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Valmont Industries, Inc. (VMI)

Q1 2019 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Greetings and welcome to the Valmont Industries, Inc. First Quarter 2019 Earnings 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 is now my pleasure to introduce your host, Renee Campbell, Director-Investor Relations & Corporate Communications. Thank you. You may begin.

Renee Campbell
Director-Investor Relations & Corporate Communications, Valmont Industries, Inc.

Thank you, Michelle. Good morning and welcome to Valmont Industries' first quarter 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 an update on the Midwest flooding and a summary of our first quarter results, and Mark will provide additional details on financial performance.

A slide presentation will accompany today's discussion and a link to access the document can be found on the home page of our website at valmont.com. Please download the presentation to follow along with today's call.

A replay will be available for the next seven days. Instructions for accessing the replay are included in the press release, which can also be found on 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. Before I summarize our first quarter results, I'd like to briefly speak about the recent historical flooding event that impacted the Midwest U.S. region, which was largest widespread natural disaster in Nebraska State's history.

76 out of 93 counties or more than 80% of the state had qualified for federal disaster aid from the flooding. When we learned that floodwaters were approaching our Valley, Nebraska manufacturing site on the morning of March 15, we made the decision to preemptively close the campus. This was to ensure the safety of our employees, who were already on site and those traveling to work that morning. By late that afternoon, floodwaters had surrounded the campus, making the roads and highways impassable. Our structures facility in Columbus and our coatings facility in West Point, Nebraska were also impacted, but with more minor effects. We were fortunate, our levee system on the Valley campus helped control the impacts of flood. Interruptions to our business were minimized, enabling us to successfully reopen for production one week later.

We are very thankful that our employees across all impacted facilities remain safe. I'm extremely proud of our facilities and IT response teams, employees and service providers, who worked diligently around the clock to return Valley to full production. Our ability to quickly resume operations is a testament to the strength of our operational excellence, which was key to ensuring the safety of our employees and minimizing disruptions to our customers. Mark will speak to the financial impacts from the flood later in the call.

Let me now turn to a recap of our first quarter and slide 3 of the presentation. Net sales of $692.1 million were down slightly compared to last year. Excluding foreign currency translation and the divestiture of the grinding media business, revenues grew 4.2% despite the flood impacts. Sales growth was led by pricing action across all segments and higher volumes in the Engineered Support Structures segment. As expected, lower project sales in International Irrigation markets and lower volumes in the Utility segment decreased sales.

Moving to the segment highlights. Starting with Engineered Support Structures, first quarter sales were $230.3 million, an increase of 2.4% over last year. We continued to benefit from very strong order flow, particularly in North America markets, resulting in higher backlogs and improved pricing across all product lines. Transportation market demand in North America remains solid and we continue to see extended industry lead times. Globally, robust demand for wireless communication structures and components led sales to increase 25% over last year, supported by increase in coverage demand and momentum for small cell structures in advance of 5G build-outs.

Our acquisition of Larson Camouflage is going well and is already contributing to positive results. Larson leads the industry in providing architectural and camouflage concealment solutions for the wireless telecommunication market, and integration is progressing very well. Plans to bring their solutions into global markets have already commenced, aligning with our strategy of geographic product expansion.

In the Utility Support Structures segment, sales of $243.9 million increased more than 16%. Sales of solar tracker structures from our acquisition of Convert Italia this past year drove higher sales. Pricing actions also contributed to sales growth. During the quarter, we secured the largest purchase order on record. This project will replace a large aging 500-kV line of weathering steel with galvanized steel. We are partnering with our customer to provide a unique [ph] H-frame (05:50) solution to enhance reliability in harsh weather environment. Revenue for this order is expected to commence in the third quarter of this year and extend into the first half of 2020.

In the Coatings segment, sales of $86.8 million grew 2.2% led by revenues from acquisitions completed over the past year and pricing across all regions. The integration of United Galvanizing in Houston, Texas is progressing well, furthering our strategy of geographic expansion. Texas is an important market for our structures businesses, so the acquisition will service internal demand as well as a wide range of end markets for custom galvanizing and [indiscernible] (06:33) applications.

