right. Thank you very much.

Operator: Thank you. [Operator Instructions] Our next question is coming from Brent Thielman from D.A. Davidson. Your line is now live.

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

Great, thanks. Good morning. Apologies I got on a bit late here, and I only just had one. Steve, I guess just given these challenges in Australia, following some of the issues you had in the offshore business in Europe, I guess taking a step back, how do you think about the portfolio you have today and what should be really core in the focus of Valmont going forward?

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

Well, if I take Access Systems, we really do have an internal compare and contrast. Our Access Systems business in Asia does very well. But it is structured differently. It carries a different overhead profile. And so, it's able to withstand the movements of revenue on that project work kind of over time. So, we just believe that we have to go and basically look at the overhead structure within the Australian business as a way to really kind of get that back. It has been hit by again like I said about a 10-year recession in construction. So, it's just that at very depressed level right now.

The offshore wind business, we've talked to you over time about that. There was a movement to get utility orders put in there as well for utility masts. We actually have been successful and have obtained a fairly sizable order that will ship later at the end of this year and into 2021. And so, keeping that business there at a very tight kind of profile, we are seeing improved margins, we called that out and we do see that coming through towards again the tail-end of the year and into 2021. There's very long lead times. We just cut down the bidding process and we're successful because of the bankruptcies that occurred with our competitors there.

So, they fit with our portfolio of going to market to utilities and/or infrastructure development. We just have to make sure that they are sized appropriately from an overhead standpoint for the project business that they can take in.

Brent Thielman  
*Analyst, D.A. Davidson & Co.*
Okay. And then I – again apologize if this has been asked, but I guess on the Utility side, I mean phenomenal backlog here going into the New Year. If you look at the pipeline out there, and obviously this would be a tough level to build off of, but do you think there's enough out there to sustain the sort of backlog through the year?

Stephen G. Kaniewski
President, Chief Executive Officer & Director, Valmont Industries, Inc.

Oh! Yeah. We definitely are seeing the work continue. If you recall, the two large orders we have, there's three more potentials as you go forward. This year will be another $100-million-plus order that will be tendered. The reliability issues in California and in Florida are continuing unabated and we're also seeing other utilities really outlawing wood used in selected states. And so, that will continue to drive the market very strongly. And renewables, it's just going to continue to disperse the generation sources, meaning they need both substations and transmission lines to get them back to where the electricity is used. So, there's nothing out there between 2020 or even frankly 2021 at this point that would suggest that it would move anywhere from where it is right now.

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

Okay. Thank you.

Stephen G. Kaniewski
President, Chief Executive Officer & Director, Valmont Industries, Inc.

Thanks, Brent.

Operator: Thank you. Our next question is coming from Adam Farley from Stifel. Your line is now live.

Adam Michael Farley
Analyst, Stifel, Nicolaus & Co., Inc.

Good morning. This is Adam Farley on for Nathan Jones.

Stephen G. Kaniewski
President, Chief Executive Officer & Director, Valmont Industries, Inc.

Hey, Adam.

Adam Michael Farley
Analyst, Stifel, Nicolaus & Co., Inc.

Turning back to ESS, even excluding the loss in Access Systems, margins were still relatively light. Yes, highlighted pricing this one in North America. So, was there any mix impact in the quarter? And then looking at your backlog, what should we expect on margins at Access Systems, so the core ESS business?

Mark C. Jaksich
Executive Vice President, Chief Financial Officer & Secretary, Valmont Industries, Inc.

Yeah, Adam. This is Mark. I'll start off and then Steve can jump in as well. But in North America, we really thought we had some timing issues with some deliveries at the end of the year that would have affected the revenue, but that's more of a carry-over into next year. Telecom was still good, but the rate of growth we had over between that and 2018 had tapered down a bit. We expected some of that. So, I think that played into it. And then collectively, the international businesses were down a bit as well. So, I think it was really – North America was pretty solid for the most part, and then, of course, we had Access, and the rest of the international businesses were actually...
comparatively down a tick, not substantially which contributed to the overall margin comparison between 2018 and 2019.

