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Valmont Industries, Inc. (VMI)

Q3 2020 Earnings Call
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MANAGEMENT DISCUSSION SECTION

Operator: Greetings and welcome to the Valmont Industries Third Quarter 2020 Earnings Calls. At this time all participants are on a listen-only mode. A question-and-answer session will follow the formal presentations. [Operator Instructions] As a reminder, this conference is being recorded.

It is now my pleasure to introduce your host, Ms. Renee Campbell, Vice President of Investor Relations and Corporate Communications. Thank you. You may begin.

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

Thank you, Donna. Good morning and welcome to Valmont Industries third quarter 2020 earnings call. With me on today's call are Steve Kaniewski, President and Chief Executive Officer; Avner Applbaum, 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 third quarter results and commentary on our strategy and long term business outlook. Avner will review our third quarter financial performance and provide an update on our fourth quarter outlook, with closing remarks from Steve. This will be followed by Q&A. A live webcast of the slide presentation will accompany today's discussion and is available for download from the webcast or on the investor's page at valmont.com. A replay of today's call will be available for the next seven days. Please note that this conference call is subject to our disclosure on forward-looking statements, which applies to today's discussion and is outlined on slide 2 of the presentation. It will also 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. Before reviewing our third quarter results, I'd like to start with a couple of comments. First, I'm extremely proud of our 10,000 employees globally for delivering another quarter of solid operational and financial results. While the impact of the pandemic on our businesses this quarter was minimal our teams have continued managing through these uncertain times with focus and perseverance, executing on our strategies while continuing to serve our customers.

Importantly, the safety of our employees and the communities were and continue to be our number one priority. Our remote work policy remains in place for our administration teams where possible to limit the number of individuals at our manufacturing facilities. We remain vigilant in adhering to safe distancing procedures in all our facilities and work areas.

Our employees remain the backbone of our company, serving our customers and keeping our factories operational. I'm extremely grateful for their support and dedication to each other to Valmont and to the communities we operate in.

With that let me turn to a recap of our third quarter, summarized on slide 4 of the presentation. Net sales of $734 million, increased $44 million or 6.3% compared to last year. Significant growth in the Utility Support Structures segment was partially offset by lower sales in the Engineered Support Structures and Coatings segments due primarily to end market disruptions from COVID-19 impacts and lower Irrigation segment sales due to unfavorable currency impacts. Overall revenue and profitability were better than expected across all segments as we continue to successfully manage pricing and operational performance.

Turning to the segments and starting with Utility Support Structures, robust sales of $274.4 million, grew 33.9% compared to last year, led by higher volumes across all product lines. Growth in global transmission sales, which includes transmission, distribution and substation products was led by ongoing grid-hardening efforts by utilities and strengthening demand for renewable energy sources that require additional substations and pole structures.

Volume growth was also driven by the strategic capacity additions in North American operations that were completed earlier this year. Global generation sales which include solar trackers and offshore wind products were also higher, led by significantly higher project sales of solar tracker products. Higher sales in Northern Europe from the large utility project that we announced earlier this year also contributed to sales growth.

Turning to Engineered Support Structures. Sales of $255.7 million, declined 4.6% compared to last year. Sales of lighting and traffic products were down 5.1%. In North America markets lower volumes in transportation and commercial lighting markets led to lower sales. In international markets, end market disruptions from COVID impacts continued to affect sales this quarter, primarily in India.

Wireless communication sales grew 4.8% compared to a very strong quarter of 30% growth last year. Sales growth was due to higher projects sales in Europe and favorable pricing. Capital spending by wireless carriers in North America markets continues to drive demand for structures and components. And the ramp of 5G buildouts is tracking in line with our expectations. Access systems sales were lower compared to last year primarily driven by our strategic decision to exit certain product lines.

Moving to Coatings. Sales of $87.9 million, decreased 5.5% compared to last year which was better than our initial expectations. Higher internal volumes, pricing and higher international market volumes were more than
offset by lower volumes in North America due to economic impacts from COVID on end customers, particularly in oil and gas, bridge and highway and commercial building markets.

Moving to Irrigation. Segment sales of $139.2 million, declined 3.4% compared to last year. Excluding unfavorable currency impacts, sales were flat. In North America, sales were down 8.5%. Higher irrigation system volumes were more than offset by lower volumes of other products, including lower industrial tubing sales, which was driven by lower steel costs.