Turning to the Irrigation segment, global sales of $152.8 million were 18.7% below last year as expected. Lower international project sales in developing markets led to a tough comparison for the quarter and in North America, sales of $108.5 million were only slightly below 2018. Average selling prices in North America were higher from previous and recent pricing actions. Farmer sentiment has continued to be challenged by low net farm income levels and adverse weather conditions, particularly in the traditional corn-belt and soybean end markets although we are seeing increasing support of underlying demand from other regions such as California. I recently heard from four large growers there, who confirmed that higher labor costs are driving a greater interest in mechanized irrigation and our advanced technology solutions.

International Irrigation revenues of $44.3 million decreased 43.3% from last year. As mentioned during our fourth quarter call, we expected lower sales this quarter from a large project in 2018 that did not repeat. The Brazil market has been trending as expected. Agrishow, the largest farm show in the region, will begin in a couple of weeks, giving us further confirmation of our expectations for the year.

I would like now to turn the call over to Mark for the financial review.

Mark C. Jaksich

Executive Vice President & Chief Financial Officer, Valmont Industries, Inc.

Thank you, Steve, and good morning, everyone. My comments regarding the first quarter of 2019 are based on comparisons to 2018 adjusted results, as outlined at the end of the press release.

Turning to slide 4, first quarter sales were slightly lower than 2018. Approximately $10 million of revenue shifted from the first quarter to the second and third quarters as a result of last month's Midwest flooding event impacting all of our segments except Utility. First quarter operating income decreased 19.4% to $55.1 million or 8% of sales. Lower operating income was primarily driven by lower sales in the Irrigation and Coatings segments, partially offset by improved profitability in the Utility and ESS segments and lower LIFO expense.

We also estimate the flooding event impact on the first quarter operating income was about $5.5 million due to shipment delays as well as direct costs and productivity that was hampered as a result of the flood. The net corporate SG&A expense increase was due entirely to $2.9 million in increased deferred compensation plan liabilities, which is offset by investment gains in the plan assets, which is reported in the income statement as other income. Accordingly, there was no impact of this on net income.

First quarter diluted earnings per share of $1.66 decreased 11% compared to adjusted EPS of $1.87 in 2018. Without the impacts to the operations from the flooding event and associated expenses, we estimate earnings per share for the quarter would have been $1.84. We continue to assess the effect on inventory damage and additional cleanup costs. However, in total, we expect no significant impact to full-year results.

Turning now to segment operating income results in slide 5, the Engineered Support Structures segment operating income increased 17.9% over last year's adjusted results. Stronger backlogs and pricing actions across the segment as well as benefits from last year's restructuring actions contributed to improved operating margins.

Excluding the $7 million of revenue and associated profits that shifted out of the first quarter due to the flood, we estimate that segment operating margins would have increased approximately 200 basis points over 2018.

Turning to slide 6, the Utility Support Structures segment operating income increased 6.6% from first quarter 2018. Despite unfavorable comps in the offshore wind business and project sales in the first quarter of 2018 that did not reoccur, segment profitability increased due to pricing actions and strong operational improvement in North America.

In the Coatings segment on slide 7, operating income of $10.1 million was 14.4% below 2018 results. Pricing actions were offset by lower volumes due to winter weather effects in North American markets including the flood, as well as a non-recurring charge related to the legal expenses accrual.

Turning to the Irrigation segment on slide 8, operating income decreased 40.7% compared to last year as expected. Results were impacted by significantly lower volumes in international markets, including approximately $20 million of project business that did not repeat this year. Operating margins held at 13.2% of sales. Effective pricing and our lean management processes during the quarter played a critical part in maintaining margin levels despite the lower volumes.

Turning to cash flow highlights on slide 9, we were encouraged by first quarter operating cash flows of $7.9 million, which included a $13.9 million contribution to the Delta Pension Plan that did not occur in 2018. A $25.4 million increase in accounts receivable this quarter reflects higher sales in the second half of the quarter and was the reason for lower operating cash flows this year, as other working capital movements were favorable versus Q1 2018. Cash flows are trending favorably during the second quarter and we remain firm in our commitment to free cash flow of 1 times' net earnings for 2019.

Turning to capital deployment, a summary of our accomplishments is shown on slide 10. Capital spending for the quarter was $21.1 million driven by our previously mentioned plant expansions and the construction of a galvanizing facility in Western Pennsylvania, all in support of market growth opportunities. We still expect full year capital spending to be between $90 million and $100 million.

During the quarter, we deployed an aggregate of $80 million towards two acquisitions, including the final payment related to the purchase of Walpar, which was acquired in 2018. We returned $17 million of capital to shareholders through share repurchases and dividends, and ending the quarter with just over $211 million of cash.