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

Yeah. If you kind of normalize for the Access loss, we probably – margins were about on par with last year. And as Mark mentioned, there were some timing issues, getting some orders out, and just a lower mix of telecom in the fourth quarter as compared to the rest of the year. So, those were the big highlights there.

**Adam Michael Farley**  
*Analyst, Stifel, Nicolaus & Co., Inc.*

Okay. That's helpful. And then looking at our backlog, how are pricing levels within that, I mean, do you expect favorable pricing there?

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

Yeah. As we said that raw materials being stable for the time period that they have been stable, it really allows you work on pricing actions. And so, that has generated some good backlog and some good margins in that backlog itself. And so, we remain optimistic of the margin profile. ESS, again as we fix Access Systems that we can get that business over 10% as we go into 2021.

**Adam Michael Farley**  
*Analyst, Stifel, Nicolaus & Co., Inc.*

Okay. That's helpful. And then just shifting to International Irrigation, these larger projects in the emerging markets seem to keep getting pushed, any more color there and what's driving that? You saw visibility to your pipeline on projects as mainly timing.

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

It's mainly timing. And what you have is the dollar, as many of you know, have strengthened against a lot of these currencies in developing markets. That usually slows down our ability to get paid and therefore to ship. So, that part of it is still in the process of kind of moving through. We still have a good pipeline across Africa, across the Middle East and Central Asia. And so, we feel that, albeit, the timing is tough, that's there. Our guidance really has minimized the impact of the international projects, so that if we were to get them, it would be more of an upside than a down – not having them as a downside. So, we took a more conservative approach.

**Adam Michael Farley**  
*Analyst, Stifel, Nicolaus & Co., Inc.*

That's great. Thanks for taking my questions.

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

Thanks Adam.

**Operator:** Thank you. Our next question is a follow-up from Brian Drab from William Blair. Your line is now live.
Hi, thanks for taking the follow-up. Sorry, there's a little noise in the background here. I'm just trying to draw the conclusion here like trying to outline of the bigger picture and just wanted to get your feedback on this. I mean, it seems like Utility, we've talked a lot about the record backlog and potentially great momentum there, we had some larger projects. But where -- if you kind of rank order the other growth opportunities that you have over the next one to two years really, where are you most -- where are you expecting to get that growth from, what are you most excited about, is it the 5G opportunity, is it solar, is it some of the International Irrigation projects, where -- where else is the growth going to come from over the next one to two years? Thanks.

Sure. Yeah, Utility, we've obviously, we're offering a brand new suite of products. We have a spun concrete distribution pole. We have pre-assembled substations in addition to just general strong market dynamics that are there. So, we feel Utility has the highest growth potential as we look over the near- to medium-term.

The telecom 5G, if you recall, we said we would see a little bit of it in the fourth quarter, we did. We said that it would be slow to ramp or it'd be starting to ramp through 2020, that's what it looks like. And that 2021 would be the real growth opportunity in 5G, and all industry prognosticators still kind of handicap at that way. That would be our second one. And then, yes, third is International Irrigation, those projects when they do come through are tend to be large, they tend to be sizable, and they really do, as you know, Irrigation itself drives our profitability pretty substantially. So, as we get any kind of -- even if markets were just to flatten to move up slightly, Irrigation would have a lot of earnings power behind it as we move forward. So, those are kind of the way we rank them internally here.

Okay. Thanks very much.

And Brian, there -- yeah, Brian, this is Mark.

Yeah.

Just to add to that, the telecom opportunity is global -- it is a global trend. So, we do have an exposure and we do have a presence in Asia-Pac. But as we continue to build off of that, we think there's some opportunity as well in other geographies. As well, we really -- we did really quite as much telecom today.

Right, okay. Thank you very much.
Operator: Thank you. We reached the end of our question-and-answer session. I'd like to turn the floor back over to Renee.

Renee L. Campbell  
*Vice President-Investor Relations & Corporate Communications, Valmont Industries, Inc.*

Thanks, everyone, 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. Thank you.

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 the 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. We thank you for your participation today.
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