International sales grew 3.3% compared to last year and grew 13.7% in local currencies. Strong sales in Brazil, improved market conditions in Australia and higher sales in European markets, all contributed to sales growth, as well as our recent strategic acquisition of Solbras, which as Valmont Solar Solutions, strengthened our product offerings to include a sustainable low-cost energy source to provide power to pivot and furthering our commitment to ESG.

In Brazil, we delivered another record quarter of sales. We have been strengthening our dealer network there, investing in technology, aftermarket parts and extensive training programs, while expanding dealer locations across the country by more than 20% since the start of this year. We expect market demand to remain strong, particularly as sugarcane is being used in food and expanded corn production is now a viable ethanol input.

We are very excited to have secured a $240 million multi-year agreement with a progressive longstanding customer to provide irrigation, technology and other ancillary equipment for a 500,000 acre agricultural project in Egypt which we announced last month. To give context, the scale of land under pivots will be more than one 1.5 times the size of the City of Los Angeles. Working together with our experienced local dealer, we are delivering solutions that help address two critical issues, water conservation and food security.

Minimizing the use of natural resources and freshwater conservation are critical for projects of this size and complexity. Our customer has recognized the importance of utilizing the most advanced technology including sensors which will maximize the use of freshwater. Additionally, the current pandemic has created an urgent need for nations to invest in agriculture to address food security concerns. Our customer is taking aggressive steps to strengthen their local economy and enhance food access and availability, and we are grateful to be a part of that solution.

When completed, this farm will become the largest connected farm of engaged acres in the world. Projects like these are highly transformative and our pipeline of opportunities is robust as nations address the need to feed growing populations. As the market leader, the strength and flexibility of our global supply chain, strong supplier relationships, advanced technology solutions and local commercial market presence uniquely positions us to execute and deliver projects of this scale.

Deliveries have just started in the fourth quarter and are expected to continue to ramp through the first quarter of 2021. Avner will speak more about this order and fourth quarter expectations for the segment later in the call.

Turning to slide 5, as we had mentioned in prior quarters future potential COVID impacts to our businesses vary across the portfolio, and are the basis for which we continue to assess the business. We are making two changes from last quarter’s outlook by decreasing the risk profiles for Irrigation and Coatings. We now view Irrigation is having a lower risk profile given that food service supply chain disruptions have moderated and been accounted for, along with a less dire ethanol supply outlook as well as the announcement of our large multi-year international order and growing optimism that grower sentiment in North America may improve with recent increases in commodity prices.
Our view on Coatings has improved to a moderate risk profile as industrial production levels have been stabilizing and the impacts of economic disruptions in many end markets due to COVID are becoming more clearer. Avner will speak specifically to our fourth quarter indications and assumptions later in the call.

Turning to slide 6, as a company we have elevated our commitment to being a more sustainable organization by advancing ESG as a strategic priority. Our tagline of Conserving Resources, Improving Life is a constant reminder to us of our purpose and inspiration. Since our company was founded nearly 75 years ago, we have been focused on important ESG principles; providing products and solutions that support sustainable infrastructure development and the efficient use of water for agriculture enhancing quality of life globally and supporting the communities where we work and live.

In our 2020 Sustainability Report we highlight these and other efforts on conservation including progress on our global electricity goals, more disclosures on the energy and resource usage in our operations and the Scope 1 and Scope 2 carbon emissions they generate. We recently joined over 200 companies in becoming a program partner in the US Department of Energy's Better Plants Program, increasing our commitment to energy efficiency and savings across our facilities.

On the governance front, I'm pleased to highlight two recent appointments to our board of directors; Ms. Ritu Favre and Ms. Joan Robinson-Berry. Ritu is a seasoned high-tech industry leader and the Senior Vice President and General Manager of the Semiconductor business at National Instruments Corporation. We look forward to leveraging her technology industry perspective and IoT experience at the board level, as Valmont continues its digital journey.

Joan recently retired from a 35-year career at The Boeing Company, most recently a Senior Vice President and Chief Engineer for Boeing Global Services. Her strong track record of spearheading operational excellence for a world-class industrial company will aid in advancing Valmont's future growth strategies.

These appointments further enhance our board's technological focus, diversity and operational expertise. And we welcome them both to the Valmont board. Additional highlights and progress of our ESG journey will be shared in future quarters.

With that, I will now turn the call over to Avner for a third quarter financial review and our fourth quarter outlook.

Avner M. Applbaum
Executive Vice President and Chief Financial Officer, Valmont Industries, Inc.