On the balance sheet, I'd like to point out that we adopted the new leasing accounting standard in the first quarter of 2019. This resulted in an increase in other long-term assets and other long-term liabilities of approximately $100 million. Our adjusted tax rate for the quarter was 24.9%.

Let me now turn to slide 11 for an update on our 2019 outlook. We have increased the lower end of our expected earnings per share range and now expect full year diluted earnings per share to be between $8.30 and $8.90 from the prior range of $8.10 to $8.90. Our outlook is based on expected strong sales, profitability growth and healthy backlogs in the Utility and ESS segments despite muted demand in the North American irrigation market and uncertainty of international irrigation project opportunities.

Our assumptions on revenue growth and operating margins remain unchanged. Foreign currency translation effects are also unchanged and we expect sales comparisons to be unfavorable by about $27 million or 1% of sales with an associated earnings per share effect of about $0.07 in comparison to 2018.

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. Turning to slide 12, last month I had the opportunity to speak at two influential ag-tech conferences in California, The World Agri-Tech Innovation Summit and the THRIVE Innovation Summit, both of which focus on advancing sustainable agriculture on a global basis and identifying the best models for successful technology commercialization on the farm. At these two events, together with our Prospera partner and members of the Valley Irrigation technology team, I shared our roadmap and longer term vision for integrating artificial intelligence with center pivot irrigation, providing true precision agriculture with an autonomous pivot on the field. The feedback and interest was very positive and supportive of our direction.

As expected, last week, Valley Irrigation and Prospera launched Anomaly Detection, the first critical milestone on the path to autonomous crop management. Branded as Valley Insights powered by Prospera, the technology is a fundamental building block for growers entering into AI functionality. Providing visual detection of anomalies or issues, the technology will mitigate risks in the field and is available for all brands of pivots through a subscription-based model. Introduced as a limited release in two states, Washington and Nebraska, the initial launch is targeting 90 growers and 1,000 pivots across approximately 140,000 acres, advancing us towards our goal of monitoring 1 million acres by 2020.

As mentioned last quarter, we have a new dedicated global team of technology, territory managers and sales associates who are focused on increasing adoption of our advanced technology solutions. Setting the foundation for this growth led to a more extensive census of our current technology landscape. As a result of this review, we are excited to report that we are now leading the industry with over 84,000 connected devices globally, further demonstrating our technology leadership position in the market. Our technology solutions continue to gain momentum, particularly in Brazil and other international markets. We look forward to updating you on the progress of our technology roadmap throughout the year.

Turning to slide 13, for the remainder of 2019, we remain positive on our sales and earnings outlook despite the challenging irrigation market and look to build upon the current momentum within our businesses. We expect solid revenue growth in our Infrastructure businesses supported by growth in new products, acquisitions completed over the past year, and strong underlying demand drivers.

In Irrigation, market conditions in North America continue to be challenged and very recent geopolitical events in developing markets are impacting delivery of our international orders for 2019. However, the strength and performance in our Infrastructure and Coatings businesses are expected to more than offset these effects during the year.

As discussed at our Investor Day last year, new products are a key growth strategy and we will see the benefit in all segments in 2019. In Engineered Support Structures, smart pole and small cell solution demand will accelerate throughout the year. Global expansion of our decorative structures and architectural screening products and prefabricated bridge structures are also expected to grow.

In Utility, controlled environment construction substations and concrete distribution poles are gaining momentum with hardening efforts. And we are now quoting lighter structures solutions to our North America customers.

In Coatings, we continue to deploy the Valmont Coatings Connector across all of our sites and customer feedback has been extremely favorable.

In Irrigation, our pumping solutions and new advanced technologies are driving growth.

Our efforts around operational excellence served us well during the first quarter, especially through our ability to utilize other U.S. facilities during the Valley shutdown. Maximizing our flexible global footprint will be a critical go-forward initiative. As acquisitions and new product offerings gain momentum, we will be ramping up production across our footprint to meet this demand. We remain highly committed to price discipline and price leadership within all of our segments in the markets we serve. Additionally, 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.

Renee Campbell

Director-Investor Relations & Corporate Communications, Valmont Industries, Inc.

Thank you, Steve. At this time, Michelle, 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 comes from the line of Craig Bibb with CJS Securities. Please proceed with your question.

Craig Bibb

Analyst, CJS Securities, Inc.

Q

Hi, guys. Good start to the year. The $31 million in acquisition revenue at U.S., it sounds like that was primarily Convert. I'm wondering, if you could break it out and then Convert is that kind of a run rate number or was there a large order in there?

Stephen G. Kaniewski

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

A

So, the way you have to look at Convert, Craig, is that – and that is where the majority of that revenue is from. Convert would have – it's a very highly project-based business in global markets. So you'll see up and downs of Convert throughout the year. But if you recall, we said it would have a high CAGR, the CAGR was 13% in that market. And so, we're seeing that develop as we go throughout the year. So, we'll have some ups and downs but on a trend line basis, it should be very strong.

Craig Bibb

Analyst, CJS Securities, Inc.

Q

Okay. And I'm assuming it's North America off the regular USS business that's driving the record backlog and how much of that reflects just strong demand versus gaining share or the both?

Stephen G. Kaniewski

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

A

Yeah, it's a combination of, well, a couple of things. One just improved pricing. Also, project demand is good on a general basis, particularly as grid hardening and some of the line replacements are taking place. And then also the effect of that very large orders that we got which would be north of $100 million shipping over the balance of the second half of this year and the first half of next year.

Craig Bibb
Analyst, CJS Securities, Inc.

Q

Great. Okay. [indiscernible] (22:26) Thanks.

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

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

Q

Good morning, everyone.

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

A

Hi Nathan.

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

A

Hi Nathan.

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

Q

I'd just love to get a little bit more color on the guide. You took the bottom end of the guide up $0.20. I know when you put the original guidance out in February, there was some uncertainty about some timing of certain things and it sounds like actually some of the negative side of that has happened on some of the international irrigation projects. So maybe you could just give us a little color on what's given you the confidence to take that bottom end of the guidance up?

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

A

Yeah. So when we look at our guidance for the year, we fully accounted for the fact that the North American irrigation market will be fairly soft for the balance of the year, but our international projects, some of which we expected to ship, some of those may not ship now based on recent events. But when you look at the real strength in ESS and Utility, having the backlog in hand and knowing what we have sitting there is part of our confidence in what we're looking forward at. Additionally, the pricing for our products is – the environment has remained very strong as well. We have very strong demand for our comm structures and small cell components. We have a very strong traffic market. As we've previously explained, there's 33 states that have passed their own funding mechanisms. So, us and others are seeing very long lead times there. And in Utility, there's just a number of announced projects, and obviously what helps us too is that big project gives us clear visibility to both timing in terms of the releases, as well as the profitability associated with it.

So, we feel good about where our Infrastructure businesses are performing [indiscernible] (24:27) that our factory performance as compared to last year when we called out some drag, our factory performance has improved pretty significantly as well.

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

Yeah. I think the ESS backlog up like 15% and USS up 25-plus-percent probably gives a fair amount of confidence to that.

Just on the international irrigation projects there, I know you guys had anticipated having a pretty weak 1Q comp, and then some pick up as we went through the year. You've talked about some of those projects moving a little bit. Maybe you could just give us a little bit more color on what's happened in the international irrigation project market, what the funnel of opportunities going forward looks like?

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

Yeah. So we had expected first quarter to be down, and then we would start to see a ramp second quarter to fourth quarter. There's been some recent events particularly in Africa that, let's say, presented enough uncertainty to us that we felt we should call out the fact that those may or may not happen, and include that into our guidance as we have thus said thus far. There is still good projects around the world. It's just the timing of such that has made it pretty difficult. There's no change to the drivers. There's no change to the fact that there's a number of areas, whether that is Central Asia, the Middle East, Africa or even Eastern Europe, where there's enough of targets out there to go after. So, we feel good about our strength in those markets. It's just the timing of which right now that we're a little bit hesitant to say that they're going to ship this year.

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

Just for a clarification, does your guidance then assume that does, let's call them at risk projects don't happen, or is there actually some downside to guidance in here, if say all of them don't go?

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

No, we took them fully into account. Even if they don't go, it's included already in our guidance.

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

Okay, perfect. Thanks very much, I'll pass it on.

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

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

Hey great. Thanks. Good morning.

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

Good morning, Brent.

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

Q

Steve, on Utility, is this large order maybe a sign of things to come for larger projects and from a mix perspective, should this include sort of larger structures and be that be sort of favorable to margins?