Thank you, Steve. And good morning everyone. Turning to slide 8 and third quarter results, my comments will focus on the adjusted results as outlined in the press release and in the Reg G disclosure in the appendix – in the presentation appendix. Please also note that for comparison purposes references to 2019 operating income and earnings per share exclude the LIFO method of accounting for inventory which was discontinued at the beginning of fiscal 2020.

Third quarter operating income of $67.1 million, or 9.1% of sales, grew 9.9% compared to last year, driven by favorable pricing and improved operational efficiency. Third quarter diluted earnings per share of $1.99, grew 13.7% compared to last year. Third quarter tax rate on an adjusted basis of 25% was comparable to last year.
Turning to the segments on slide 9. In the Utility Support Structures segment operating income of $29.2 million, or 10.6% of sales, increased 70 basis points over last year. Stronger volumes, improved operational performance and improved profitability in the international businesses drove operating income improvement.

Moving to slide 10. In Engineered Support Structures operating income of $26.3 million, or 10.3% of sales, increased 220 basis points over last year. Overall, we were very pleased with continued pricing discipline and improved operational performance, despite lower international volumes from weaker market demand due to COVID-19 impacts, mainly in India.

Turning to slide 11. In the Coatings segment operating income of $13.7 million, or 15.6% of sales, was 70 basis points higher than last year. Higher volumes in international markets, favorable pricing and continued focus on operational excellence and standard work led to a more favorable quality of earnings this year. Since the beginning of the pandemic, we have quickly been able to adjust our cost structure in anticipation of lower volume.

Moving to slide 12. In the Irrigation segment operating income of $14.7 million, or 10.6% of sales, decreased 200 basis points compared to last year. Favorable pricing was more than offset by lower sales volume and higher R&D expense for strategic technology growth investments.

Turning to cash flow on slide 13, we delivered solid operating cash flow of $122.3 million this quarter leading to a 14% improvement in year-to-date operating cash flows even with a strong performance last year. Third quarter operating cash flow include a receipt of a large customer down payment and the payment of current and deferred US government tax payments. Our relentless focus on working capital management is delivering results.

Turning to capital deployment, a year-to-date summary is shown on slide 14. Capital spending this quarter was $22.1 million and we remained focused on strategically investing in growth opportunities while ensuring optimal liquidity. We resumed our share repurchase program on September 10 as our cash position and outlook on business impacts related to the pandemic became more clearer. During the quarter we returned approximately $17.1 million of capital to shareholders through dividends and share repurchases ending the quarter with approximately $443 million of cash.

Moving now to slide 15 for balance sheet highlights, Capital spending plans for 2020 are expected to range between $85 million to $95 million. We continue to have an active acquisition pipeline and are prioritizing strategic investments. Our balance sheet remains strong with no significant long-term debt maturities until 2044. Our leverage ratio of total debt to adjusted EBITDA is 2.3 times remains within our desired range of 1.5 times to 2.5 times. And our net debt to adjusted EBITDA is at 1 times.

Turning to slide 16. Last quarter I spoke briefly about our opportunity to transform the finance function to be true partners and strategic enablers to our business. I would like to take a minute to highlight a few areas of focus in finance. First, we are using advanced technology and automation to streamline processes, redeploying capital and people to more strategic and innovative opportunities in the company. For example, we are utilizing enhanced dashboard reporting and greater real-time analytics and we'll be implementing Robotic Process Automation, or RPA, to automate certain repetitive transaction across the organization.

Second, we are deploying data science capabilities and taking advantage of AI and machine learning to develop a quantitative research based approach to forecasting and real-time decision making, starting with our shorter cycle non-backlog businesses. We will continue to optimize ERP system while enhancing data management starting with our Coatings business.
Third, we are driving execution of strategic priorities to further improve working capital. We have reduced inventory through implementing standard work and operational improvement that have enhanced material flow and expanded our shipping capacity. We’re also refining contract management processes and advance payment negotiation to help improve accounts receivable turnover. Importantly, we are focused on talent as our most important asset providing opportunities for career growth and development across the organization. We’re also expanding our use of shared services, developing centers of excellence in key areas such as treasury and FP&A. We are confident that these initiatives will improve return on invested capital, accelerate the natural evolution of the finance function and maximize its effectiveness, a strategic partner in creating long-term stakeholder value. I look forward to sharing further updates with you in future quarters.