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

A

You know that we're encouraged that there's this large project and it happens to be on very large structures too. But I don't think it fundamentally change the underlying mix that we've seen over the past roughly two years and what we've kind of projecting going forward. There will be a few of these that come up from time to time and there will still be some large hardening projects out there. So, but most of those will probably be on the lower voltage classes and thus the smaller structures. So, our efforts are still around being very efficient with smaller structures to our factories and not relying on these big orders. However, when we get them like this, it really should help us from a productivity perspective and then revenue and OP perspectives.

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

Q

Got it. Okay. And then on Irrigation and I think particularly on the international side as you think about this year, if this project business doesn't go but Brazil ramps up like it looks like it could, is that enough to offset the lack of project business, I guess, elsewhere in the international side?

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

A

No, I don't believe it would actually offset it. It will help to mitigate or call back some of it, but it won't necessarily offset. So without those large projects, it's very hard to overcome and have a positive comparison.

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

Q

Okay. Thank you.

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

A

Thanks, Brent.

Operator: Thank you. Our next question comes from the line of Brian Drab with William Blair & Company. Please proceed with your question.

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

Q

Hey, good morning. Thanks for taking my questions.

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

A

Good morning, Brian.

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

Q

Just on the guidance, trying to parse out the impact from acquisitions. So, is it fair to calculate or assume that revenue growth up 7% to 8% that that's sort of still half and half acquisitions versus organic revenue growth?

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

A

Yeah, Brian. I think what we've called out for originally was about equal split roughly 3.5% to 4% for each depending on where we finished in the range. It still looks like that for the year. Again, some project lumpiness quarter-to-quarter, so the quarter numbers could look different, but for the year that's a safe bet.

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

Q

Okay, got it. And then along the same lines, the operating margin improvement guidance up 20 to 50 basis points, would that be affected by the acquisitions positive or negatively?

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

A

Well, we expect positive comparisons in the – when you look at the acquisitions, all are going to be accretive within 2019. But depending on the timing of which we did the acquisitions last year or this year that would probably go throughout the year, so it would be lighter in the first quarter, second quarter building through the third and fourth.

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

Q

Okay. So I guess I don't think I asked that question that clearly, but the acquisitions are coming in below or above the corporate average like, would your operating margin guidance actually be higher if you had not done the acquisitions or vice versa?

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

A

Yeah, Brian. This is Mark. I don't think in the aggregate that would be the case, because one of the things you have to take into account when you do an acquisition, you have the amortization of intangibles and the write-ups of those assets. So, there's going to be some additional things running through the P&L, but I would say in the aggregate, I would say those businesses would be generating operating margins pretty much in line to the company as well, partly because of the non-cash expenses.

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

Q

Okay. Okay. And then just a last quick question is just on that large project and I may have missed this, but the timing of that project and maybe the potential if you talk specifically about the impact that could have on margins for the Utility segment and in which periods you would expect the positive margin impact?

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

A

Yeah. So, we said that the order will start shipping in the third quarter and go through basically the second quarter of 2020. So, it's kind of half this year and half next year. It's part of our support for the guidance as we look forward. And so, the profitability is helpful in that regard. And then, there is potential for potential follow-on work thereafter, if we perform well on this part of it.

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

Q

Okay. Is that something that could be like a 50 basis points or more positive impact on the segment overall, is it that big or is that exaggerating it maybe?

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

A

Yeah. Brian, this is Mark. I think that's exaggerating a little bit because if you think about for sake of argument, $100 million project, to be $50 million in revenue, it's a relatively small percentage of the total segment revenues. But, certainly it does give us additional confidence around the guidance just because it orders in-house.

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

Q

Got it. Okay. Thank you very much.

Operator: Thank you. [Operator Instructions] Our next question comes from the line of Jon Braatz with Kansas City Capital. Please proceed with your question.

Jon Braatz
Analyst, Kansas City Capital Associates

Q

Good morning, everyone.

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

A

Good morning, Jon.

Jon Braatz
Analyst, Kansas City Capital Associates

Q

Steve, you're seeing nice spending on the 5G roll out. I guess my question is, what can be the duration of that spending? How long can you benefit from that roll out?

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

A

Yeah. Jon, the spending we've seen thus far has really [ph] still (33:02) been on 4G to get the increased coverage and to get ready for 5G as well as some of the 5G components and structures. We anticipate that that could be a three to five year process overall, simply because you have regulatory, permitting, each city will have to – come up with a plan on coverage because of the concentration of the cell structures that would have to be in place. So, we had predicted that the real ramp on 5G would occur later in the year. We still believe that. A lot of what's going on now again is to the current infrastructure on 4G. So that is kind of the way we look at it from a long-term outlook. If you look three to five years at least in North America, you should start to see that build and continue over that duration. In China and Australia, China if they do merge the two telecom cell companies then you'll start to see them probably ramp and that would probably be later in 2020 at least at this point and then countries thereafter I think are Germany, Japan, Korea, some of those markets we don't necessarily participate in.

So, on a global basis, the one thing about 5G that's different than the previous generations is it seems to be more coordinated around the world and more coordinated among the carriers where before one would move and it would still take some time for the other to move, now it's viewed as a competitive disadvantage if they don't have announced plans around 5G.

Jon Braatz
Analyst, Kansas City Capital Associates

Q

Okay. Steve, have you – I don't know if you have, but have you ever discussed with us how big a piece of business, the 4G/5G revenues are as part of ESS?

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

A

Well, Jon, we don't break it out based on 4G or 5G, but we have said that telecom sales...

Jon Braatz
Analyst, Kansas City Capital Associates

Q

Okay.

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

A

...are roughly north of $150 million, growing at a very good CAGR at this point.

Jon Braatz
Analyst, Kansas City Capital Associates

Q

Okay, all right. Thank you. One last question, Mark, there was a galvanizing accrual in the quarter. What was that about and how much was that?

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

A

Well, yeah, at this point, it is – let me check my notes here. Okay, it's related to a state regulatory – a state statutory matter in California and due to the nature of it, we can't talk about the exact amounts of it.

Jon Braatz
Analyst, Kansas City Capital Associates

Q

Okay, all right. Thank you.

Operator: Thank you. Our next question is a follow-up from Brent Thielman with D.A. Davidson. Please proceed with your question.

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

Q

Great. Thanks. Steve, maybe one more in Utility, you talked about the large order. Could you touch on just through the build and the lightest tower backlog and kind of expectations for that business since you've acquired them?

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

Yeah. So we're finally finishing up all the regulatory certifications, so that we can bid this to U.S. and Canadian markets. But in the meantime, we have been booking business related to telecom structures and utility structures in India and the Middle East. So, it's starting as expected. We said it would take time to ramp that almost like a greenfield, but we're on track there and the galvanizing business that was attached to it is also doing very well. There's a lot of third-party galvanizing work that we're able to pick up around that particular plant in India. So, you'll hear more and we'll discuss more as we go into next orders as to where some of that backlog is building. But we are now like I said at a point to quote in North America itself.

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

Okay, that's great. And then on Convert Italia, I recall, they didn't have a U.S. presence. Just curious if you're making inroads there with utilities and I guess how reception's gone?

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

Yeah, that is going very positively. There's a strong demand for the technology that we have as well as just having a vendor of support like us from a Valmont perspective. There is some specific testing that is taking place in the U.S. and that would be wind tunnel testing of the structures, if you think about hurricanes, tornadoes and Midwest winds. These are things that are around the world that you don't necessarily have. So, we're still in the process of finishing those tests and we have built a U.S. solar team that is able to go into the customers and to help to bid, so we're seeing strong demand and just shortly on the release of the product itself here in the U.S.

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

Okay. Thank you.

Operator: Thank you. We have reached the end of our question-and-answer session. I would like to turn the call back over to Ms. Renee Campbell for any closing remarks.

Renee Campbell
Director-Investor Relations & Corporate Communications, Valmont Industries, Inc.

Thank you for joining us today. As mentioned, today's call will be available for playback on our website or by phone for the next seven days. We look forward to speaking with you again next quarter.

Operator: Included in this discussion are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements are based on assumptions that management has made in light of experience in industries in which Valmont operates as well as management's perceptions of historical trends, current conditions, expected future developments, and other factors believed to be appropriate under the circumstances. As you listen to and consider these comments, you should understand that these statements are not guarantees of performance or results. They involve risks, uncertainties, some of which are beyond Valmont's control and assumptions.

Although management believes that these forward-looking statements are based on reasonable assumptions, you should be aware that many factors could affect Valmont's actual financial results and cause them to differ materially from those anticipated in the forward-looking statements. These factors include, among other things, risk factors described from time-to-time in Valmont's reports to the Securities and Exchange Commission as well as future economic and market circumstances, industry conditions, company performance and financial results, operating 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.

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