Let me now turn to slide 17 for an update to our outlook including key financial metrics and assumption for fourth quarter. Net sales are estimated to be between $715 million and $735 million, operating income margins between 8% to 9% of net sales, excluding any restructuring activity. Key assumptions supporting this outlook are summarized on the slide and in the press release.

Turning to slide 18. In the Utility Support Structures segment, our strong backlog and the benefit of capacity additions are providing good visibility to the fourth quarter. There is some risk associated with some international projects which have been accounted for in our guidance range.

Moving to Engineered Support Structures. Our current backlog is providing good visibility to fourth quarter lighting and traffic sales and the long term market trends for both transportation and wireless communication structures and components remain solid. We expect a normal fourth quarter seasonality which can cause more uncertainty in the timing of sales. Sales in international markets are expected to be down slightly compared to last year due to ongoing economic effects from the pandemic, primarily across Europe and India. Access system revenues are expected to be similar to the first three quarters of this year. Profitability for this product line has improved during 2020 and this has been accounted for in our outlook.

Moving to Coatings, end market demand tends to correlate closely to industrial production levels, and as those levels continue to recover, we expect a modest improvement in demand.

Moving to Irrigation, we are encouraged by recent increases in certain commodity prices and are optimistic that these trends will be positive for overall grower sentiment. We expect segment sales to increase 12% to 15% compared to fourth quarter 2019 based on estimated timing of deliveries of the large project for Egypt. The operating margins are expected to be similar to previous large international irrigation projects, which tend to have a slightly lower margin profile than sales in more developed international markets.

Finally, we expect another quarter of solid operating cash flows driven by our continued strategic emphasis on working capital management.

With that I will now turn the call back over to Steve.
In Engineered Support Structures government investment and infrastructure development across lighting and transportation markets is expected on some level. The recent one-year extension of the FAST Act and increased funding for the Highway Trust Fund are positive for our business, although we expect weak demand in commercial lighting markets to continue.

Looking ahead to 2021 we expect some near-term impact to demand as state and local jurisdictions factor in lower tax receipts into their budgets and spending plans. We believe the impact will be relatively short-term in nature as this critical need for infrastructure investment also provides good economic stimulus for countries.

Recent announcements of infrastructure stimulus packages in Australia and Europe will drive additional demand in those markets with potential upside in other markets if similar stimulus measures are announced. Growth in wireless communication structures and components particularly in 5G are expected to accelerate in 2021 as carriers investments are supporting an increasing number of work and school at home environments and additional macro buildouts in suburban and rural communities.

Our Coatings business closely follows industrial production trends and general economic activity. The drivers remain solid and the preservation of critical infrastructure and extending the life of steel, that's well within our ESG principles.

And in Irrigation, we are cautiously optimistic that recent improvements in commodity prices will lift grower sentiment in North American markets. Our international business is doing well and the large scale multi-year project in Egypt is providing good momentum for us leading into 2021.

In summary, on slide 20, our strong performance through the first nine months of this year despite macro disruptions is a testament to the agility of our team and our ability to manage well through uncertainty and change. Our continued health and safety protocols will ensure the protection of our employees and communities and reinforce our supply chains.

We are advancing adjacent market growth and technology leadership through strategic investments in addition to leveraging the long-term and enduring growth drivers across all of our segments. Our outlook for the remainder of this year reflects our solid operating performance while keeping our employees and communities safe and making investments for growth. We remain confident in our ability to execute in this dynamic environment, delivering results and building a long-term stakeholder value. Our strategic framework remains fully intact with a continued focus on profitable growth and return on invested capital improvement, as we position Valmont for success now and in the future.

And as we look to the future, I want to personally recognize and thank those employees who have chosen to participate in the Early Retirement Program, Valmont has an incredible history, shaped by our tenured workforce and your dedication to our core values each and every day is an inspiration to all of us. We appreciate your years of service and contributions that have truly made our company what we are today. Thanks again to each and every one of you for all you have done, and we celebrate your success.

I will now turn the call back over to Renee.

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

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

Operator: Thank you. The floor is now open for questions. [Operator Instructions] Our first question is coming from Christopher Moore of CJS Securities. Please go ahead.

Christopher Moore
Analyst, CJS Securities, Inc.

Hey. Good morning, guys.

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

Good morning.

Avner M. Applbaum
Executive Vice President and Chief Financial Officer, Valmont Industries, Inc.

Good morning.

Christopher Moore
Analyst, CJS Securities, Inc.

Good morning. Maybe if you could talk a little bit on the solar side – can you perhaps talk a little bit about the competitive positioning of your solar offering in North America versus some of the other players like Array and Nextracker. And then, kind of longer term, do you expect revenue within North America to outstrip the international revenues on solar.

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

Yes. So just starting off with where we are competitively against the – say, the competitors you mentioned. We have a solution that is very easily constructing in the field. So it has a lot of tolerances built into it that allow for easy construction. So the contractors that often put this together really like the product. Our SCADA software that controls the farm is also a plus against many of those other competitors as well as the fact that you do not have to level land. We can do more positioning of the trackers more easily with the software that we have in place. And therefore from a cost perspective to the developer of the solar field our system presents as a very highly competitive product.

I would say the other thing that we have is an advantage as we build the solar market in the US is the fact that we have these longstanding relationships with utilities. There’s not a utility in the US we haven’t done business with. We have the majority of the alliance contracts that are out there and thus we’re being invited in by those utilities to assist them with their solar developments.

So we feel that as we look into 2021 the pipeline of projects, and we already have a number of projects in the US now, that the pipeline will continue to build as we look into 2021, 2022, and obviously the overall market for solar trackers is expected to grow on – about a 15% CAGR over the next few years.
So we feel this is a nice durable long-term growth market for us with highly competitive advantages that we bring both in terms of the construction, obviously our supply chain and then the relationships that we have with different utilities that are out there.

Christopher Moore
Analyst, CJS Securities, Inc.

Got it. Extremely helpful. Last one for me, just in terms of the $240 million Irrigation order. Can you just talk a little bit about expected cadence over the next two years in terms of the revenue?

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

Yeah. So we're starting to ship in the fourth quarter, obviously getting underway is always a slower event than as you get to a run rate. But with the supply chain that we have in place we would expect really in the first quarter next year to kind of hit run rate and then ship for the next, say, 24 months thereafter. The shipping schedules can move around a little bit, but I think if you take a run rate and then kind of peanut butter it over the 24 months is probably a good indication.

Christopher Moore
Analyst, CJS Securities, Inc.

Got it. Appreciate it. And I'll jump back in line. Thanks, guys.

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

Thanks.

Operator: Thank you. Our next question is coming from Nathan Jones of Stifel. Please go ahead.

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

Good morning, everyone.

Avner M. Applbaum
Executive Vice President and Chief Financial Officer, Valmont Industries, Inc.

Good morning, Nathan.

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

Good morning.

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

I'm going to follow up on the Egypt's irrigation project. I wonder if you could talk a little bit more about some of the risks and the risk management that you've employed around that project. It's in not that stable part of the world, can you talk about the financial safeguards that are in front. I think Avner talked about a large down payment in
the third quarter, wondering if that’s related to that project. What kind of LC do you have in place to ensure that you’re not left holding the bag here on some of that. And then the logistics around how you’re going to supply that. Do you need capacity in different places how you’re managing the supply chain, just those kinds of things, how you are managing the risk around such a large project.

**Avner M. Applbaum**  
*Executive Vice President and Chief Financial Officer, Valmont Industries, Inc.*

Hey. Sure. So let me address the first part of your question. So yes, the down payment that we did receive that helped our cash flow in Q3 was related to this project. We do have additional progress payments throughout this entire project and we do have a confirmed letter of credit. So really to manage our risk between the progress payments and the confirmed LC we feel pretty secure with this project and pretty much minimized the risk.

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

Yeah. So, Nathan, there is very little that will be outstanding that we couldn’t hold back from a shipment perspective based on we get a certain amount as it hits port, another amount that it hits – as it gets to closer to the project and then obviously once it’s installed. From a management of the supply chain we are shipping this from multiple plants in our portfolio and we have geared those up quite well. A lot of this is coming out of the recently expanded Dubai facility. So the capital investment that we did last year will pay dividends for us this year. In that regard, we will not have to add capacity anywhere within Irrigation to further supplement this order. So everything is in place and we’ve worked quite diligently with our suppliers as well as taken on some inventory early – or let’s say in the third quarter that will now roll off as we begin to ship that.

So I’d say from a – overall perspective we feel very good about the risk mitigation to this. We have commercial presence that is based in Egypt that works with the customer and the dealer on a regular basis. We know the dealer quite well who has to install and we will be providing technical assistance as it pertains to some of the technology deployments that are there.

So overall it’s just a bigger project than we’ve ever had but not out of the realm of the large scale deliveries that we’ve done elsewhere in the world. So we feel good about the risk mitigation piece.

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

Thanks. That's very helpful. And then maybe on the margin side of this project. I mean I know historically you guys had said that international projects were maybe 500 basis points lower gross margins, but I think those had closed pretty significantly over the last few years. Well, I imagine there was probably only two bidders on this contract. I would imagine it was fairly aggressive and that the customer has some power here. Is there any more color you can give us on kind of – what kind of mix drag this is likely to be as we go forward on your overall margin? Does that get offset largely with a lot of SG&A leverage that you'll have from the higher revenue here, just any more color you can give us on the margin profile around this?

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

Yeah. Sure. Just to put it out that there was actually more than the couple of bidders that you mentioned, there was a series of bidders from around the world and we obviously made it through that because of the large scale nature of the project that the product quality and the ability to actually deliver on this all the way. From a margin perspective, yes it is slightly lower than, let’s say, segment margins as they stand at this point with the factors that
you mentioned. We gained leverage – operating leverage both in the factories and on SG&A and that will help offset some of the differences you see from the gross margin side. So we ultimately expect this to be just, let's say, slightly decretive from an operating margin percentage as compared to the segment.

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

Okay. That's helpful. Thanks very much. I'll pass it on.

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

Thank you.

Operator: Thank you. Our next question is coming from Brent Thielman of D.A. Davidson. Please go ahead.

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

Hey. Thanks. Good morning. Great quarter.

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

Thank you

Avner M. Applbaum
Executive Vice President and Chief Financial Officer, Valmont Industries, Inc.

Thank you.

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

The $5.6 million in restructuring charges looked to be sort of fairly spread across that the segments. I guess, two-parter question, maybe just talk a little bit about what that involved and should we see that fade as we exit the fourth quarter and get to 2021.

Timothy P. Francis
Chief Accounting Officer, Senior Vice President & Corporate Controller, Valmont Industries, Inc.

Hey. Good morning, Brent. It's Tim Francis, I'll take that one. The $5.6 million for third quarter, you can see a detail of it by segment at the end of the press release as well as the end of the presentation. The biggest component was in Utility, and it was related to an accounts receivable in an international market related to renewable energy that we decided is no longer probable, we'll collect. We will still actively try to collect on it, but we had to set up a valuation allowance against it. That is certainly non-recurring in nature.

As we move into Q4 and what sort of restructuring we're going to see, the biggest component is going to be the $10 million we referenced in the press release for the cost of the Early Retirement Program. We have a few other things we're considering right now, but they will not be much bigger than what we've seen here the last couple of quarters.
Brent Thielman  
*Analyst, D.A. Davidson & Co.*

Yeah. Okay, great. And then the other question I had was on the transportation portion of the lighting segment that had been pretty good for you guys, I recall preceding quarters. It looked like a little bit of slowness this quarter maybe in the US. I just wonder if you think that's kind of just an air pocket in terms of the timing and project timing, or do you – is this a bit of a function of some of the budget shortfalls that you guys had talked about [indiscernible] (37:06) last few quarters?

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

Yeah. We've used the term internally as kind of a pothole since its traffic. It's related obviously to the budget uncertainty, there were some projects that were put on hold and some key states, as we mentioned last quarter projects were not getting approved because of open meeting laws and really not people working. That's starting to come back. But we do expect kind of the same kind of level as we at least enter into next year, but then the pipeline that's out there and all the macro indicators are that we should start to see this come back to more normal levels as the year progresses.

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

Okay. Thank you. I'll get back in queue.

Operator: Thank you. Our next question is coming from Brian Drab of William Blair. Please go ahead.

Brian Drab  
*Analyst, William Blair & Co. LLC*

Hi. Good morning. Thanks for taking my question.

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

Good morning.

Avner M. Applbaum  
*Executive Vice President and Chief Financial Officer, Valmont Industries, Inc.*

Good morning.

Brian Drab  
*Analyst, William Blair & Co. LLC*

On the Utility segment, obviously great number that you put up on the revenue line there. And I'm just wondering given the – you have made some positive comments on the backlog and what you were seeing in international I guess could be some risk there. But what are you forecasting going forward in terms of a run rate for that business as you look forward to fourth quarter and in 2021, and it's a huge step-up from the first half 2020 run rate in the third quarter.

Stephen G. Kaniewski  
*President, Chief Executive Officer & Director, Valmont Industries, Inc.*
Yeah. And that's a function of really getting the approvals in the US as well as some of the projects that were delayed due to COVID kind of moving over into what we said the last half of this year. So if you were to look at Utility in the fourth quarter we would expect it to be up at least double digits on a year-over-year basis and then as we look into 2021, the pipeline is very active but will still be somewhat lumpy not nearly as lumpy as it was this year because there are still some large international projects that are in with that business and always will be. But as the US business comes more online that will start to flatten that as we go kind of through 2021 and into 2022.

**Brian Drab**  
**Analyst, William Blair & Co. LLC**

Okay. So, this level that you have in the third quarter, though this is an anomaly that this is a level that you – and it wasn't driven entirely by pandemic delays or was it to some extent. And I'm just wondering sequentially does this come back down to more like a $250-ish million kind of level or do you want people to assume you can kind of sustain this $275 million which is like the best that you've done in – in years in that segment.

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

Yeah. So – yeah. So, that $250-ish million kind of range would probably work as you think about that. Third quarter was a little bit heavier. So we will see a little bit of moderation but still a nice growth rate as we move forward.

**Brian Drab**  
**Analyst, William Blair & Co. LLC**

Got it. Okay. And then, I'm just looking at the momentum that you have now across the businesses as you've discussed great momentum in Irrigation. And for the fourth quarter, you guided 8% to 9% operating margin. And then if – if we go back in time just couple years, you were hoping to get this business to – overall to 11.5% to 12% operating margin at the 2018 Analyst Day. And I'm just wondering with the momentum that you're carrying into 2021, can we start to approach that, I know you took some costs related to the pandemic and now the volumes coming back. When can we get to that 11.5% to 12% goal?

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

Yeah. I mean, ESS, we're will finally over 10% for the first time in about four years. Now third quarter is seasonally one of our better quarters. But the actions that we've taken there to restructure access systems, the exiting of certain product lines across the portfolio that we don't see a good return on invested capital, all of those will help to move ESS up and approach that 10% over time.

The Utility segment obviously is the international piece, the generation peace continues to grow, we get supply chain leverage. We have the better pricing in North America on solar as well as a continued robust market. We feel that there's – legs for that business over time to get to 15%. Irrigation and Coatings specifically, as you see any rebound in the market, the leverage that we'll get off of those businesses will be very strong. So if Irrigation does trend up in North America and we continue to execute well in the international markets you'll start to see the segment kind of margins that you're used to. And all of those along with Coatings coming back and getting the leverage should provide a path for us to get to our 12% operating margin as we build through 2021 and into 2022.

**Brian Drab**  
**Analyst, William Blair & Co. LLC**

Okay. Got it. Thanks very much.
Operator: Thank you. [Operator Instructions] Our next question is coming from Jon Braatz of Kansas City Capital. Please go ahead.

Jon Braatz
Analyst, Kansas City Capital Associates

Good morning, everyone. Steve, returning back to Africa, the Great Ethiopian Renaissance Dam has been completed and the reservoirs are being filled. What kind of irrigation opportunity is there in Ethiopia and Sudan as a result of this dam? And given the heightened concerns about food security, do you have any particular insight as to what maybe Ethiopia and Sudan might do in terms of bringing new land into production as a result of this dam?

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

Yes. Sudan itself really just because of sanctions and being on the terrorist list for a long didn't develop their normal allocation of Nile water even before the dam was in place. They have started over the last few years to do just that. There are big pumping projects in place. We have delivered a number of pivots into Sudan already and there is a good pipeline of projects. As you look forward Sudan itself coming off of the terrorism list will really help open up banking which has been the primary issue to really kind of accelerated development.

Ethiopia would be further behind that curve in terms of canals and pumps and things of that. But the reservoir will provide a tremendous opportunity for a place that has seen cycles of famine and starvation to really kind of level that off. And it's just a matter of what kind of public works they're going to use to distribute the water from the dam over time.

I'd say first and foremost the agreement between Egypt, Sudan and Ethiopia probably has to be fully in place to see those kinds of opportunities. But obviously recent rains, record flooding in Sudan and Ethiopia, that the dam filled up much quicker than most people expected has eased a lot of the tensions and hopefully will provide a good impetus to get this thing settled.

The only outstanding item right now is if there's times of drought in the future what is the release rate. So, I'd say the tensions have calmed down but they still have to get it worked out. But the Nile itself with these kinds of feast and famines of rains which is why the Delta formed in the first place really provide a great opportunity, not dissimilar to the Columbia River in the Northwest here. You could see as many pivots along the Nile as you see along the Columbia River over time. So we feel it's a good opportunity. It's great for the country and obviously with their populations and foods production necessities, pivots are the best way to get that large scale agricultural development.

Jon Braatz
Analyst, Kansas City Capital Associates

Steve, I assume – maybe you answered the question but when they bring in – bring on new arable – new production in Africa is it almost always going to be irrigated with center pivots.

Stephen G. Kaniewski
President, Chief Executive Officer & Director, Valmont Industries, Inc.
Yeah. I think that everyone knows that they have to conserve the water that comes off. And so if you see any kind of production it will be with some type of irrigated machinery, whether drip or pivot – but frankly probably more pivot based on the type of crops that will grow in that heat.

Jon Braatz  
Analyst, Kansas City Capital Associates

Okay, okay. One last question on your solar tracker project. Is your solar tracker approved across the domestic utility industry for all – I mean is it approved by all the utilities – approved or certified if you want to call it?

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

Yeah. I would say that each individual utility has their own certain prices, but what we had to get in place was wind tunnel testing and accelerated aging testing that has been completed. We are able to bid every utility at this point.

Jon Braatz  
Analyst, Kansas City Capital Associates

Okay.

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

But some of them you get approvals as you bid.

Jon Braatz  
Analyst, Kansas City Capital Associates

Yeah.

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

So as we work with them on the first project that will take place. But there is nothing that is an inhibitor to us bidding in the US at this point.

Jon Braatz  
Analyst, Kansas City Capital Associates

Okay. Perfect. All right. Thank you very much, Steve.

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

Thanks, Jon.

Operator: Thank you. Our next question is coming from Brent Thielman of D.A. Davidson. Please proceed.

Brent Thielman  
Analyst, D.A. Davidson & Co.
Great. Thank you. Hey, Steve, back on the wireless business. I know it's a nice sort of comfortable piece of the segment. Can you talk a little more about what you saw in the three regions between Europe, North America and China just to get to that 5% growth this quarter and then you are anticipating all the three start to accelerate for you in 2021.

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

Yeah. I'll start with China. China has been down for us over the last couple of years. There's a number of players there. The pricing is not nearly as attractive. So you'd have seen a little bit of down pressure in China. The US market continued to have very strong performance. It was ramping up because of the TMO and the spectrum auctions.

So that was starting to come back. It was very nominal in terms of sales growth. We really saw more in Europe and particularly in the UK and the Netherlands where there are active projects to deploy 5G throughout the cities. And because of our product line we are able to provide not just a macro tower or pole but also all the componentry to mount the antennas and whether they're on a building, whether they're on a pole, a tower or included with a light pole we have the entire offering across that is allowing us to capture some of that growth. It is something that we feel is tracking completely in line with our expectations. We said the second half of this year we'll start to see growth and then really a strong run rate in 2021 and 2022. And whether us or other players in the industry that support it, I think you see a similar sentiment.

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

That kind of stabilize...

Avner M. Applbaum  
Executive Vice President and Chief Financial Officer, Valmont Industries, Inc.

Okay. And then the follow-up was on access systems. I know you’re facing some year-on-year pressures there, but it looks like sales are actually up sequentially. Do you feel like you’ve sort of stabilized that business at this point?
Yeah, I – this is Avner. I would say, yeah, we pretty much feel like we got it to a much better place. It's pretty stabilized. We're expecting to stay in the black and keep on working on kind of improving the business. But I'd say it's a pretty good spot right now.

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

Yeah. And there are some macro drivers in Australia right now with mining that may provide at least a small tailwind to some of the things that we do there. Really what you’re seeing is, we got it to a profitable place. The Asia part of the business has always been very strong and Australia is just waiting for basically a secular rebound. But the product lines that we had the issue with are so to speak in the rearview mirror.

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

Okay. Great. Thank you, guys.

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

Thanks, Brent.

**Operator:** Thank you. At this time, I would like to turn the floor back over to Ms. Campbell for closing comments.

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

Thank you, 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 and we look forward to speaking with you again next quarter.

**Operator:** Included in this discussion are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements are based on assumptions that management has made in light of experience in 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. 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, the continuing and developing effects of COVID-19 including the effects of the outbreak on the general economy and the specific economic effects on the company's business and that of its customers and suppliers, 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 efficiencies, 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.